Cover to cover
A market analysis of the Australian book industry

Department of Innovation, Industry, Science and Research
May 2011
Contents

Contents i

Important notice 3

Executive summary 4

Glossary 7

INDUSTRY SIZE AND POTENTIAL 8

1 Current and historic performance 9

1.1 Relative performance of the Australian book industry 11

1.2 Key segments 13

1.3 Key sub-sectors 19

2 Print books and eBooks 31

2.1 International comparison 33

2.2 Factors likely to affect the future eBook market 35

2.3 Projecting the future eBook market 45

INDUSTRY COMPETITIVENESS AND GLOBAL OPPORTUNITIES 52

3 The competitiveness of the Australian book industry 53

3.1 Production – book authoring 53

3.2 Production – book publishing 54

3.3 Production – book printing 57

3.4 Distribution 59

3.5 Point of sale 63

4 Opportunities and challenges of online book sales 82

4.1 Opportunities 83

4.2 Challenges 85

5 Exports, investment and innovation 88

5.1 Australia’s book exports 88
## Contents

5.2 Investment and innovation

**BUSINESS MODELS**

6 Examples of traditional business models

6.1 Publishers

6.2 Printers

6.3 Booksellers

6.4 Distributors

7 Emerging business models

8 Business models need to address consumer purchasing drivers

8.1 Price and differentiation

8.2 Product experience

8.3 Familiarity and trust

9 Options for improved business models

9.1 Improving the distribution of books

9.2 Individual sector changes

Appendices

Appendix A Terms of Reference

Appendix B Bibliography
Important notice

This market analysis has been prepared by PwC Australia (PwC) at the request of the Department of Innovation, Industry, Science and Research (DIISR) in our capacity as advisors to the Book Industry Strategy Group (BISG) in accordance with the Terms of Reference and the Terms of Conditions contained in the Service Engagement between DIISR and PwC dated 17 January 2011.

The information, statements, statistics, material and commentary (together the “Information”) used in this Report have been prepared by PwC on behalf DIISR from publicly available material, from confidential information provided by DIISR, and from a survey of consumers. PwC has relied upon the accuracy, currency and completeness of the Information provided to it by DIISR and takes no responsibility for the accuracy, currency, reliability or correctness of the Information and acknowledges that changes in circumstances after the time of publication may impact on the accuracy of the Information. The Information may change without notice and PwC is not in any way liable for the accuracy of any information used or relied upon by a third party.

Furthermore, PwC has not independently validated or verified the Information provided to it for the purpose of the Report and the content of this Report does not in any way constitute an audit or assurance of any of the Information contained herein.

The following PwC personnel contributed to the development of this report: Jeremy Thorpe, Megan Brownlow, Cameron Crouch, Samantha Harpley and Valentina Dolgikh.

Comments and queries can be directed to:

Jeremy Thorpe
Partner – Economics and Policy
PwC Australia
P: 02 8266 0000
E: jeremy.thorpe@au.pwc.com

Executive summary

Books are an enabler of creativity: they provide a means of connecting authors and content developers with readers, allowing for the dissemination and germination of ideas, across both space and time. The production, distribution and sale of books in Australia – in short, the country’s book industry – is thus an important enabler of Australia’s creative economy.

The market for books, however, is on the cusp of potentially paradigmatic change. Digitisation has provided new ways for consumers to produce, purchase and read books. It is also shifting the industry’s focus away from the production of a physical good (i.e. a print book) to the production of content (i.e. the prose composed by authors). This shift is encouraging a re-conceptualisation of what constitutes a ‘book’ and where the boundaries should be drawn (if at all) between print and electronic books and apps, websites and other means of digital content delivery.

Furthermore, the market for books is increasingly a globalised one. Australians are buying more and more books online, as they are other retail goods. A bookstore in Sydney now has to compete with not only its rivals down the street, but also the likes of Amazon and Book Depository. These online giants are also challenging the business models of publishers, as the latter were traditionally the only source of imported books into Australia.

As a result of these factors, there is uncertainty about how Australia’s book industry will continue to contribute to the country’s creative potential. Recognising this, the Australian Government has established the Book Industry Strategy Group (BISG). Comprising of representatives from across the book industry supply chain, the BISG is tasked with developing “a comprehensive strategy for securing Australia’s place in the emerging digital book market, while making the Australian book industry more efficient and globally competitive.”

To support the BISG in achieving this goal, the Department of Innovation, Industry, Science and Research (DIISR) commissioned PwC Australia (PwC) to undertake a detailed study of the Australian book industry. The purpose of this study is to provide the BISG with a foundation of evidence about:

- the current and historic performance of the Australian book industry, and expectations about its future potential
- the competitiveness of the book industry supply chain (taking into consideration such factors as online retailing, investment and innovation, and exports), and
- traditional business models, how these have changed and are changing in the new digital environment, and options for improving business models in the Australian context (see Appendix A for the complete Terms of Reference).
The study is primarily informed by a comprehensive desktop review of publicly available and confidential data. It also draws on the findings of a consumer survey of 1,000 Australians, commissioned specifically for the purposes of the study. The key findings of the study are outlined below.

Industry size and potential

- We estimate the total value of books sold in Australia during 2010 was $2.3 billion. Trade book sales are estimated to have been worth $1.5 billion and educational book sales $820 million.
- Online book sales are estimated to have been worth $280 million in 2010, or 12 per cent of the total book market. According to a survey of 1,000 Australians, 53 per cent of books purchased online in 2010 were bought from overseas online booksellers.
- Adjusted for inflation, the total value of books sold in Australia increased by an annual average of 1.1 per cent from 2001 to 2010. Relative to other retail industries, the Australian book industry underperformed over the past decade. It performed more favourably, however, when compared against other creative industries in Australia and overseas book industries.
- Australians purchased approximately $35 million worth of eBooks in 2010, which is equal to 1.5 per cent of the total value of book sales for that year. The eBook market in Australia is projected to reach between $150 million and $700 million in 2014, representing between 6 per cent and 24 per cent of total estimated book sales.

Industry competitiveness and global opportunities

- The available evidence suggests that Australian book publishers are reasonably efficient and competitive relative to their international peers. The competitiveness of Australia’s book printers is impeded by high input costs, under-utilisation of printing capacity, and the strong Australian Dollar.
- Distribution is widely seen as impeding the competitiveness of the Australian book industry. Fragmentation and a lack of agreed standards are seen as they key problems limiting the efficiency of Australia’s book distribution system.
- Lengthy delivery times and insufficient availability of eBook titles are seen as impeding the competitiveness of Australia’s booksellers (‘bricks and mortar’ and online).
- The available evidence suggests that overseas online booksellers are generally able to sell books published overseas at prices (including delivery) that are cheaper than those charged by Australian online booksellers. The price competitiveness of Australian booksellers is affected by the GST, the exchange rate, wholesale book prices, and postage costs.
- Our initial analysis suggests that an Australian business posting a book-like parcel to an Australian address would pay approximately 90 per cent more than a British business would to post the same package to the same address.
Opportunities from online retailing include greater market penetration, reduced costs and (for authors) more viable self-publishing options. Online retailing does have the potential, however, to marginalise elements of the book industry, increase competitive pressures on booksellers, and challenge the primary business model of trade book publishers.

Australia’s English-language advantage and its existing trade links with the emerging economies of China and India provide opportunities for greater exports. Publishers could aim to overcome the ‘tyranny of distance’ in market development by establishing a common promotional mechanism.

Existing industry structures, the novelty of the eBook market and a lack of a mechanism to encourage and enable industry collaboration are seen as key factors impeding investment and innovation in the book industry.

Business models

As new supply chains emerge – particularly around the delivery of print books via online overseas booksellers and eBooks – pressures will increase on traditional business models – primarily ‘bricks and mortar’ booksellers, printers and print book distributors.

To support the development of alternative business models and ensure the sustainability of the book industry, Australia’s book distribution system needs to be improved. This could be achieved by consolidating print distribution, establishing an industry body tasked with improving supply chain efficiency, and establishing an industry-owned eBook wholesaler.

Options to improve business models for publishers could involve entering into international agreements to share global rights, competing directly for global rights, and controlling costs through centralisation. Experimentation will remain a priority for book publishers.

Consolidation and embracing print on demand offer means of improving the competitiveness of Australia’s book printers.

Booksellers could seek to mitigate a strong Australia Dollar and the market presence of major overseas online booksellers by focusing on differentiation and leveraging people’s affection for books and bookstores.
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABS</td>
<td>Australian Bureau of Statistics</td>
</tr>
<tr>
<td>APA</td>
<td>Australian Publishers Association</td>
</tr>
<tr>
<td>ASP</td>
<td>average sales price</td>
</tr>
<tr>
<td>ATP</td>
<td>average total price (in the context of the study, total price refers to the sale price and delivery charge for a book bought online)</td>
</tr>
<tr>
<td>BISG</td>
<td>Book Industry Strategy Group. It should be noted that, in the United States, the book industry established the Book Industry Study Group in 1976. In this report, the Book Industry Study Group is referred to using its full name (rather than its acronym, as is common in the literature) to avoid confusion with the Australian BISG.</td>
</tr>
<tr>
<td>CAL</td>
<td>Copyright Agency Limited</td>
</tr>
<tr>
<td>DAD</td>
<td>Digital Asset Distributor</td>
</tr>
<tr>
<td>educational books</td>
<td>Encompasses primary, secondary and tertiary texts, as well as professional and reference works (Productivity Commission, 2009). Professional books are defined in further detail below.</td>
</tr>
<tr>
<td>ELR</td>
<td>Educational Lending Right</td>
</tr>
<tr>
<td>MTP</td>
<td>median total price (in the context of the study, total price refers to the sale price and delivery charge for a book bought online)</td>
</tr>
<tr>
<td>PBIT</td>
<td>Profit Before Interest and Tax</td>
</tr>
<tr>
<td>PIAA</td>
<td>Printing Industries Association of Australia</td>
</tr>
<tr>
<td>PIR</td>
<td>Parallel import restrictions</td>
</tr>
<tr>
<td>PLR</td>
<td>Public Lending Right</td>
</tr>
<tr>
<td>professional books</td>
<td>Books for the scientific, technical, medical, legal and business (financial services) industries.</td>
</tr>
<tr>
<td>RFID</td>
<td>Radio-Frequency Identification</td>
</tr>
<tr>
<td>RRP</td>
<td>recommended retail price</td>
</tr>
<tr>
<td>trade books</td>
<td>A book published for distribution to the general public, typically through retail channels, but also through book clubs and direct sales from publishers.</td>
</tr>
</tbody>
</table>
Industry size and potential

The following two chapters provide a statistical overview of the Australian book industry. Chapter 1 examines the current and historic performance of the industry – both as a whole and with a focus on key sub-sectors (such as authors and content developers, publishers, printers and booksellers).

Chapter 2, meanwhile, explores the market share of printed books and eBooks – drawing on the experiences of comparable international markets (namely, the United States, the United Kingdom, Canada and New Zealand) to enrich the analysis.

We have based our analysis presented in the following two chapters on three types of data:

- Publicly available information – such as Australian Bureau of Statistics (ABS) publications, annual reports produced by relevant government agencies, and surveys published by the Australia Council for the Arts
- Restricted information – such as the Australian Publishers Association (APA) annual industry survey, Nielsen BookScan data provided to the BISG, and PwC’s own Entertainment & Media Outlook publications, both Global and Australian editions
- A survey of Australian consumers – commissioned specifically for the purposes of this market analysis

Despite the breadth of these sources, we did not have access to a complete set of data about the Australian book industry. Many data sources only covered a single year or a limited number of years (most notably the ABS publications on book publishing and book retailing, which stopped in 2003-04). Similarly, there is limited available data on key elements of the Australian book industry (particularly the book printing industry and direct sales from publishers to consumers).

Thus, while we have made every effort to paint a robust and insightful picture of the size and potential of the Australian book industry, our findings provided in Chapters 1 and 2 should ultimately be interpreted as informed estimates.
1 Current and historic performance

In 2010, the total value of books sold in Australia (in both print and electronic formats) is estimated to have been $2.3 billion. This figure includes sales from ‘bricks and mortar’ bookstores (chain, discount and independent), internet sales of books to Australian consumers (from both Australian-based and overseas-based online bookstores), sales to libraries and educational institutions, and an estimate of direct sales from publishers.

Figure 1 outlines the estimated total value of books sold in Australia over the past decade. As the chart highlights, book sales were relatively sluggish in the early-2000s (and actually decreased by 0.6 per cent in 2002). From 2003 onwards, however, the value of book sales grew at a stronger rate – with 2007 recording a 7.5 per cent increase in the value of book sales over the previous year. In all, the total value of book sales in nominal prices increased by an annual average of 4.1 per cent from 2001 to 2010.

Adjusted for inflation, the annual average increase in the total value of book sales over the past decade was 1.6 per cent.

Factors that are likely to have underpinned growth in the Australian book market include:

- Favourable economic and demographic conditions - Australia’s population increased from 19.4 million in June 2001 to 22.3 million in June 2010 (an annual average increase of 1.6 per cent) (Australian Bureau of Statistics, 2011). Average weekly earnings also increased from $670 in 2001 to $978 in 2010 (an annual average increase of 4.3 per cent) (Australian Bureau of Statistics, 2011).
• Investment in new retail outlets by Australian booksellers – BISG members noted the impact that opening new shopfronts had on generating additional book sales.

• The release of several ‘blockbuster’ series during the 2000s, including Harry Potter (seven books, published from 1997-2007), Twilight (four books, published from 2005 to 2008), and Stieg Larsson’s Millennium series (three books, published from 2005 to 2007).

• The reading habits of Australians remained strong – as the Productivity Commission noted in 2009, “[r]eading is a popular activity in Australia.” ACNielsen (2001) found in 2001 that 78 per cent of the adult population “read for pleasure everyday or on most days of the week.” A survey undertaken by Galaxy Research in 2008 similarly found that “85 percent of Australians read for pleasure in their spare time once a week or more” (Australia Council, 2008).

It is important to note that recent growth in the total value of book sales (as illustrated in Figure 1) is likely to be influenced by books purchased by Australians from overseas-based online booksellers. Based on our analysis and data collected through the consumer survey, we estimate that, in the absence of purchases by Australians from overseas online booksellers, the total value of book sales in Australia would have grown by only 1.6 per cent from 2009 to 2010 (as opposed to the 3.5 per cent indicated in Figure 1).

Submissions to the BISG, and feedback provided by BISG members, have highlighted that book sales in recent years have stagnated in line with the broader difficulties experienced by Australia’s retail sector. The Australian Bureau of Statistics (2011), for instance, notes that sales in key retail sectors (such as department stores, clothing and footwear and household goods) decreased by between 4.1 per cent and 1.9 per cent from January 2010 to January 2011. Early-2011 also witnessed turmoil in the Australian book industry as REDGroup Retail (parent of the Borders and Angus & Robertson chains of bookstores) entered into voluntary administration. Since then, 17 Borders and 48 Angus & Robertson bookstores have been closed, and approximately 800 staff (permanent and casual) have lost their jobs (Greenblat, 2011; Zappone, 2011).
1.1 Relative performance of the Australian book industry

Relative to other retail industries, the Australian book industry underperformed over the past decade, with the total value of book sales from 2001 to 2010 growing less than other retail sectors in Australia. According to the Australian Bureau of Statistics (2011), for example, turnover in the retail sector as a whole grew by an annual average of 5.9 per cent from 2001 to 2010 (compared to the book industry’s annual average growth of 3.9 per cent) (Figure 2).

Figure 2 Index of total value of sales, selected retail sectors and the Australian book industry, 2001-2010
Source: (Australian Bureau of Statistics, 2011)

On the other hand, the performance of the Australian book industry fared better compared to the performance of other creative industries in Australia and overseas book industries.

For instance, while businesses involved in the Australian film and video production and post-production services industry reported an annual average growth in income of 4.7 per cent from 1999-00 to 2006-07 (Screen Australia, nd),¹ the value of wholesale sales of physical and digital music decreased by an annual average of 6.2 per cent from 2005 to 2010 (Australian Recording Industry Association, 2011) (Figure 3).

¹ 2006-07 is the last year for which data is available.
Likewise, while the total value of book sales in Australia grew by an annual average of 5.2 per cent from 2005 to 2010, the growth rates in other international markets for the same period were:

- the United States, an annual average increase of 0.6 per cent
- the United Kingdom, an annual average decrease of 0.3 per cent
- in Canada, an annual average increase of 2.4 per cent, and
- in New Zealand, an annual average increase of 0.6 per cent (Figure 4)

Growth in the total value of book sales has been stronger in Australia than such international markets as the United States, the United Kingdom, Canada and New Zealand.
1.2 Key segments

1.2.1 Trade books

In 2010, an estimated $1.5 billion worth of trade books\(^2\) were sold in Australia; accounting for 65 per cent of the total value of book sales recorded in that year. According to our analysis, the value of trade book sales grew by an annual average of 4.8 per cent from 2001 to 2010 (Figure 5). Like the broader book market in Australia, trade book sales experienced stagnation during the early-2000s, before enjoying stronger growth from the mid- to late-2000s.

An estimated 66.3 million trade books were sold through Australian-based booksellers in 2010 (Nielsen, 2011). As Figure 6 highlights, the volume of books sold through Australian-based booksellers increased by an annual average of 6.4 per cent from 2004 to 2010. Based on BookScan data provided by Nielsen (2011), the ‘average price’ paid for a book was $19.60 in 2004, $19.83 in 2007 and $18.98 in 2010.

---

\(^2\) A definition of ‘trade books’ is provided in the glossary at the beginning of the document.
As Figure 7 illustrates, chain bookstores accounted for just under 60 per cent of total trade book sales in 2004. This proportion dropped to 55 per cent in 2007 and 50 per cent in 2010. Discount Department Stores, by contrast, experienced a mirrored growth in market share; the proportion of total trade books sold through Discount Department Stores increased from 21 per cent in 2004, to 25 per cent in 2007, to 30 per cent in 2010. The market share of trade book sales held by Independent-General bookstores, meanwhile, remained more or less constant at 20 per cent across 2004, 2007 and 2010.
1.2.2 Educational books

In 2010, an estimated $820 million worth of educational books\(^3\) were sold in Australia; accounting for 35 per cent of the total value of book sales recorded in that year. According to our analysis, the value of educational book sales in nominal prices grew by an annual average of 3.1 per cent from 2001 to 2010 (Figure 8). Adjusted for inflation, however, the value of educational book sales over the past decade grew by an annual average of only 0.3 per cent.

![Figure 8 Value of educational book sales, nominal prices, 2001-2010](source)

The available evidence suggests that, while the value of educational book sales increased from 2001 to 2010, per student spending on educational books declined over the same period. Horsley (2010), for instance, estimates that average sales per student on commercial teaching and learning materials for each Australian primary and secondary student was $38.89 in 2000, $46.76 in 2006 and $43.85 in 2009. Taking inflation into account, “the real value of sales of commercially published teaching and learning materials [decreased] by more than 15% from 2000 to 2009” (Horsley, 2010).

Horsley (2010) maintains that the “falling investment in commercially published classroom teaching and learning materials can be interpreted in relation to a number of issues impacting on the way that teachers and schools provide classroom teaching and learning materials”, including:

- Budget constraints.
- “Changes in teaching and learning pedagogy” – “Australian teachers are much less textbook dependent than teachers in other OECD countries, and are more likely to prepare their own classroom teaching and learning materials” (Horsley, 2010).

\(^3\) A definition of ‘educational books’ is provided in the glossary at the beginning of the document.
A shift in investment priority to information and communication technologies – “In some cases, principals have indicated that they are moving away from printed materials to provide better access for students to information from the worldwide web” (Horsley, 2010).

**Segments of the educational book market**

Our definition of educational books includes primary, secondary and tertiary texts, but also professional books – i.e. books consumed by the scientific, technical, medical, legal and business (financial services) industries. According to our estimates, the value of primary, secondary and tertiary book sales was approximately $620 million in 2010; whereas the value of professional book sales was approximately $190 million.

As Figure 9 illustrates, the value of primary, secondary and tertiary book sales grew from an estimated $450 million in 2001 to $620 million in 2010 – an annual average growth rate of 3.6 per cent.

![Figure 9 Value of primary, secondary and tertiary book sales, nominal prices, 2001-2010](source)

In contrast, the professional book market has been much weaker. As Figure 10 demonstrates, the value of professional book sales grew from an estimated $170 million in 2001 to $190 million in 2010 – an annual average growth rate of 1.6 per cent.
1.2.3 **Online book sales**

Identifying the extent to which Australian consumers purchase books from online booksellers has traditionally been a difficult exercise. While Nielsen BookScan is generally able to capture sales recorded by Australian-based online booksellers, the complexity of tracking books purchased by Australians from overseas-based online booksellers has generally hindered the collection of such data.

An alternative to focusing on point-of-sale data is to ask Australian consumers to identify from where they purchase books, and to use this information to paint a picture of the proportion of books purchased through online and physical (i.e. bricks-and-mortar) channels. Historical consumer survey information that is publicly-available includes:

- In 2001, the then Department of Communications, Information Technology and the Arts commissioned ACNielsen to undertake *A National Survey of Reading, Buying and Borrowing Books for Pleasure*. Only 1 per cent of respondents to this survey indicated that they purchased books from the internet ‘often’ (ACNielsen, 2001). Though 21 per cent of respondents indicated that they would consider using the internet to purchase books in the future.

- In 2008, the Australia Council commissioned Starcom to research general reading and purchasing habits. In this case, 7 per cent of respondents indicated that online booksellers were their most preferred purchase venue (Starcom, 2008).

To buttress these existing surveys, PwC commissioned TNS Global to undertake a survey of Australian consumers. On the basis of the responses to this survey, it is estimated that:

- over 18 per cent of the Australian population purchased a print book from an online bookseller in 2010, while over 6 per cent purchased an eBook from an online bookseller in the same year.

---

**Figure 10 Value of professional book sales, nominal prices, 2001-2010**

12.5 million print books and 1 million eBooks were purchased by Australian consumers from online booksellers in 2010.

53 per cent of books purchased online in 2010 were bought from overseas online booksellers – predominantly Amazon and Book Depository (see Figure 11) (TNS Global, 2011).

Based on the findings of the consumer survey and the Australian Entertainment & Media Outlook 2010-2014, we estimate that $280 million worth of print and electronic books were purchased by Australians from online booksellers in 2010. Overseas-based online booksellers accounted for $150 million (or 53 per cent) of these online sales; while Australian-based online booksellers accounted for the remaining $130 million (or 47 per cent). Overall, online book sales accounted for 12 per cent of the total value of book sales in 2010. In contrast, it is estimated that:

- in 2010, sales by domestic online retailers (excluding food and groceries) accounted for around 4.0 per cent of total retail sales in Australia”, and
- “the equivalent of another 2.0 per cent of Australian retail sales are purchased from overseas websites” (Productivity Commission, 2011).

Drawing on the ACNielsen and Starcom surveys highlighted above, and the Australian Bureau of Statistics (2005) series on book publishing in Australia (which includes some statistics about the value of internet sales recorded by Australian publishers), we estimate that the value of online book sales increased from $17 million in 2001 to $280 million in 2010 – an annual average growth of 37 per cent. We also assume that online book sales were relatively stable during the early-2000s, before increasing sharply as the decade progressed. Responses to the consumer survey suggest that online sales of print books will increase by approximately 50 per cent between 2010 and 2011 – from $250 million to $380 million (TNS Global, 2011).

Further findings from the consumer survey relating to online book sales is provided in Section 4, where we discuss the threats and opportunities posed by online book sales.
1.3 Key sub-sectors

In line with our Terms of Reference (Appendix A), in the following sections we provide estimates of the current and historic performance of key sub-sectors of the Australian book industry – notably, authors and content developers, printers, publishers and booksellers.

1.3.1 Authors and content developers

According to various scholarly and industry estimates, there are approximately 7,600 to 10,000 authors and content developers in Australia; 2,800 to 3,200 (or roughly one third) of which write/create content as their primary occupation (Australian Bureau of Statistics, 2008; Australian Society of Authors, 2008; Throsby & Zednik, 2010). Some Australian authors have been successful in capturing the imagination and respect of overseas markets. Others have managed to build significant followings in the Australian market.

There are two core sets of data that provide an indication of the current and historic value of authors and content developers in Australia. The first of these is the aggregate funding/income earned by authors over the 2001 to 2010 period. Authors generate income from a range of sources, including:

- Grants, prizes and fellowships.
- Advances by publishers for unpublished works.
- Royalties paid as a percentage of sales revenue. Domestic royalties are generally calculated as a fixed percentage (usually 10 per cent) of the recommended retail price (RRP). Royalties earned on books sold outside of Australia are generally calculated on the actual sale price of a book – which can be lower than the RRP.
- Payments made under the Public Lending Right (PLR) and Education Lending Right (ELR) programs. These programs make payments “to eligible Australian creators and publishers in recognition that income is lost through the free multiple use of their books in public and educational lending libraries” (Office of the Arts, 2011).
- Distributions from Copyright Agency Limited. This body is a “non-profit Australian copyright licensing company that enables people to reproduce, store and share other people’s words and images in return for equitable payment to creators and other rightsholders” (Copyright Agency Limited, 2011).

On the basis of publicly available data, and confidential data provided by the Australian Publishers Association, we estimate that Australian authors received at least $139 million in book-related income during 2010 (see Figure 12). This figure is comprised of:

\[ \text{Authors are estimated to have earned at least $139 million in book-related income during 2010.} \]

---

4 ‘Primary occupation’ relates to either the Australian Bureau of Statistics (2008) Census data (which asks people to nominate their ‘main job’) or the survey of professional artists conducted by Throsby and Zednik (2010), which asked respondents to indicate whether they spent more than 50 per cent of their time at creative work in their ‘principal artistic occupation’.
• Just under $2 million in grants funded through the Literature Board (Australia Council, 2001-2010).

• $8 million in book-related distributions from Copyright Agency Limited. Copyright Agency Limited (2005-2010) paid more than $136 million to rightsholders in 2009-10. The majority of these distributions ($97 million, or 71 per cent) were paid to publishers “on their undertaking to on-pay any amounts due to other rightsholders” (Copyright Agency Limited, 2005-2010). To avoid double counting, we have only focused on distributions paid directly to creators and Australian-based collecting agencies – which totalled $16 million in 2009-10. Not all Copyright Agency Limited distributions, however, relate to books. While Copyright Agency Limited did not provide a breakdown in its 2009-10 Annual Report, earlier annual reports suggest that approximately 50 per cent of distributions relate to books (Copyright Agency Limited, 2005-2010).

• $16 million in payments from the PLR and ELR programs. Again, to avoid double-counting, we have only focused on payments paid directly to creators (Office of the Arts, 2001-2010).

• $114 million in royalties, advances and Copyright Agency Limited distributions paid to authors by Australian-based publishers (Australian Publishers Association, 2001-2009).

Figure 12 Author income, by major funding source, 2010

Australian authors likely earned more than $139 million in 2010; if one-off prizes, other public and private grants, and royalties paid from overseas-based publishers are taken into account.
Figure 13 outlines our estimates of the total income earned by authors over the past decade, taking into account Literature Board grants, PLR/ELR payments, Copyright Agency Limited distributions, and royalties paid by Australian-based publishers. These major funding sources equalled approximately $102 million in 2001, and grew by an annual average of 3.5 per cent over the following ten years. The variance evident in 2006 and 2007 was caused by a number of factors including:

- A one-off 8 per cent drop in royalties paid by trade publishers, and a 10 per cent drop in royalties paid by education publishers, in 2006. It is not clear from the available data why these slumps occurred.

The second set of data that provides an indication of the current and historic value of authors and content developers comes from two surveys of professional artists commissioned by the Australia Council (Throsby & Hollister, 2003; Throsby & Zednik, 2010). According to these surveys:

- The mean ‘creative income’ (i.e. income earned from a writer’s primary creative activity) for writers in 2000-01 was $23,200 (in 2007 dollars). The mean creative income earned by writers in 2007-08, however, was $11,100 (in 2007 dollars) – a drop of 52 per cent (Throsby & Zednik, 2010).
- The median creative income for writers in 2000-01 was $5,400 (in 2007 dollars). The median creative income for writers in 2007-08 was $3,600 (in 2007 dollars) – a drop of 33 per cent (Throsby & Zednik, 2010).
Throsby and Zednik (2010) note that their survey findings for writer income in 2007-08 were affected by their sample of writers, which “contained fewer scriptwriters than would be necessary to reflect their proportion in the population.” This is problematic because “scriptwriters on the whole earn significantly more than other types of writer” (Throsby & Zednik, 2010). It is thus likely that the data from 2007-08 understates the quantum of creative income earned by writers.

Nonetheless, combining the results of the Australia Council surveys with the findings from our analysis of major funding sources for authors outlined in Figure 13, it is possible to conclude that, while the total amount of funding available to all authors has grown over the past decade, the amount of income earned by authors who consider writing to be their primary occupation has stagnated, if not declined. A possible explanation for these seemingly contradictory trends is whether the author population increased over the past decade – diluting the pool of available funding. The existing evidence suggests only a minor increase. Throsby and Zednik (2010), for instance, suggest that the number of writers grew in Australia from 7,300 in 2000-01 to 7,600 in 2007-08 – though these findings are not conclusive. We suggest that greater research is required about the income earned by writers before a definitive answer can be reached.

1.3.2 Printers

There is a dearth of information about the current and historic value of the book printing industry in Australia. The little data available tends to be fragmentary and difficult to reconcile. For example, Accenture (2001) reported that total revenue for the Australian book printing industry in 2000 was $250 million. The Australian Bureau of Statistics (2001), however, reported that Australian book publishers spent approximately $122 million on printing in Australia (and a further $134 million on printing overseas) during 1999-00.

Nonetheless, based on information reported by a variety of industry bodies and government agencies, as well as confidential data provided by an Australian book printer, we estimate that revenue generated by the book printing industry in nominal prices declined from $250 million in 2001 to $220 million in 2010 – an annual average decrease of 1.4 per cent. Adjusted for inflation, the drop in book printing revenue over the past decade was even greater – an annual average decrease of 4.1 per cent.

This drop is reflective of the widely-recognised shift of book printing jobs from Australian printers to printers overseas (predominantly in Asia) (Accenture, 2001; Lawrence & Ziguras, 2002; McPherson’s Printing, 2009; Printing Industries Association of Australia and the Australian Publishers Association, 2001). We consider why this shift in book

---

Current and historic performance

printing has occurred (and broader questions about the competitiveness of book printing Australia) in Section 3.3.

In addition to generating approximate revenues of $220 million in 2010, the Australian book printing industry is estimated to consist of more than 200 companies – the largest two of which (McPherson’s Printing and Griffin Press) “account for more than 40 per cent of total direct revenue earned by the industry” (Productivity Commission, 2009). The number of people directly employed by local book printers is estimated to be around 2,000 (Productivity Commission, 2009).

1.3.3 Publishers

According to analysis based on Thorpe-Bowker’s Australian Books in Print database, there were approximately 4,000 book publishers in Australia during 2008 (Lee, Davis, & Thompson, 2009). The market has a relatively long tail of small publishers:

- over 70 per cent of these publishers only published one ISBN-tagged publication in 2008
- 295 (or 8 per cent) published more than five titles in 2008
- 23 (or 1 per cent) published more than 100 titles in 2008 (Lee, Davis, & Thompson, 2009).

The Australian book publishing industry employs approximately 5,000 people (Productivity Commission, 2009).

In 2010, book publishers generated an estimated $1.8 billion in revenue. Of this figure, trade book publishers earned 68 per cent (or $1.3 billion), with educational book publishers generated the remaining 32 per cent (or $580 million) (Australian Bureau of Statistics, 2005; Australian Publishers Association, 2001-2009; Lee, Davis, & Thompson, 2009).

Figure 14 outlines our estimates of revenue earned by trade and educational book publishers over the past decade. Total publisher revenue grew at an annual average rate of 4.3 per cent. The primary driver behind the decline in total publisher revenue in 2004 appears to be a one-off drop in revenue generated by imported/agency books. It is not clear from the available data why this drop in imported/agency book revenue occurred.
Trade publisher revenue grew by an annual average of 5.6 per cent from 2001 to 2010. Education publisher revenue, in contrast, only increased by an annual average of 1.9 per cent over the same period. These trends are generally in line with the rates of increase in the value of sales recorded by trade books (4.8 per cent) and educational books (2.6 per cent), as discussed above.

Figure 15 outlines the share of total publisher revenue accounted for by Australian and imported/agency books over the 2001 to 2010 period. The upward trend evident in the share of publisher revenue accounted for by Australian books was driven by an annual average increase in Australian book revenue of 5.4 per cent – compared to imported/agency book revenue, which only grew by an annual average of 2.2 per cent.
As Figure 16 and Figure 17 highlight, imported/agency books accounted for approximately 55 per cent of trade publisher revenue, while only approximately 30 per cent of educational publisher revenue. The relatively low share of educational publisher revenue generated by imported/agency books is partly a reflection of domestic curriculum requirements for school textbooks, which generally necessitate a higher degree of local knowledge and authorship (Productivity Commission, 2009). It is also important to note from Figure 16 and Figure 17 that:

- trade publisher revenue generated by Australian books grew by an annual average of 8.7 per cent from 2001 to 2010, compared to trade publisher revenue generated by imported/agency books, which grew by an annual average of 3.0 per cent

- educational publisher revenue generated by Australian books grew by an annual average of 2.3 per cent from 2001 to 2010, compared to educational publisher revenue generated by imported/agency books, which decreased by an annual average of 1.1 per cent.

Figure 16 Trade publisher revenue, by Australian and imported/agency books, 2001-2010
Figure 17 Educational publisher revenue, by Australian and imported/agency books, 2001-2010

Figure 18 provides a picture of the profitability of Australian book publishers over 2001 to 2009. The data for Figure 18 is drawn from the Australian Publishers Association industry surveys. The low Profit Before Interest and Tax (PBIT) (as a proportion of total revenue) recorded by trade publishers during 2001 and 2002 is seen to have been caused by the weak sales environment of the early-2000s, as well as a seemingly temporary increase in book production costs (Australian Publishers Association, 2001-2009). Overall, book publishers surveyed by the Australian Publishers Association reported an average PBIT of 10.7 per cent of total revenue in 2009.

Figure 18 Profit Before Interest and Tax, as a proportion of total revenue, trade and educational book publishers, 2001-2009
Source: (Australian Publishers Association, 2001-2009)
1.3.4 Book exports

In 2010, Australian book publishers exported an estimated $225 million of books (Australian Bureau of Statistics, 2005; Australian Publishers Association, 2001-2009). Of this, approximately two-thirds (or $144 million) were trade books, and the remaining third (or $80 million) were educational books. Total book exports accounted for 12.2 per cent of publisher revenue in 2010.

Figure 19 outlines the value of book exports, by educational and trade publishers, from 2001 to 2010. It highlights that:

- The market for Australian book exports was relatively volatile during the early-2000s. It is unclear the extent to which this volatility represented an unstable market for Australian book exports, or inconsistencies in reporting.

- The value of educational book exports declined over the past decade – from approximately $122 million in 2001 to $80 million in 2010 (an annual average decrease of 4.6 per cent).

- The value of trade book exports increased over the past decade – from approximately $40 million in 2001 to $144 million in 2010 (an annual average increase of 15.3 per cent).

- Overall, the value of book exports increased by an annual average of 3.6 per cent from 2001 to 2010. In contrast, the amount of publisher revenue generated by imported/agency books grew by an annual average of 2.2 per cent over the same period. It is important to note, however, that the share of publisher revenue accounted for by book exports declined over the past decade – from an average of 14 per cent over 2001-2005 to an average of 12.7 per cent over 2006-2010.
Figure 20 provides an index of the value of exports for select industry groups. Despite performing strongly during the early-2000s, the value of Australia’s book exports did not keep pace with the value of Australia’s total merchandise exports over the past decade (the latter increased by an annual average of 7.3 per cent). The value of book exports, however, increased at a stronger rate than the value of exports for:

- miscellaneous manufactured articles (e.g. clothing, footwear and travel goods) – which increased at an annual average rate of 0.7 per cent from 2001 to 2010, and
- food and live animals – which decreased at an annual average rate of 0.6 per cent from 2001 to 2010.

![Figure 20 Index of value of exports, select industries, 2001-2010](source)

Figure 21 highlights the primary markets to which Australian books are exported. In 2009, the United States, New Zealand and the United Kingdom accounted for approximately 73 per cent of the value of Australia’s book exports – a percentage that has remained more or less unchanged since the beginning of the decade (Australian Publishers Association, 2001-2009; Lawrence & Ziguras, 2002). Certain markets are more important depending on the type of book sold. New Zealand, for example, accounted for an estimated 68 per cent of Australia’s tertiary education book export sales in 2009. The Pacific Islands (17 per cent) and Canada (7 per cent), meanwhile, accounted for a considerable proportion of Australia’s school book export sales. The United States, the United Kingdom and New Zealand accounted for just under 90 per cent of Australia’s trade book export sales in 2009 (Australian Publishers Association, 2001-2009).
1.3.5 Booksellers

According to estimates provided by the Australian Booksellers Association, there are an estimated 2,000 bookstores in Australia (broadly defined as businesses where book sales represent a significant share of revenue). As Figure 22 highlights, the majority of these bookstores are trade/general (which includes independent booksellers, newsagents and gift/craftshops). Chain bookstores, religious bookstores, second hand and antique bookstores, and education-related bookstores account for approximately 10 per cent each of the total. It is important to note that the figures provided by the Australian Booksellers Association do not include discount department stores.

The available evidence suggests that the number of bookstores has grown over the past decade, but declined slightly in recent years. For example, the Australian Bureau of Statistics (2005) estimates that there were “1,572 employing businesses identified as having retail bookselling activity in 2003–04.” According to the Australian Booksellers Association...
Association, there were approximately 2,220 businesses identifying themselves as bookstores in 2009 (as opposed to the approximately 2,000 businesses today). The closures associated with REDGroup Retail entering into voluntary administration, and other movements in the marketplace are posited as accounting for the recent decline in bookstore numbers.

The picture of bookseller employment is relatively cloudy. In its last survey of book retailers in 2003-04, the Australian Bureau of Statistics (2005) estimated that “bookshops had a total employment of 8,717 people” – approximately 5,862 (or two thirds) of which were female, and 2,855 were male. The Australian Bureau of Statistics, however, did not provide estimates of employment for “other booksellers” (such as newsagents and major department stores). Unfortunately, more recent and accurate approximations of bookseller employment beyond the Australian Bureau of Statistics’ last survey are not available.

Australian booksellers (both ‘bricks and mortar’ and online) sold approximately $860 million worth of books in 2001. This grew to an estimated $1.3 billion in 2010 – representing an annual average increase of 4.3 per cent (Figure 23). As Figure 7 above illustrates, chain bookstores accounted for approximately 50 per cent of the value of total trade book sales in 2010. Discount department stores accounted for an estimated 30 per cent, and independent-general bookstores the remaining 20 per cent.

Figure 23 Value of bookseller book sales, 2001-2010
2 Print books and eBooks

This chapter seeks to provide further definition about the market for print books and eBooks in Australia. Gardiner and Musto (2010) recently defined an eBook as “a text- and image-based publication in digital form produced on, published by, and readable on computers or other digital devices.” For the purposes of this study, an ‘eBook’ does not include electronic academic journals or educational digital objects.

In 2010, approximately $35 million worth of eBooks were purchased in Australia; accounting for 1.5 per cent of the total value of book sales in Australia. According to our analysis based on the findings from the consumer survey, the volume of eBook sales was likely to have equalled between 3.3 million and 3.5 million in 2010. We also estimate that one third (or $12 million) of total eBook sales in 2010 were trade books; with the remaining two thirds (or $22 million) being educational books (PwC, 2010; TNS Global, 2011).

Figure 24 outlines the value of eBook sales in Australia from 2005 to 2010. On the basis of these figures, the value of eBook sales grew at an annual average rate of 72 per cent over the period. The slightly stilted nature of the growth evident in Figure 24 is most likely a reflection of the difficulty of estimating the value of eBook sales in the absence of regular surveys (such as that conducted specifically for the purposes of this study) and sales data monitoring (such as that is undertaken by Nielsen BookScan for print book sales).

![Figure 24 Value of eBook sales, by book type, 2005-2010](image-url)

*Source: (PwC, 2010; TNS Global, 2011)*
Figure 25 highlights the growth in the eBook share of the value of book sales in Australia over 2005 to 2010.

Figure 25 eBook share of value of book sales, by book type, 2005-2010
Source: (PwC, 2010; TNS Global, 2011)

According to the consumer survey commissioned for this study, men are more likely to:

- have purchased an eBook in 2010 (representing 60 per cent of relevant respondents), or
- be intending to purchase an eBook reader in 2011 (representing 55 per cent of respondents) (Figure 26).

Figure 26 eBook demographics, gender
Source: (TNS Global, 2011)

Furthermore, the consumer survey revealed that, of those respondents that purchased an eBook in 2010, 51 per cent were aged between 18 and 34 years. The same cohort accounted for a similar proportion of respondents (49 per cent) that indicated they are intending to purchase an eBook reader in 2011. Interestingly, while only 21 per cent of respondents that purchased an eBook in 2010 were aged between 35 and 49 years, 27 per cent of respondents that indicated they are
intending to purchase an eBook reader in 2011 were in this same age cohort (Figure 27).

![Figure 27 eBook demographics, age](Source: (TNS Global, 2011))

### 2.1 International comparison

According to PwC’s *Global Entertainment & Media Outlook 2010-2014*, an estimated $4.7 billion worth of eBooks were sold globally in 2010; accounting for 2.9 per cent of the value of all book sales. Since 2005, the value of global eBook sales has increased by an annual average of 33 per cent (Figure 28).

![Figure 28 Value of eBook sales as a proportion of total book sales, global, 2005-2009](Source: (PwC, 2010))
Of the $4.7 billion worth of eBooks sold globally in 2010, over half of these (approximately $2.6 billion) were purchased in the United States. Our estimates of the value of eBook sales in other key international markets during 2010 include:

- the United Kingdom - $82 million
- Canada - $77 million, and
- New Zealand - $11 million (PwC, 2010).

As Figure 29 highlights, eBooks have achieved the greatest penetration in the United States, with eBook sales now accounting for approximately 6.5 per cent of the total value of all book sales. eBook sales have also been strong in Canada and New Zealand; while Australia and the United Kingdom have both experienced relatively sluggish eBook sales relative to the other comparable countries.

![Figure 29 Value of eBook sales as a proportion of total book sales, selected countries, 2005-2010](image)

Source: (PwC, 2010; TNS Global, 2011)

According to PwC’s *Global Entertainment & Media Outlook 2010-2014*, demand in the United States and Canada for eBooks has primarily been driven by the growing availability and popularity of eBook readers – particularly eBook readers such as the Kindle, Nook and iPad that are portable and allow readers to download books wirelessly and instantaneously (PwC, 2010).

In the United Kingdom, demand for eBooks has likely been constrained by the availability of dedicated eBook readers (many of which were only launched in Europe from 2009 onwards) and the fact that print books “are exempt from VAT, whereas the full rate of 17.5% is charged for digital content” (PwC, 2011).
2.2 Factors likely to affect the future eBook market

There are a number of key factors that are likely to influence the future size of the eBook market in Australia – both in absolute terms and relative to the market for print books. These factors include:

- the state of the Australian economy
- consumer preferences
- eReader and tablet penetration
- availability of eBooks, and
- potential substitution of print books for eBooks.

We will discuss these factors in turn below, before discussing our projections for the size of the eBook market in Australia over the next five years.

2.2.1 The state of the Australian economy

According to the Intergenerational Report 2010, in the medium term, “the Australian economy is assumed to grow above trend, with a steady decline in the unemployment rate, until the economy returns to capacity” (Commonwealth of Australia, 2010). Real GDP growth is expected to increase from 1.5 per cent in 2009-10 to 4 per cent in 2011-12. Furthermore, the unemployment rate is projected to decline from 6.25 per cent in 2009-10 to 5 per cent in 2014-15 (Table 1).

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP growth</td>
<td>1.5</td>
<td>2.75</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Nominal GDP growth</td>
<td>1.5</td>
<td>5.5</td>
<td>6.25</td>
<td>6.25</td>
<td>6.25</td>
<td>6.25</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>6.25</td>
<td>6.25</td>
<td>6</td>
<td>5.75</td>
<td>5.5</td>
<td>5</td>
</tr>
<tr>
<td>Participation rate</td>
<td>65</td>
<td>65</td>
<td>65.25</td>
<td>65.25</td>
<td>65.5</td>
<td>65.5</td>
</tr>
</tbody>
</table>

Table 1 Medium-term economic projections, Australia, 2009-10 – 2014-15
Source: (Commonwealth of Australia, 2010)

Furthermore, Australia’s population is expected to increase by an annual average of between 1.2 per cent and 1.7 per cent from 2011 to 2016 – reaching between 24 million and 24.7 million people on 30 June 2016 (Australian Bureau of Statistics, 2008).

The above projections suggest that the structural foundations for the overall market for books in Australia are likely to continue to be strong in Australia over the next three to five years.
2.2.2 Consumer preferences

The market for eBooks is still relatively immature in Australia. It is thus difficult to judge the extent to which Australians will adopt and sustain eBook reading habits. Nonetheless, the consumer survey commissioned for this study does shine light on likely future consumer preferences for eBooks. It prompted respondents to indicate their likely purchasing habits with reference to eBooks and print books. Key findings from the survey are outlined below.

Respondents who purchased a print book in 2010 indicated that they would purchase a relatively similar number of print books in 2011 (Figure 30).

![Figure 30 Likely print book purchasing habits in 2011 of those respondents who purchased a print book in 2010](source: (TNS Global, 2011))

Respondents who purchased an eBook in 2010 indicated a slightly stronger intention to purchase more eBooks in 2011 (Figure 31).

![Figure 31 Likely eBook purchasing habits in 2011 of those respondents who purchased an eBook in 2010](source: (TNS Global, 2011))
For those respondents that indicated previous exposure to, or future interest in, print books and eBooks, a plurality (40 per cent) indicated that their preference was to purchase only an eBook version of a newly released book (Figure 32). Roughly a third indicated they would prefer to purchase only a print version of a newly released book, while 24 per cent indicated they would prefer to buy both an eBook and print version.

Figure 32 Preferred version to purchase of a newly released book
Source: (TNS Global, 2011)

‘Portability’ was the most popular main benefit of an eBook over a print book nominated by respondents (Figure 33). The next three main benefits receiving the most responses were: ‘the storage potential of eBooks’; ‘the ease, speed and convenience of downloading eBooks’; and ‘the price of eBooks relative to print books’.

Generally speaking, the main benefits nominated by respondents related to the perceived ease and convenience of accessing and using eBooks relative to print books.

6 Defined as a respondent that either purchased an eBook in 2010 or is likely to purchase an eReader in 2011, and either purchased a print book in 2010 or is likely to purchase a print book in 2011.
The most nominated main drawback of an eBook over a print book was ‘not as pleasurable or relaxing’ (Figure 34). The next three main drawbacks were: ‘harder to read/less comfortable’; ‘cannot display the books’ (i.e. physically on a bookshelf); and ‘need electronic equipment to read’.

Generally speaking, the main drawbacks nominated by respondents related to the perception that eBooks did not have the same feel or functionality of print books.

The results from our consumer survey share some parallels with consumer research undertaken in the United States. The Book Industry Study Group, for example, conducted a survey of 44,000 readers in 2010. The survey asked respondents to nominate why they purchased an eBook rather than a print book. The characteristics of an eBook seen as more important in influencing their decisions include:

- ‘affordability’ – receiving an average score of 2.65 out of 3 (with 3 being very important and 1 being not important)
• ‘easy to download’ – receiving an average score of 2.64
• ‘readability’ – receiving an average score of 2.61
• ‘instant access to books’ – receiving an average score of 2.50, and
• ‘portability’ – receiving an average score of 2.50 (Book Industry Study Group, 2010).

In summary, the results of our consumer survey suggest that:

• Demand for print books is likely to remain stable in the short-term.
• Print books retain some advantages over eBooks – primarily relating to the intangible benefits they provide readers (e.g. the ease of sharing, the ability to interact with printed text through underlining and notation, and the smell and feel of a print book).
• eBooks, however, are generally seen as being easier and more convenient to access and use than print books.
• Demand for eBooks is likely to increase in the short-term. Around 30 per cent of respondents who purchased an eBook in 2010 said they would likely buy more in 2011. Furthermore, consumers familiar with, or interested in, both print books and eBooks expressed a slight preference for purchasing an eBook version of a newly released book than a print version.

The consumer survey also prompted respondents to quantify their print book and eBook purchasing intentions in 2011. On the basis of their responses, it is estimated that the volume of eBook sales from 2010 to 2011 will increase by 231 per cent, compared to a 5 per cent increase for print books (Table 2).

<table>
<thead>
<tr>
<th></th>
<th>Print books</th>
<th>eBooks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proportion of population who purchased in 2010</td>
<td>75.8 %</td>
<td>6.2 %</td>
</tr>
<tr>
<td>Proportion of population who are likely to purchase in 2011</td>
<td>76.7 %</td>
<td>12.2 %</td>
</tr>
<tr>
<td>Number of units per person purchased in 2010</td>
<td>7.2</td>
<td>3.0</td>
</tr>
<tr>
<td>Number of units per person expected to be purchased in 2011</td>
<td>7.5</td>
<td>5.0</td>
</tr>
<tr>
<td>Growth in volume of sales from 2010 to 2011</td>
<td>5.0 %</td>
<td>230.8 %</td>
</tr>
</tbody>
</table>

Table 2 Expected growth in print book and eBook sales, 2010-2011
Source: (TNS Global, 2011)

2.2.3 EBook reader penetration

A key factor likely to influence the size of the eBook market in Australia is the extent to which consumers purchase devices allowing them to read eBooks. Such devices include eReaders, tablets, smartphones, and notebooks and computers more broadly.

As Lee (2010) states, eReaders have become “more widely available in Australia since the second half of 2009.” Australian consumers now
have access to a broad range of eReader devices (see Box 1). There is already evidence of downward pressure on eReader prices, with Amazon (2011) now selling the WiFi-only version of its Kindle in Australia for $139. This “downward trend is likely to be compounded by the emergence of device suppliers in the Asian region, where the proprietary US brands are manufactured” (Lee, 2010).

- Bebook (released May 2009 at $549)
- Cybook (released May 2009 at $499)
- Kindle (released October 2009 at about $300)
- ECO reader (released October 2009 at $449)
- Kobo eReader (released May 2010 at $199)
- Stash eReader (released June 2010 at $129)

**Box 1 eReader availability in Australia**

*Source: (Lee, 2010)*

‘There is an absence of firm data about the volume of eReader sales in Australia. It has been reported that 50,000 Kobos have been purchased since its release in 2010 (Bhatt, 2011). According to IDC (2011), 12 million eReaders were sold globally in 2010; of which the Kindle accounted for 48 per cent.

It is also important to note, as Lee (2010) highlights, that “[s]pecialised devices ... are not essential for reading eBooks.” Tablets – such as Apple’s iPad and Samsung’s Galaxy Tab – are not only increasingly popular in Australia, but can easily be used for eBook reading. PwC estimates that 740,000 tablets were sold in Australia between the iPad’s release and the end of March 2011.

Users of a tablet can purchase and read eBooks using Apple’s iBook service, but can also do so using eReader applications from such companies as Amazon and Barnes & Noble. In addition to tablets, consumers can read eBooks on:

- Smartphones – according to Telstra (Telstra, 2010), “36 per cent of the Australian mobile population own a smartphone and smartphone ownership is expected to grow to more than half the Australian mobile population within 12 months.”

- Notebooks and computers more broadly – notwithstanding their relatively low prominence in discussions about eBooks, computers remain one of the most popular means of reading eBooks. A survey commissioned by the Book Industry Study Group (2010) in the United States found that, in 2010, 37 per cent of readers were reading eBooks using computers – compared to 32 per cent for the Kindle and 3 per cent for the iPad.

Our survey of Australian consumers sought to provide further definition about the market for eBook readers in Australia. According to the survey, 28 per cent of respondents read eBooks using a Kindle (Figure 35). The next most popular devices are: the iPad (22 per cent); a personal computer, laptop or netbook (21 per cent); and a smartphone (11 per cent). Using the results of the survey and the estimate above of 50,000 Kobo sales, we estimate there are more than 500,000 eReaders...
in Australia (not including iPad's, smartphones, or computers/laptops); 70 per cent (or 370,000) of which are Kindles.

Figure 35 Devices used by respondents to read eBooks
Source: (TNS Global, 2011)

The consumer survey also asked respondents about their intention to purchase an eBook reader in 2011. Only 8 per cent indicated that they were likely (incorporating those that responded ‘extremely likely’, ‘very likely’ and ‘somewhat likely’), with 75 per cent indicating they were ‘not at all likely’ to purchase an eBook reader in 2011 (Figure 36). These findings do not suggest the presence of an overwhelming desire amongst Australians to purchase an eBook reader. On the basis of the proportion of the Australian population that the consumer survey represents, however, the response of 8 per cent suggests that potentially 1 million Australians are likely to purchase an eBook reader in 2011 – a sizeable market.

Figure 36 Likelihood of respondents purchasing an eBook reader in 2011
Source: (TNS Global, 2011)
In summary, given the wide availability of eBook readers in Australia, the likely downward trajectory of eBook reader prices, and stated consumer preferences about purchasing an eBook reader (as highlighted in Figure 36), it is likely that eBook reader penetration will continue to grow strongly in Australia over the short to medium term.

### 2.2.4 Availability of eBooks

The availability of eBooks is a “critical issue” in seeking to determine the future size of the eBook market in Australia (Lee, 2010). A sufficient range of titles is required to ensure that supply is matched with demand. Globally, there is a wealth of eBooks available to readers. The United States Kindle store, for example, has over 800,000 titles (Amazon, 2011), while there are “an additional 1.8 million free eBooks in the public domain that can be downloaded from Amazon” (PwC, 2011). Barnes & Noble (2011), meanwhile, contends that it is “the world’s largest eBook store” with over 2 million eBook titles.

The available evidence (primarily of a qualitative nature) suggests, however, that there are constraints on the availability of eBooks in Australia. For instance:

- While Australians can access Apple’s iBookstore using their iPads, users have reported concerns about the availability of titles – specifically titles beyond those already available in the public domain (Turner, 2010).

- In a recent analysis of the eBook market in Australia, Elder (2010) highlights the difficulty faced by independent booksellers accessing eBooks and selling these to consumers.

- Numerous submissions made to the BISG highlight problems in the supply of eBooks in Australia – particularly in relation to Australian-authored work. A sample of quotes from these submissions is provided in Box 2.
What would you like to grow?

“The availability of ebooks has influenced the QUT Library’s collection practices. The Library would purchase more ebooks if they were available for sale. There is abundant evidence that students consider ebooks favourably, and that the ebook market is supply limited and not demand limited.”

Prof Tom Cochrane, Queensland University of Technology

“However, among the ASA’s concerns in this area is that, to date, only a limited number of new Australian titles have been made available as ebooks through local online booksellers or the giant e-tailers, although that number is growing.”

Australian Society of Authors

“Australian booksellers run a significant risk of being locked out of the eBook market. Currently there are no financially viable local options available to Australian booksellers to sell eBooks in the retail marketplace. Booksellers must rely on overseas eBook wholesalers; effectively shifting the Australian eBook market offshore.”

Australian Booksellers Association

Box 2 Sample of quotes from BISG submission relating to the availability of eBooks in Australia

Source: (Cochrane, 2011; Australian Society of Authors, 2011; Australian Booksellers Association, 2011; Australian Literary Agents Association, 2011)

The evidence above suggests that availability of supply may act as a constraint on the expansion of the eBook market in Australia over the short to medium term.

2.2.5 Potential substitution of print books for eBooks

An important question in seeking to determine the likely size of the eBook market – particularly relative to the print book market - in the short to medium term is: will eBook sales expand the total market for books? Or will they cannibalise print book sales?

As Wood (2011) notes, “conventional wisdom” suggests the latter – “that e-books will cannibalise sales of print books.” The available evidence, however, indicates that the interdependencies between eBook and print book sales may not be this definite. For instance, Ernst and van der Velde (2010), after analysing usage statistics from SpringerLink in Germany, Greece and Turkey, concluded that “not only is [eBook] usage growing dramatically, the print business is not being cannibalized by eBooks, and in some cases eBooks are even driving print book sales.”

Similarly, a consumer survey conducted by Verso Advertising (2010) in the United States found that only 13 per cent of eBook readers were not planning to purchase a print book over the next 12 months. In contrast:

- 15 per cent of eBook readers indicated that they would purchase at least one print book over the next 12 months
- 14 per cent indicated that they would purchase three to four print books
- 17 per cent indicated that they would purchase five print books, and
- 28 per cent indicated that they would purchase 10 or more print books (Verso Advertising, 2010).
Drawing on these survey results and others, Wood (2011) suggests that “there may not be an either/or, ‘p’ versus ‘e’ world shaping up, but a marketplace where content in multiple formats actually increases book purchasing across the board.”

Industry experts in Europe (surveyed by PwC) have a more nuanced perspective. They all agree that “eBooks and printed books will co-exist.” However, they also believe that “[i]n certain cases, printed editions will be replaced by digital editions... This is probable particularly in the case of special interest and travel books and in areas in which only sections of books are read” (PwC, 2011).

Recent data released by the Association of American Publishers (2011), however, suggests that the ‘cannibalisation effect’ may be larger and occurring more rapidly than previously expected. Member publishers of the Association recorded that their eBook sales grew by 164.4 per cent from 2009 to 2010 (from $167 million to $441 million), while their print book sales decreased by 5.1 per cent (from $5.1 billion to $4.9 billion).

More recently, member publishers of the Association recorded that their eBook sales for January/February 2011 grew by 169.4 per cent relative to January/February 2010, while their print book sales fell 24.8 per cent (Association of American Publishers, 2011).

Drawing on the evidence outlined above, we conclude that, in the short to medium term, demand for eBooks will likely expand the total volume of books purchased in Australia, but also lead to a slight reduction in the value of print book sales. In the longer term, however, the ‘cannibalisation’ effect is likely to become more prominent.

### 2.2.6 Summary of factors

- The Australian economy is likely to remain robust in the short to medium term, providing a strong foundation for the overall book market.

- The market for print books and eBooks is likely to increase in the short to medium term – though the latter is likely to grow at a much faster rate than the former.

- There is likely to be sizeable demand for eBook readers in the short to medium term. More broadly, consumers are likely to have considerable access to a wide range of devices capable of reading eBooks – such as eReaders, tablets, smartphones and personal computers/laptops.

- The availability of eBooks in Australia may slightly constrain the eBook market in the short to medium term.

- Demand for eBooks will likely expand the total volume of books purchased in Australia, but also lead to a slight reduction in the value of print book sales.
2.3 Projecting the future eBook market

The purpose of this section is to project the likely absolute and relative size of the market for eBooks in Australia and other key international comparable countries (namely, the United States, the United Kingdom, Canada and New Zealand).

2.3.1 The future Australian eBook market

Drawing on the factors outlined in Section 2.2 and other research, we have developed three scenarios about the possible market for eBooks in Australia.

Scenario 1 is a straight line projection; assuming that the rates of growth witnessed in Australia’s print book and eBook markets over the past three years will be replicated over the next three to five years. According to this scenario, the value of:
- trade eBook sales will grow by an annual average of 55.8 per cent
- trade print book sales will grow by an annual average of 3.5 per cent
- educational eBook sales will grow by an annual average of 36.9 per cent, and
- educational print book sales will grow by an annual average of 0.9 per cent.

Scenario 2 provides a sense of what the Australian eBook market would look like if it mirrored past and expected trends in the United States eBook market – the world leader in eBook sales and innovation.

To achieve this, we assumed that the Australian trade eBook market from 2010 and 2014 would grow at the same rate as the United States eBook market from 2007 to 2011 (drawing on the Global and Entertainment Media Outlook 2010-2014). This assumption is based on the observation that the market share of trade eBooks in the United States in 2007 (0.6 per cent) is similar to the market share of trade eBooks in Australia in 2010 (0.8 per cent).

We did not seek to match the growth rates of the Australian educational eBook market with that of its American counterpart, given that eBook penetration in the United States educational book market has been deeper for longer. The observed and expected growth rates of the United States educational eBook market thus tend to be more reflective of a mature market, and not an emerging market like Australia. Consequently, for Scenario 2, we assumed that educational eBook sales in Australia over 2010 to 2014 would grow at an annual average rate of 36.9 per cent (i.e. the same as Scenario 1).

Scenario 3 more closely reflects the factors specific to Australian conditions now and described in Section 2.2. Scenario 3 seeks to capture:
- the expected strength of the Australian economy over the next five years
- stated consumer demand for print books and eBooks (as revealed by the consumer survey)
Print books and eBooks

- the expected growth in eBook readers in the short to medium term
- the slight constraint that a lack of availability may place on the eBook market in the short to medium term, and
- the notion that demand for eBooks will likely expand the total volume of books purchased in Australia, but also lead to a slight reduction in the value of print book sales.

In order to capture these factors, we have assumed that:

- The value of trade eBook sales will grow by approximately 215 per cent a year in the short-term, before tapering off to 75 per cent a year by 2014. Given that the consumer survey suggested that the number of eBooks purchased by consumers would grow by 231 per cent from 2010 to 2011, our assumption of 215 per cent annual growth in the short term is conservative. We are assuming, however, that a lack of available eBooks may slightly constrain the eBook market in Australia in the short to medium term.

- The value of trade print book sales will grow in line with the three year average (3.5 per cent) in the immediate term, but will begin to stagnate and eventually decline over the years 2012 to 2014.

- The value of educational eBook sales will grow by approximately 100 per cent a year in the short-term, before tapering off to 50 per cent a year in 2014. We have assumed that educational eBook sales will not grow as rapidly as trade eBook sales, but are likely to experience a more consistent rate of growth. Underpinning this assumption is that a significant proportion of educational books are purchased by institutions, which are likely to exhibit fewer vagaries in their purchasing behaviour.

- The value of educational print book sales will grow in line with the three year average (0.9 per cent) in the immediate term, but will begin to stagnate and eventually decline over the years 2012 to 2014.

Figure 37 outlines the findings of our three scenarios. According to Scenario 1, the total book market will grow to approximately $2.7 billion in 2014; 5.5 per cent (or $150 million) of which will comprise eBook sales. Of this $150 million, $70 million will be trade eBook sales (representing 4.0 per cent of the total trade book market) and $80 million will be educational eBook sales (representing 8.2 per cent of the total educational book market).
The eBook market in Australia is projected to reach between $150 million and $700 million in 2014; representing between 5.5 per cent and 24.3 per cent of total book sales.

Figure 37 Projections of eBook share of Australian book market, by scenario, 2010-2014

According to Scenario 2, the total book market will grow to approximately $2.8 billion in 2014; 7.3 per cent (or $205 million) of which will comprise eBook sales. Of this $205 million, $125 million will be trade eBook sales (representing 6.9 per cent of the total trade book market) and $80 million will be educational eBook sales (representing 8.2 per cent of the total educational book market).

According to Scenario 3, the total book market will grow to approximately $2.8 billion in 2014; 24.6 per cent (or $700 million) of which will comprise eBook sales. Of this $700 million, $500 million will be trade eBook sales (representing 25.7 per cent of the total trade book market) and $200 million will be educational eBook sales (representing 21.4 per cent of the total educational book market) (see Figure 38).

Figure 38 Scenario 3 projections of eBook share of educational and trade book markets, 2010-2014

In Scenario 1 and Scenario 2, the total value of print book sales increases from $2.3 billion in 2010 to $2.6 billion in 2014 (an annual average increase of 2.9 per cent). In Scenario 3, the total value of print book sales decreases from $2.3 billion in 2010 to $2.2 billion in 2014 (an annual average decrease of 1.2 per cent).
Impact on the future structure of the book industry

If Scenario 3 was to come to pass, it would likely have a range of impacts on the structure of the Australian book industry.

Authors are likely to benefit from an expanded eBook market (and a larger total book market). Demand for written content would remain unchanged. Furthermore, authors are likely to enjoy greater bargaining power in an eBook world (as self-publishing an eBook is more practical, and potentially more lucrative, than self-publishing a print book). Authors may thus be in a stronger position to capture a greater share of sales revenue.

Australian book publishers are also unlikely to be negatively affected by an expanded eBook market. Assuming, of course, that they continue to upgrade and transform their internal processes to enable efficient eBook publishing. And that current territorial copyright arrangements remain in place – so that Australian publishers are able to continue relying on revenue generated from both Australian books and the import of international titles.

Greater demand for eBooks, and contracting demand for print books, would likely place further stress on book printers. If the projected rise in eBooks under Scenario 3 ate into demand for print versions of mass market trade books, the viability of offset printing in Australia would be threatened (as decreasing print runs would place upward pressure on per unit printing costs). There would likely remain, however, a need for digital printing to accommodate shorter print runs and to help manage the inventories of publishers and booksellers.

Lastly, an expanded eBook market is likely to place stress on ‘bricks and mortar’ booksellers and further shrink the number of physical bookstores around Australia. Concurrently, greater demand for eBooks is likely to increase both the volume and value of books bought online. It is not clear at this stage the extent to which this expanding online market for books will be dominated by international or Australian booksellers.

If the projected rise in eBooks under Scenario 3 ate into demand for print versions of mass market trade books, the business model utilised by discount department stores would be threatened.

An expanded eBook market, and greater online retailing, will place considerable stress on independent and general bookstores. This may lead to fewer independent bookstores and/or a greater embrace by independent bookstores of non-book-related sources of income.

---

7 This issue is discussed in greater detail in Chapters 6, 7, 8 and 9.
2.3.2 The future international eBook market

There are a range of available markets forecasts for the international eBook market. May (2010) projects that “the worldwide e-book market [will] grow at a compound annual rate of 42% from 2009 to 2012.” Increasing, in other words, from approximately $4.6 billion in 2009 to $13.2 billion in 2012. May (2010) contends that the eBook market will grow at the fastest rate in Europe, the Middle East and Africa (at an annual average rate of 51 per cent), followed by the United States (41 per cent), the Americas (41 per cent) and the Asia Pacific (31 per cent).

PwC’s Global Entertainment & Media Outlook 2010-2014 projects that the value of global eBook sales will increase from $4.7 billion in 2010 to $10.7 billion in 2014 – an annual average increase of 22.5 per cent. As Figure 39 illustrates, this $10.7 billion will represent approximately 6 per cent of the total value of all book sales in 2014.

According to PwC’s Global Entertainment & Media Outlook 2010-2014, the eBook market in key international territories will grow strongly in the short to medium term (Figure 40):

- In the United States, the value of eBook sales is projected to increase from an estimated $2.6 billion in 2010 to $4.8 billion in 2014 – annual average growth of 16.4 per cent.
- In the United Kingdom, the value of eBook sales is projected to increase from an estimated $82 million in 2010 to $500 million in 2014 – annual average growth of 57 per cent.
- In Canada, the value of eBook sales is projected to increase from an estimated $77 million in 2010 to $154 million in 2014 – annual average growth of 19 per cent.
- In New Zealand, the value of eBook sales is projected to increase from an estimated $11 million in 2010 to $35 million in 2014 – annual average growth of 33.6 per cent.
As Figure 40 illustrates, while the rate of growth in eBook sales is projected to be the greatest in the United Kingdom over the next three to five years, eBook penetration in the United Kingdom is still expected to lag that of the United States, Canada and New Zealand.

According to PwC’s *Global Entertainment & Media Outlook 2010-2014*, demand for eBooks in the United States and Canada is likely to be driven by increasing penetration of eBook readers (such as the Kindle, Nook and iPad) and the expansion of the eBook market “beyond the niche audience of romance and erotica that are available through online publishers and from the early portable-device adopters” to a more “mainstream audience” (PwC, 2010). In the educational book market, PwC’s *Global Entertainment & Media Outlook* contends that an improving economy and the potential of interactive eBooks will drive demand for educational eBooks in the United States and Canada. PwC’s *Global Entertainment & Media Outlook* also expects that value of print book sales in the United States will be constrained by the closure of bookstores and increased discounting from Discount Department Stores.

PwC’s *Global Entertainment & Media Outlook* maintains that demand for books (both print and electronic) in Europe is likely to be dependent on the continent’s economy and whether general improvements can be made. Nonetheless, the United Kingdom is expected to lead Europe’s uptake of eBooks – driven by the growing availability of eBook readers and the country’s access to a broader range of English-language titles (obtained from the American, Canadian and Australian markets).
2.3.3 Recent developments

Over the past three months, a number of developments have occurred which suggest the market for eBooks in the United States has entered a new and more decisive stage. These developments include:

- As noted above, the Association of American Publishers reported in February 2011 that eBook sales from its member publishers grew by 164.4 per cent from 2009 to 2010 (from $167 million to $441 million), while print book sales decreased by 5.1 per cent (from $5.1 billion to $4.9 billion). More recently, member publishers of the Association recorded that their eBook sales for January/February 2011 grew by 169.4 per cent relative to January/February 2010, while their print book sales fell 24.8 per cent (Association of American Publishers, 2011).

- In July 2010, Amazon (2010) reported that it was selling more eBooks than hardcover print books. In May 2011, Amazon (2011) announced that it is now selling more eBooks than paperback and hardcover print books combined. As Amazon (2011) states:

  “Since April 1, for every 100 print books Amazon.com has sold, it has sold 105 Kindle books. This includes sales of hardcover and paperback books by Amazon where there is no Kindle edition. Free Kindle books are excluded and if included would make the number even higher.”

  "Since April 1, for every 100 print books Amazon.com has sold, it has sold 105 Kindle books. This includes sales of hardcover and paperback books by Amazon where there is no Kindle edition. Free Kindle books are excluded and if included would make the number even higher."
Industry competitiveness and global opportunities

The following three chapters explore the competitiveness of the Australian book industry. Chapter 3 seeks to identify factors that are inhibiting the competitiveness of the book industry. Chapter 4 analyses the threats and opportunities posed by online book sales. Chapter 5, meanwhile, explores a range issues surrounding the export of Australian books and associated services, and investment and innovation across the supply chain in the Australian book industry.
3 The competitiveness of the Australian book industry

The efficiency and competitiveness of the Australian book industry has long been an area of interest. In 2001, the book industry (supported by the then Department of Industry, Science and Resources) participated in the Ad Rem project. This sought “to identify and evaluate the challenges and opportunities faced by the Australian Book Industry, and to provide insights as to how the industry, and its individual organisations, could achieve a sustainable strategic position in the future” (Accenture, 2001). In 2004, the then Department of Industry, Tourism and Resources funded a project “to provide useful tools for Australian book producers to become more efficient and competitive” (Avimo Australia, 2004). More recently, the competitiveness of the Australian book industry has been raised in the context of the Productivity Commission’s 2009 Research Report Restrictions on the Parallel Importation of Books and the announcement in March 2011 that REDGroup Retail (parent of the Borders and Angus & Robertson chains of bookstores) was entering into voluntary administration.

This report seeks to build on the existing analyses of the competitiveness of the Australian book industry. It does so by drawing on new data sources (such as the results of the consumer survey, recent sales data provided by Nielsen BookScan, and submissions provided to the BISG) and, where possible, international trends and examples.

We examine industry competitiveness by focusing on three core areas of the book supply chain:

- Production – the various processes (e.g. editing, design and layout, typesetting, printing and digital conversion) involved in the production of books. For the purposes of this report, we analyse the authoring and printing components of book production separately from the broader publishing component.
- Distribution – the various processes involved in the transportation and storage of books from publishers (and self-published authors) to booksellers and specialist suppliers (and, in some cases, directly to institutions and consumers). Distribution also includes the transportation and storage of returns from booksellers to publishers.
- Point of sale – the processes involved in selling books to institutions and consumers.

3.1 Production – book authoring

Exploring the competitiveness of Australia’s book authors is difficult. Author competitiveness is more or less dependent on a range of factors (such as genre and writing quality) that are difficult to measure and compare (both within Australia and across countries). There is also a lack of reliable data that would allow us to examine the efficiency of
The competitiveness of the Australian book industry

book authoring – assuming, of course, that it is possible to identify what an efficient process of book authoring should look like.

The growing share of publisher revenue generated by Australian books (as illustrated in Figure 15) implies that Australian authors have become increasingly competitive in the Australian market. Furthermore, the steady rise in the value of Australian book exports (see Figure 19) suggests that Australian authors are at least maintaining their competitiveness in international markets.

One possible inhibitor of the competitiveness of Australian book authors is the low amount of income earned by the average author. As highlighted in Section 1.3.1, Throsby & Zednik (2010) estimate that the median creative income for writers in 2007-08 was $3,600. Most authors (and professional artists more broadly) are thus obliged to supplement their creative income with other sources of income (either related to another artistic endeavour or an occupation not connected to the arts). It is possible that the need to generate income from non-writing-related activities may limit the time and effort authors can dedicate to their craft. This may, in turn, affect the quality of their written output and their broader competitiveness. Further research is required, however, before a definitive judgment on this issue can be reached.

3.2 Production – book publishing

The conversion of content into books in Australia is primarily the responsibility of the country’s book publishers. Determining the competitiveness of Australia’s book publishing industry is a challenging exercise. The Copyright Act 1968 limits the extent to which overseas-based publishers can compete with Australian-based publishers in supplying books to booksellers, educational institutions and libraries in the Australian market. Furthermore, a number of significant Australian publishers (e.g. Hachette, Penguin Books and John Wiley & Sons) are subsidiaries of international publishing houses. This overlap makes it difficult to talk about the competitiveness of a strictly Australian publishing industry.

These issues notwithstanding, the available evidence suggests the Australian book publishing industry is reasonably competitive relative to its international peers. First, the export market for Australian books has grown over the past decade. As Section 1.3 illustrates, the value of Australia’s book exports grew from $162 million in 2001 to $225 million in 2010 – an annual average increase of 3.6 per cent. This growth, coupled with the stagnation evident in the book market of key export markets (notably the United States and the United Kingdom), suggests that Australian publishers have been successful in driving the sale of Australian content to international readers. This is a view shared by Lee, Davis and Thompson (2009), who concluded, after comparing the export performance of publishers in the United States and Australia, that “Australian book publishers are ... enmeshed with global markets, both as buyers and as sellers, to a far greater extent than their counterparts in the USA.”

Second, as Section 1.3 outlines, the share of Australian publisher revenue accounted for by Australian books has increased over the past decade – rising from 44 per cent in 2001 to 48 per cent in 2010. This suggests Australian book publishers have become increasingly effective in linking Australian content creators with the Australian market.
The available evidence also suggests the Australian publishing industry is, for the most part, reasonably efficient. For example, Lee, Davis and Thompson (2009) note, in per capita terms, Australian book publishers produced 40 per cent to 50 per cent more publications in 2003-04 than publishers in the United States. They also noted, however, net sales revenue and employment levels in 2003-04 were approximately 20 per cent lower in per capita terms for Australian book publishers compared to American book publishers.

Inventory management has long been identified as a challenge facing book publishers – both in Australia and overseas. Accenture concluded in 2001 that the book industry “had not kept pace with best practice techniques of inventory management introduced by other industries.” The Printing Industries Association of Australia and the Australian Publishers Association (2001) also noted in the same year that “[c]onsiderable excess inventory was being carried in all market segments despite the high level of write-off in the Trade/Consumer area.” The past decade has witnessed, however, improvements in how Australian book publishers manage their inventories. Lee, Davis and Thompson (2009), for instance, maintain that

“Computerised stock control and the centralisation of book distribution appear to have helped reduce stock overhangs at the major [publishing firms] in the period since the last ABS survey. Inventory levels are conspicuously lower both in absolute terms … and as a proportion of annual book sales (11.5% versus 19.0%).”

Confidential data provided from the Australian Publishers Association supports the conclusion reached above. As Figure 41 illustrates, inventory levels as a proportion of total sales revenue have been trending downwards for both trade book publishers (decreasing from 18.7 per cent in 2001 to 16.2 per cent in 2009) and educational book publishers (decreasing from 18 per cent in 2009 to 13.6 per cent in 2009).

![Figure 41 Inventory levels as a proportion of total sales revenue, by type of publisher, 2001-2009](image)

Figure 41 Inventory levels as a proportion of total sales revenue, by type of publisher, 2001-2009
Source: (Australian Publishers Association, 2001-2009)

There is also evidence to suggest that Australian book publishers have embraced digitisation of production. As the University of Melbourne Book Industry Study Group (2011) notes:
“Operating in a small market that rarely yields high volume sales and economies of scale, the [book publishing] industry has had to innovate to remain competitive. It has a well-established digital supply chain from author through editor, designer and typesetter to printing press. Further digitisation is unlikely to offer more than marginal production efficiencies, and existing methods can be adapted to electronic texts with relative ease. Indeed, this adaptation is already happening in important sectors of the industry, with professional and educational publishers leading the way.”

In her study of digital technologies in Australia’s book industry, Lee (2010) also notes that:

- most sectors of the publishing industry “make extensive use of digital technologies to streamline print production”, and
- while some sectors (notably, higher education publishing and professional/reference publishing) are more advanced in integrating their print production processes with the production of electronic resources, the other sectors appear to be actively moving towards the goal of complete integration.

Lastly, Australian book publishers appear to have made some progress in addressing the perennial problem of returns. While returns do provide publishers with a mechanism “to push books into the market”, they also impose significant costs on publishers – primarily in terms of writing-off unsold books, and the costs involved in transporting and pulping the unsold books (Accenture, 2001). Confidential data provided by the Australian Publishers Association suggests trade returns have declined slightly as a proportion of sales over the past decade (by approximately 5 per cent) (see Table 3). Lee, Davis and Thompson (2009) also suggest return rates in Australia are lower than those in the United States (which were estimated to be around 33 per cent in 2004).

<table>
<thead>
<tr>
<th>Return rate</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; 20 per cent</td>
<td>27%</td>
<td>20%</td>
<td>17%</td>
<td>31%</td>
<td>26%</td>
<td>17%</td>
<td>5%</td>
<td>5%</td>
<td>9%</td>
</tr>
<tr>
<td>15-20 per cent</td>
<td>36%</td>
<td>50%</td>
<td>58%</td>
<td>38%</td>
<td>42%</td>
<td>50%</td>
<td>26%</td>
<td>50%</td>
<td>36%</td>
</tr>
<tr>
<td>&lt; 15 per cent</td>
<td>36%</td>
<td>30%</td>
<td>25%</td>
<td>31%</td>
<td>32%</td>
<td>33%</td>
<td>68%</td>
<td>45%</td>
<td>55%</td>
</tr>
</tbody>
</table>

Table 3 Proportion of trade book publisher respondents indicating their rates of return (as a proportion of sales), 2001-2009

Source: (Australian Publishers Association, 2001-2009)

One area of concern in the operations of Australian book publishers is labour productivity. Confidential data provided by the Australian Publishers Association suggests that labour productivity (measured in terms of total revenue per employee) has stagnated over the past decade – increasing by an annual average of 0.6 per cent for trade book publishers, and declining by an annual average of 2.5 per cent for educational book publishers (Figure 42). There are two important issues to consider, however, when interpreting the data represented in Figure

---

8 Return rates for educational books have traditionally been less of a problem, given the nature of the educational book market.
42. First, the data supplied by the Australian Publishers Association did include some inconsistencies in terms of reported employee numbers. This does somewhat reduce the reliability of the observed trends in Figure 42. Second, as noted by Saul Eslake (2010), growth in Australia’s overall labour productivity slowed over the past decade – from a five year rolling average of approximately 3 per cent in 2002 to approximately 1 per cent in 2009. The trends evident in Figure 42 thus may be more representative of the Australian economy as a whole, rather than any factor unique to the Australian publishing industry.

![Figure 42 Labour productivity, total revenue per employee, trade and educational book publishers, 2001-2009](source: Australian Publishers Association, 2001-2009)

3.3 Production – book printing

The Australian book printing industry has been involved in the production of books since the early-to-mid-nineteenth century. The past two decades, however, have witnessed a gradual decline in revenue generated by the book printing industry. As Accenture (2001) notes, the “sector’s total revenue was almost $300 million in 1994, but decreased to $250 million in 2000.” Section 1.3 above, meanwhile, highlights that the book printing industry’s revenue declined from approximately $250 million in 2001 to $220 million in 2010.

The key factor behind this drop in revenue has been the increasing use of overseas-based printers by Australian-based publishers. Today, the “majority of non-time sensitive colour books are printed and bound offshore (mainly in Asia)” (Printing Industries Association of Australia and Australasian Paper Industry Association, 2010). Australian book printers primarily compete in the market for the production of monochrome (‘mono’) books using either offset (including web-fed and sheet-fed) printing and digital printing (Australian Competition and Consumer Commission, 2007).

The trend towards overseas printing has largely been driven by the cost differential between Australian-based and overseas-based printers – particularly those located in China and Southeast Asia. For instance, a 2001 study of book production in Australia noted that “Asian printers have a price advantage over Australian printers of between 12% and 27% with the largest discrepancy in the prices for four-colour casebound
books” (Printing Industries Association of Australia and the Australian Publishers Association, 2001). Qualitative evidence provided to both Avimo Australia’s 2004 analysis of the competitiveness of book production in Australia and the Australian Competition and Consumer Commission’s 2007 inquiry into the proposed joint venture between McPherson’s Printing Group and Griffin Press suggests that overseas-based printers continued to enjoy a price advantage over Australian-based printers throughout the 2000s. The Printing Industries Association of Australia also noted in 2009 that “It is no secret that on the basis of cost, Australian book printers cannot compete with Asian book printers.”

The cost differential between Australian-based and overseas-based printers results from:

- **High input costs.** Compared with their overseas-based counterparts (particularly those in China and Southeast Asia), Australian-based printers have to contend with:
  
  - Higher labour costs – book printing is a relatively labour intensive process “due largely to its binding and finishing components and Australian firms cannot compete with overseas competitors on labour costs” (Printing Industries Association of Australia and Australasian Paper Industry Association, 2010). While comparative data is limited, available International Labour Organization (2011) statistics suggest that manufacturing labour costs in Australia during the early-2000s were approximately 150 per cent higher than those in Singapore and Hong Kong, 600 per cent higher those in Malaysia and 1,900 per cent higher than those in the China.9
  
  - Higher paper costs – industry sources note that “[c]oated book papers are not produced in Australia and need to be imported” – affecting the cost of such paper (Printing Industries Association of Australia and Australasian Paper Industry Association, 2010). Similarly, the industry estimates that “UK based printers are currently able to source uncoated book paper for up to 30 per cent less than prices available in Australia” (Printing Industries Association of Australia and Australasian Paper Industry Association, 2010). Feedback provided to PwC suggests that uncoated paper prices are high for Australian-based printers because they do not buy paper at the same volume as overseas-based printers. It is important to note, however, that a 2004 study found that printers in Australia paid approximately the “same” price for paper (USD 820 per tonne) as Asian printers (Avimo Australia, 2004).

- **Under-utilisation and economies of scale.** The Australian market for books is small compared to those in Europe, North America and Asia. Avimo Australia (2004) noted in 2004 that the average print run for a book in Australia (excluding trade paperbacks) was between 7,000 and 10,000. Print runs in China, by contrast, were reportedly as high as 1.2 million. Compounding this issue of economies of scale,

---

9 “For the purposes of labour cost statistics, labour cost is the cost incurred by the employer in the employment of labour.” See the International Labour Organization (2011) for more detail.

- **The exchange rate.** The current high value of the Australian dollar increases the price advantage of overseas-based printers. As the Printing Industries Association of Australia and Australasian Paper Industry Association (2010) note, there is “little offsetting cost advantage to be gain from the high dollar on imported raw materials as most (non-coated) book paper comes from Tasmania or NZ.”

As a consequence of increased international competition, the Australian book industry does appear to have focused on “achiev[ing] maximum production efficiencies given [the] available market size” (McPherson’s Printing, 2009). According to Griffin Press (2009), its “investments and innovations over the last 10 years have reduced its average sell price for a trade paperback by 9% (despite increases in wage and material costs over the same period).” Other examples of efficiencies in the Australian book printing industry include:

- McPherson’s Printing (2009) highlights the industry’s embrace of “digital to file plate” technology which “provides efficiency benefits as well as facilitating the global transfer of digital print files.”

- Fitzpatrick (2010) notes that wages in the broader printing industry fell as a percentage of revenue from 2005-06 (24.7 per cent) to 2009-10 (24.1 per cent) “due to efficiency and productivity gains.”

- Lee (2010) details how “Australian book printers have been moving into the digital arena for several years” as they seek to adapt to anticipated changes in book publishing (from “mass production” to “mass customisation”). Further discussion about the potential of digital printing is provided in Section 9.2.

### 3.4 Distribution

Distribution is widely seen as a factor that is impeding the competitiveness of the Australian book industry. Stakeholders in their submissions to the BISG and the broader literature highlight four key sources of inefficiency in current distribution arrangements. First, Australia is a **geographically large and demographically dispersed** country. As a consequence of these structural factors, “distribution is a costly business” in Australia – not just for books, but generally all consumer goods (Lee, Davis, & Thompson, 2009).

Second, the Australian book industry’s **distribution system is fragmented.** In Australia, larger publishers generally operate their own distribution systems. Some of these provide distribution services to third-party publishers (Productivity Commission, 2009). There are few specialist book distributors operating in the Australian market. As a consequence of these arrangements, there is little consolidation of ordering, delivery and invoicing of books from publishers to suppliers/booksellers. Rather, books are distributed through “a separate truck and invoice from each publisher’s’ warehouse” (Coalition for Cheaper Books, 2009). As Accenture (2001) describes:

> “It is possible … for two books commissioned by two different publishers to be printed by the same printer and then transported to the same bookseller, but with one changing hands in the distribution process only
This fragmentation limits the ability of publishers to achieve economies of scale in distribution. This makes distribution more expensive as it is “a volume driven activity; its costs are largely determined by the volume of product being distributed” (Accenture, 2001). The lack of consolidation in ordering, delivery and invoicing also imposes costs on suppliers/booksellers, as they are required to devote additional resources to managing a range of orders/invoices, as opposed to one order and invoice (Coalition for Cheaper Books, 2009).

Third, and compounding its fragmented nature, there is a lack of agreed standards underpinning the book distribution system. Stakeholders attending the consolidated BISG workshop, for instance, noted that the Australian book industry does not have a universal Radio-Frequency Identification (RFID) standard. At present, different elements of the book supply chain generally have their own systems for identifying and tracking books. The movement of books across the supply chain is thus not a seamless activity and can be labour intensive (as book details are manually entered into a receiver’s inventory system). A universal RFID standard would help to alleviate these problems by:

- standardising the information used to identify and track books, and the technology used to interpret and communicate this information, and
- reducing the need for manual intervention in the process of identifying and tracking books.

Fourth, access to distribution systems can be a problem for smaller publishers. Lee, Davis and Thompson (2009) detail in their analysis of the Australian publishing industry how the decision by the major publishers in the late-1990s to take on “third-party distribution agreements in unprecedented numbers” empowered independent publishers like Scribe and Text Publishing. They also note, however, that “distribution remains a headache for small publishers”, with some smaller and independent publishers feeling that they “are locked out of the national distribution system” (2009). Freeth (2007) reached similar conclusions in her study of small and independent publishers. After surveying a range of small presses, Freeth (2007) found:

- approximately 40 per cent saw “distribution as one of the biggest difficulties facing small and independent publishers”
- “There is widespread frustration about distribution among the presses surveyed, particularly among the many presses who’ve been unable to secure a distribution arrangement because the cost is too high or their print runs are too small, and many presses indicated they would flock to an organisation that could provide a small-publisher-friendly model.”

The impact of distribution on the competitiveness of Australia’s book industry is difficult to quantify. The Australian Publishers Association (2009) estimates “the cost of distributing a book on a ‘per book’ basis (including freight, remainders and returns) can vary enormously: from $0.80 to $2.00.” The Australian Publishers Association (2009) also states “Australian freight costs are at best double that of the UK.”
estimates suggest that Australia’s current book distribution system adds an additional $0.40 to $1.00 to the cost of a book relative to the book distribution system in the United Kingdom. Section 3.5 provides further analysis of the cost impact of distribution on retail book sales.

3.4.1 International developments – the United Kingdom and the United States

Distribution is a key area of concern for book industries around the world. The book industries in the United States and United Kingdom, in particular, have instituted a range of reforms to improve the efficiency in which books are distributed from publishers to consumers. These reforms are illustrative as they not only provide further context to the competitiveness of Australia’s book distribution system, but they also highlight possible reform directions for the Australian book industry.

Key developments that have occurred in relation to the British and American book distribution systems include:

The creation of industry bodies tasked with improving supply chain efficiency

The book industries in both the United States and United Kingdom have established industry bodies tasked with improving the efficiency of supply chains. In the United States, this body is the Book Industry Study Group. Formed in 1976 by initially a small group of publishers, manufacturers and trade associations, the Book Industry Study Group (2011) seeks “to create a more informed, empowered and efficient book industry supply chain for both physical and digital products.” Its membership represents “all segments of the book industry, including publishers, booksellers, manufacturers, distributors, wholesalers, libraries, trade associations and others involved in digital and print publishing” (Book Industry Study Group, 2011).

The equivalent body in the United Kingdom is Book Industry Communication. Formally establish in 1991 by the Publishers Association, the Booksellers Association, the Library Association and the British Library, Book Industry Communication (2011) describes itself as “the book industry's independent supply chain organisation, committed to improving the efficiency of the trade and library supply chains, reducing cost and automating processes.”

The principal functions of both the Book Industry Study Group and Book Industry Communication include:

- The development, maintenance and promotion of standards – particularly around identifiers (e.g. ISBN and International Standard Text Code), bar cording, location numbering, and Electronic Data Interchange (EDI) and e-commerce.
- Operate certification and accreditation schemes - Book Industry Communication (2011), for instance, “operates three accreditation schemes, all aimed at enabling organisations to demonstrate their commitment to the highest levels of service to supply chain trading partners and customers and to set benchmark standards for the application of technology and innovation in the book industry.” Likewise, Book Industry Study Group (2011) administers two certification programs (pertaining to product data and product labels).
to allow “members and non-members to have their compliance to industry standards evaluated and ranked by expert independent advisers.”

- Commissioning research (including benchmarking exercises) – to address knowledge gaps and inform decision making.

**The establishment of Batch.co.uk**

The Booksellers Association in the United Kingdom established Batch.co.uk in 2000. This web-based service “aggregates book industry payments and other financial data into a single feed for stock control systems and accounts packages” (Kilborn & Edwards, 2010). As a result, booksellers do not have to make separate payments to the many publishers who supply them. Instead, Batch collects payments monthly by booksellers’ direct debit; and at the end of the month it outputs these payments to the publishers, again with one transaction (Kilborn & Edwards, 2010). Batch.co.uk thus generates efficiencies for booksellers and publishers/distributors through the automation and consolidation of the payment and ordering processes.

**The use of specialist wholesalers**

Although not a reform as such, it is important to note that wholesalers (such as Ingram and Bertrams) play a stronger role in the book distribution systems of the United States and United Kingdom. Such wholesalers are able to offer more consolidated ordering services to booksellers (helping to overcome the ‘separate truck and invoice’ problem).

3.4.2 **International developments – the Netherlands**

The Netherlands provides a unique case example of how RFID can be used to improve the distribution of books and generate operational efficiencies. In 2006, Selexyz bookstores in collaboration with Centraal Boekhuis (the country’s primary distributor of books) embarked on a project to optimise the supply chain between wholesaler and consumer. At the heart of this project was the use of RFID tags to allow for the identification and tracking of individual books, as well as greater automation of distribution activities.

Initially, Centraal Boekhuis and Selexyz faced problems in that applying RFID tags “proved to be very labor-intensive for Centraal Boekhuis and therefore ultimately only feasible for a small number of Selexyz stores” (Packaging Digest, 2009). This challenge was overcome through the development of an “automated print and apply RFID labelling” system – one that was ultimately capable of “printing and applying a label with an EPC Class 1 Gen 2 RFID tag, at a rate of 60 books per minute, inclusive of data verification” (Logopak, 2008). Central Boekhuis currently has the capacity to automatically apply RFID labels to 10 million books a year (Packaging Digest, 2009).

The use of RFID labels has led to a range of productivity improvements through the reduction of manual inventory processes. The use of RFID labels, for example, enables Selexyz to automatically verify the content of shipments, ensure the contents match the original purchase order,
and update store inventory. Selexyz systems can also “automatically inform staff on the composition of the shipments—reducing the time and labor needed to process inbound deliveries while increasing shipment handling accuracy” (Progress Software, 2007). As Jan Vink, an IT Director at Selexyz notes, “People had to check each box manually, and it would take up to five or six minutes to check a box of books. Now, the time is reduced through this technology to less than ten seconds” (Progress Software, 2007). Kroon et al (2007) also note that Selexyz “formerly had to shut down the store and engage 20 to 25 staff members to conduct inventory review. The company can now complete inventory reviews in a couple of hours with only two members of staff.”

The Selexyz/Centraal Boekhuis example highlights the possible efficiencies that can be gained through the adoption of a comprehensive RFID system. It should be noted, however, that Centraal Boekhuis has faced difficulties in convincing other booksellers to adopt RFID technology. Hans Willem Cortenraad, the CEO of Centraal Boekhuis, noted in 2009 that “[e]verybody acknowledges the potential advantage of radiotags, but nobody wants to pick up the tab. Currently, these chips add 14 eurocents to the costs of each book, but when all books are tagged, that price will sink fast” (PwC, 2009).

3.5 Point of sale

Submissions to the BISG have highlighted two broad factors that are seen to be impeding the competitiveness of Australia’s booksellers and supplier of books: availability and price. We analyse both these factors in greater detail below.

3.5.1 Availability

Availability in this context refers both to the speed by which orders placed with booksellers are fulfilled, as well as the range of books that can be ordered by booksellers and onsold to consumers.

Speed of delivery

Representatives from booksellers at the consolidated BISG workshop indicated that lengthy delivery times are a significant impediment to their operations. This perspective is echoed in the Australian Booksellers Association’s (2011) submission to the BISG, which notes that:

“Most distributors would supply bookshops on the eastern seaboard in 7 days (books they have in stock), longer for other states. Four distributors (UBD, ADS, Harper Collins and Random House) can supply Melbourne and Sydney in 3-5 days. Books that are out of stock locally can take between 3-12 weeks to be supplied. Major US book distributor, Ingram, can supply any Australian bookshop in 4-5 business days.”

In his submission to the BISG, Cochrane (2011) states that it “still takes four to six weeks on average for most print books to arrive at QUT Library once ordered from library book supply vendors with inventories overseas.”

Lengthy delivery times can encourage inefficient ordering behaviour. Rather than reacting to actual demand, booksellers are required to order on the basis of predicted future demand. As a result, booksellers
may be less likely to have the right titles to meet consumer need. Alternatively, booksellers may be more likely to over-order, as they “try to compensate/insure themselves against key titles going out of stock at the distributor” (Australian Booksellers Association, 2011). Over-ordering creates further problems, as it increases the potential for returns - which, in turn, imposes a cost on publishers “that is ultimately passed onto the consumer” (Australian Booksellers Association, 2011).

The speed by which it takes to deliver books in Australia is primarily seen as a reflection of the book’s inefficient distribution system (as discussed in Section 3.4).

Sufficient range

As was discussed in Section 2.2, a range of stakeholder groups have expressed disquiet about the availability of eBooks in Australia. From a bookseller perspective, the key concern is that, in a business where “content is king”, “if you don’t have content, you can’t have a share of the market” (Neil, cited in: Elder, 2010). This concern is particularly acute in the context of eBooks, which (as highlighted in Section 2.3) are projected to account for an increasing share of book sales over the next three to five years. Furthermore, eBooks nullify some of the locational advantages (e.g. the ability to satisfy consumer needs immediately) enjoyed by domestic booksellers in relation to print books – pitting them more directly against their overseas-based online competitors. As the Australian Booksellers Association (2011) states:

“...Australian booksellers run a significant risk of being locked out of the eBook market. Currently there are no financially viable local options available to Australian booksellers to sell eBooks in the retail marketplace … Booksellers who are unable to supply their customers eBooks will have to downscale their business, resulting in lost jobs and the likelihood of businesses closing.”

Elder (2010) makes a similar point, maintaining that independent booksellers:

“... have no easy access to e-titles. From a consumer’s point of view, you cannot go to an independent bookshop's website and buy an e-book, because they don't have them in stock - regardless of how tooled up you might be with the latest e-readers or applications.”

Submissions to the BISG and broader literature suggest there are two key factors affecting the availability of eBooks in Australia. First, the book industry in Australia is experiencing some ‘teething’ issues as it gradually adjusts from a print book world to a print/electronic book world. The key teething issue is ensuring that new and backlist titles have sufficient territorial rights to be sold in Australia. As Blacklock (2010) and Coronel (2010) note, major eBook retailers have sought to adhere to existing territorial copyright law. Consequently, they will only sell an eBook to consumers in countries covered by the eBook’s copyright restrictions. Until 2010, for the vast majority of books published overseas, Australia was not covered by such copyright restrictions.

Over the past six to 12 months, Australian publishers have sought to rectify this problem by ensuring new overseas books have sufficient territorial rights to be sold in Australia. They have also started the more laborious process of contacting and reaching agreement with rights holders of backlist titles about publishing eBook versions of their works.
As Blacklock (2010) states, while there has been “a massive delay in distribution that is still being felt by consumers looking to buy the newest releases for their Kindle or other eReaders even now”, the concentration of publisher effort will eventually see the expansion of eBooks available in Australia.

“Given time, many eBooks that were not available at the launch of your favourite eBook reader or are not available straight after the print release date will eventually be sorted. The same goes for older backlist titles that have not yet had their rights cleared to be published in electronic form in Australia. This is a massive administrative and legal issue that most publishers around the world are slowly and surely dealing with, and it’s not something unique to Australia. Given time and resources, publishers the world over will sort it out and a greater range of titles will be available to everyone” (Blacklock, 2010).

A further teething issue is whether the ‘agency model’ (i.e. where publishers set the sale price of eBooks, with retailers receiving a fixed percentage of the sale price for each book sold) is an appropriate pricing model for the sale of eBooks in Australia. While the agency model is accepted (albeit begrudgingly in some cases) by publishers and booksellers in the United States, there are concerns about its suitability in Australia, given that:

- It upends the traditional bookseller-publisher relationship – booksellers are generally the final arbiter of a book’s sale price, which they determine by drawing on their sales experience and current understanding of consumer demand. It is not clear whether publishers have sufficient retail experience or understanding of the retail environment to respond to, and anticipate, consumer demand effectively – as would be required under the agency model.

- “There is debate as to whether the interplay between Australian and international laws could limit or prevent use of the agency model in Australia” (Australian Society of Authors, 2011). More specifically, whether the agency model represents a form of prime maintenance, which is illegal under the Consumer and Competition Act 2010.

The second factor that has been affecting the availability of eBooks in Australia is the absence of Australian Digital Asset Distributors (DADs). These specialist companies play an important role in the eBook supply chain in the United States and United Kingdom. DADs provide publishers with technical capacity in managing their eBook portfolios. As Lee (2010) states, DADs offer “[s]ecurity in the conversion of unencrypted files, the ability to provide ebooks in a range of formats, access to efficient long-term file storage and the ability to hand large volumes of electronic traffic.” More importantly, however, DADs acts as intermediaries between publishers and booksellers – managing the metadata and digital rights management (DRM) requirements of the former and providing eBooks in formats that match the e-commerce systems of the latter.

According to the Australian Booksellers Association (2011), there are few indigenous DADs operating in Australia - the “options now available to booksellers are limited to overseas wholesalers such as Ingram, Overdrive and Gardners.” This arrangement is seen as sub-optimal because:

- the business models offered by the overseas eBook wholesalers “are not viable for small and medium sized retailers”, and
• the “Australian content in their data feeds is also currently limited” (Australian Booksellers Association, 2011).

It is important to note that the DAD market in Australia is evolving and growing. Indigenous DADs have recently emerged (such as Booki.sh, owned by Readings eBook store). Feedback provided to us by a BISG member notes that the “number of large DADs operating in Australia is comparable to overseas markets”, taking into account Ingram, Overdrive, Kobo, Ebooks.com and the upcoming launch of Google (partnered with Booktopia).

3.5.2 Price

Books are an increasingly globalised commodity, with local booksellers competing for Australian sales with a range of overseas-based online booksellers. To be able to compete effectively, Australians booksellers must be able to sell books at a price that is comparable with overseas-based online booksellers, while still allowing them to generate a sufficient margin.

Recently, the perceived lack of price competitiveness between Australian booksellers and overseas online booksellers has been noted as a factor behind REDGroup Retail entering into voluntary administration in February 2011 (Lloyd, 2011; Stafford, 2011).

We have sought to examine the price competitiveness of Australian booksellers by undertaking two steps:

• analysing the available evidence to determine how competitive the prices charged by Australian booksellers are relative to international booksellers, and
• identifying and testing factors that may be inhibiting the price competitiveness of Australian booksellers.

Available evidence on pricing

In 2009, as part of its broader examination of Parallel Importation Restrictions, the Productivity Commission undertook a comparison of the prices of current list trade books in Australia and in the United States and the United Kingdom. This comparison utilised Nielsen BookScan data – specifically, “the top 5000 trade sales captured in the Australian BookScan database, the top 5000 captured in the UK database and the top 5000 (for each of the fiction, non-fiction and children’s categories) in the US database” (Productivity Commission, 2009). Using this data, the Productivity Commission sought to analyse price differentials between:

• Recommended Retail Prices (RRPs) and Average Sale Prices (ASPs) for like editions of the same title (generally determined using ISBNs), and
• RRPs and ASPs of the lowest costs editions of matched titles.

Table 4 and Table 5 summarise the findings of the Productivity Commission’s analysis (the Productivity Commission did not have access to ASP data for the United States).
Table 4 Average proportion that RRP prices for Australian trade books were higher than RRP prices in the United States and United Kingdom
Source: (Productivity Commission, 2009)

<table>
<thead>
<tr>
<th></th>
<th>Matched editions</th>
<th>Cheapest editions of matched titles</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>UK RRP</td>
<td>US RRP</td>
</tr>
<tr>
<td>2007-08</td>
<td>9%</td>
<td>35%</td>
</tr>
<tr>
<td>2008-09</td>
<td>12%</td>
<td>12%</td>
</tr>
</tbody>
</table>

Table 5 Average proportion that ASPs for Australian trade books were higher than ASPs in the United Kingdom
Source: (Productivity Commission, 2009)

<table>
<thead>
<tr>
<th></th>
<th>Matched editions</th>
<th>Cheapest editions of matched titles</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>UK ASP</td>
<td>UK ASP</td>
</tr>
<tr>
<td>2007-08</td>
<td>18%</td>
<td>22%</td>
</tr>
<tr>
<td>2008-09</td>
<td>25%</td>
<td>27%</td>
</tr>
</tbody>
</table>

While the comparison undertaken by the Productivity Commission suggests the price charged for trade books in Australia is generally higher than what is charged for similar books in the United States and the United Kingdom, it does not provide a direct or clear picture of the competitiveness of retail book prices in Australia. As the Productivity Commission (2009) states:

“… the results of these comparisons are at best an indication of gaps between the observed retail prices of books in the different countries; they do not of themselves attempt to indicate the price at which the books sold in other countries could have been sold in Australia.”

In order to obtain a better understanding of the price competitiveness of Australia booksellers, we conducted our own price benchmarking analysis. This consisted primarily of analysing the total price paid by consumers for purchasing a print book from Australian-based and overseas-based online booksellers and having it delivered to their preferred address.

We based our benchmarking analysis on two data sources:

- Nielsen BookScan provided the Department with comprehensive information about the top 25 selling print books in Australia for the period between 2 January 2011 and 26 February 2011. The 25 books represented approximately 4.3 per cent of the volume and value of print book sales recorded by Nielsen BookScan for the eight weeks in question. Table 6 provides more information about the origin and nature of the 25 books.

- Booko.com.au – an Australian-based aggregator, which allows consumers to compare the sale price and total price (including delivery) of online booksellers (both Australian-based and overseas-based) in Australian dollars.
The competitiveness of the Australian book industry

<table>
<thead>
<tr>
<th></th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of books published overseas</td>
<td>13</td>
<td>52%</td>
</tr>
<tr>
<td>Number of books published in Australia</td>
<td>12</td>
<td>48%</td>
</tr>
<tr>
<td>... Australian author</td>
<td>6</td>
<td>24%</td>
</tr>
<tr>
<td>... international author</td>
<td>6</td>
<td>24%</td>
</tr>
<tr>
<td>Number of paperback</td>
<td>24</td>
<td>96%</td>
</tr>
<tr>
<td>Number of hardbacks</td>
<td>1</td>
<td>4%</td>
</tr>
</tbody>
</table>

Table 6 Summary of top 25 selling print books, 2 January - 26 February 2011
Source: (Nielsen, 2011)

For our first analysis, we used Booko.com.au to collect pricing data from available online booksellers for the top 25 selling print books in Australia as nominated by Nielsen BookScan. ISBNs were used to search for titles. Data collection was undertaken during a two-hour period on 27 March 2011.

We then separated the pricing data into Australian-based and overseas-based online booksellers, allowing for comparisons to be made between the two. We particularly concentrated on the average total price (ATP) and median total price (MTP) offered by Australian-based and overseas-based online booksellers. ‘Total price’ in this context refers to the sales price plus delivery charges.

Analysing the pricing data collected from Booko.com.au (see Table 7), we found that:

- Only 22 of the 25 editions were available from overseas online booksellers.
- For the remaining 22 editions, the ATP offered by Australian online booksellers was on average 9 per cent higher than the ATP offered by overseas online booksellers. The MTP offered by Australian online booksellers, meanwhile, was on average 18 per cent higher than the MTP offered by overseas online booksellers.
- There was a clear distinction between the price competitiveness of books published in Australia and overseas. For example, the ATP offered by Australian online booksellers for books published in Australia was on average 11 per cent cheaper than the ATP offered by overseas online booksellers. In all, the ATP offered by Australian online booksellers was cheaper for eight out of the nine (or 89 per cent) books published in Australia.
- In contrast, the ATP offered by Australian online booksellers for books published overseas was on average 26 per cent higher than the ATP offered by overseas online booksellers. In all, the ATP offered by Australian online booksellers was higher for 11 out of the 13 (or 85 per cent) books published overseas.
- The MTP offered by Australian online booksellers for books published in Australia was on average 8 per cent cheaper than the MTP offered by overseas online booksellers. The MTP offered by Australian online booksellers for books published overseas, meanwhile, was on average 43 per cent higher than the MTP offered by overseas online booksellers.
The competitiveness of the Australian book industry

<table>
<thead>
<tr>
<th>Sales rank</th>
<th>Title</th>
<th>Average Total Price Australia</th>
<th>Overseas</th>
<th>Diff (%)</th>
<th>Median Total Price Australia</th>
<th>Overseas</th>
<th>Diff (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>18</td>
<td>Letters and Numbers</td>
<td>$20.14</td>
<td>n/a</td>
<td>n/a</td>
<td>$20.41</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>21</td>
<td>The Plantation</td>
<td>$35.39</td>
<td>n/a</td>
<td>n/a</td>
<td>$36.31</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>24</td>
<td>Ben Cousins: My Life Story</td>
<td>$39.97</td>
<td>n/a</td>
<td>n/a</td>
<td>$39.34</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>13</td>
<td>Last Sacrifice: Vampire Academy</td>
<td>$23.39</td>
<td>$30.14</td>
<td>22.4%</td>
<td>$23.45</td>
<td>$30.14</td>
<td>22.2%</td>
</tr>
<tr>
<td>7</td>
<td>Losing the Last 5 Kilos</td>
<td>$32.11</td>
<td>$38.33</td>
<td>16.2%</td>
<td>$33.61</td>
<td>$38.33</td>
<td>12.3%</td>
</tr>
<tr>
<td>22</td>
<td>MasterChef Australia (Volume 2)</td>
<td>$40.43</td>
<td>$46.54</td>
<td>13.1%</td>
<td>$42.15</td>
<td>$46.54</td>
<td>9.4%</td>
</tr>
<tr>
<td>14</td>
<td>Dog Days: Diary of a Wimpy Kid</td>
<td>$19.30</td>
<td>$21.89</td>
<td>11.8%</td>
<td>$20.26</td>
<td>$21.89</td>
<td>7.4%</td>
</tr>
<tr>
<td>3</td>
<td>Ugly Truth: Diary of a Wimpy Kid</td>
<td>$19.48</td>
<td>$21.89</td>
<td>11.0%</td>
<td>$20.41</td>
<td>$21.89</td>
<td>6.8%</td>
</tr>
<tr>
<td>8</td>
<td>Diary of a Wimpy Kid</td>
<td>$19.46</td>
<td>$21.56</td>
<td>9.7%</td>
<td>$20.11</td>
<td>$21.56</td>
<td>6.7%</td>
</tr>
<tr>
<td>6</td>
<td>Lake of Dreams</td>
<td>$33.18</td>
<td>$36.48</td>
<td>9.0%</td>
<td>$33.61</td>
<td>$36.48</td>
<td>7.9%</td>
</tr>
<tr>
<td>11</td>
<td>Before I Fall</td>
<td>$15.80</td>
<td>$17.31</td>
<td>8.7%</td>
<td>$15.95</td>
<td>$15.99</td>
<td>0.2%</td>
</tr>
<tr>
<td>12</td>
<td>Rodrick Rules: Diary of a Wimpy Kid</td>
<td>$19.71</td>
<td>$21.56</td>
<td>8.6%</td>
<td>$20.34</td>
<td>$21.56</td>
<td>5.7%</td>
</tr>
<tr>
<td>15</td>
<td>Last Straw: Diary of a Wimpy Kid</td>
<td>$20.05</td>
<td>$21.89</td>
<td>8.4%</td>
<td>$20.41</td>
<td>$21.89</td>
<td>6.8%</td>
</tr>
<tr>
<td>10</td>
<td>Fast Fresh Simple</td>
<td>$43.68</td>
<td>$42.34</td>
<td>-3.2%</td>
<td>$44.47</td>
<td>$43.47</td>
<td>-2.3%</td>
</tr>
<tr>
<td>16</td>
<td>Clean &amp; Lean Flat Tummy Fast!</td>
<td>$31.32</td>
<td>$29.39</td>
<td>-6.6%</td>
<td>$32.14</td>
<td>$27.89</td>
<td>-15.2%</td>
</tr>
<tr>
<td>20</td>
<td>You Belong to Me</td>
<td>$29.11</td>
<td>$25.88</td>
<td>-12.5%</td>
<td>$29.44</td>
<td>$25.88</td>
<td>-13.8%</td>
</tr>
<tr>
<td>19</td>
<td>The King's Speech</td>
<td>$32.80</td>
<td>$27.49</td>
<td>-19.3%</td>
<td>$33.91</td>
<td>$22.37</td>
<td>-51.6%</td>
</tr>
<tr>
<td>1</td>
<td>Tick, Tock</td>
<td>$33.88</td>
<td>$26.57</td>
<td>-27.5%</td>
<td>$35.97</td>
<td>$19.48</td>
<td>-48.6%</td>
</tr>
<tr>
<td>23</td>
<td>Jamie's 30-minute Meals</td>
<td>$52.38</td>
<td>$39.40</td>
<td>-33.0%</td>
<td>$51.91</td>
<td>$35.96</td>
<td>-44.4%</td>
</tr>
<tr>
<td>17</td>
<td>Secrets to the Grave</td>
<td>$36.02</td>
<td>$26.27</td>
<td>-37.1%</td>
<td>$36.64</td>
<td>$26.27</td>
<td>-39.5%</td>
</tr>
<tr>
<td>2</td>
<td>Awakened: House of Night</td>
<td>$33.08</td>
<td>$24.12</td>
<td>-37.1%</td>
<td>$33.79</td>
<td>$17.57</td>
<td>-52.3%</td>
</tr>
<tr>
<td>4</td>
<td>Girl Who Kicked the Hornets' Nest</td>
<td>$27.43</td>
<td>$18.20</td>
<td>-50.7%</td>
<td>$29.16</td>
<td>$20.55</td>
<td>-41.9%</td>
</tr>
<tr>
<td>25</td>
<td>Eat, Pray, Love</td>
<td>$27.07</td>
<td>$17.67</td>
<td>-53.2%</td>
<td>$29.29</td>
<td>$16.25</td>
<td>-80.3%</td>
</tr>
<tr>
<td>5</td>
<td>Girl with the Dragon Tattoo</td>
<td>$26.95</td>
<td>$16.65</td>
<td>-61.8%</td>
<td>$29.06</td>
<td>$13.12</td>
<td>-121.5%</td>
</tr>
<tr>
<td>9</td>
<td>Girl Who Played with Fire</td>
<td>$26.01</td>
<td>$15.94</td>
<td>-63.2%</td>
<td>$26.46</td>
<td>$14.85</td>
<td>-78.2%</td>
</tr>
<tr>
<td><strong>Average for books published in Australia</strong></td>
<td><strong>$20.51</strong></td>
<td><strong>$20.21</strong></td>
<td><strong>10.7%</strong></td>
<td><strong>$20.66</strong></td>
<td><strong>$20.21</strong></td>
<td><strong>8.3%</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Average for books published overseas</strong></td>
<td><strong>$35.80</strong></td>
<td><strong>$35.20</strong></td>
<td><strong>-26.0%</strong></td>
<td><strong>$37.39</strong></td>
<td><strong>$35.20</strong></td>
<td><strong>-42.6%</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Average for all books</strong></td>
<td><strong>$25.66</strong></td>
<td><strong>$25.41</strong></td>
<td><strong>-9.4%</strong></td>
<td><strong>$25.97</strong></td>
<td><strong>$25.41</strong></td>
<td><strong>-18.3%</strong></td>
<td></td>
</tr>
</tbody>
</table>

Table 7 Summary of comparison of total prices charged by Australian-based and overseas-based online booksellers (shaded rows indicate books published in Australia; non-shaded rows indicate books published overseas).

Source: (Booko.com.au, 2011) and PwC analysis
The competitiveness of the Australian book industry

The findings presented in Table 7 do suffer from some limitations. For all but one of the books published in Australia (i.e. *Fast Fresh Simple*), the editions in question were only available in, at most, one overseas-based online bookseller (though other ISBNs of the same title were often available). As a result, our comparison of the total prices charged by Australian and overseas online booksellers for books published in Australia is based on relatively shallow data and may not reflect actual pricing trends.

It should also be noted that we were unable to obtain a sample of backlist titles to complement our analysis of bestselling titles. Anecdotal evidence provided to PwC suggests that backlist titles comprise a significant proportion of online book sales, and they are potentially cheaper to purchase from international online booksellers. Further research is required, however, before a definitive judgment about the price differential of backlist titles can be reached.

Notwithstanding the limitations outlined above, the findings outlined in Table 7 suggest that overseas online booksellers are able to sell books published overseas to Australian consumers at a price (including delivery charges) that is more competitive than the price charged by Australian online booksellers for the same book. The available data suggests Australian online booksellers are able to sell books published in Australia at more competitive prices – though further evidence is required to substantiate this apparent trend.

Before we begin to analyse the factors that may be affecting the price competitiveness of Australian booksellers with reference to books published overseas, it is important first to highlight the RRP and ASP data provided by Nielsen BookScan for the top 25 selling print books. As Table 8 illustrates, the ASP for the top 25 selling print books is on average 26 per cent lower than the RRP. Furthermore, a comparison of Table 7 and Table 8 highlights that the ASP charged by Australian booksellers for the top 25 selling print books is generally less than the ATP charged by overseas-based booksellers for the same books. Given the differences between that data represented in Table 7 and Table 8, it is difficult to draw a concrete conclusion about this apparent trend. Nonetheless, the data in Table 8 does suggest that the price competitiveness of Australian booksellers relative to their international counterparts is not a clear-cut issue and that the findings in Table 7 may not cover the full spectrum of Australian bookselling. For example, the analysis of the Booko.com.au data did not include strong representation from DDS booksellers – which are generally more aggressive in their pricing of mass-market trade books.

10 Specifically, the ASP data provided by Nielsen BookScan represents an eight week period and the trading activity of chain, DDS and independent booksellers, both through online and ‘bricks and mortar’ sales channels. Conversely, the data collected through Booko.com.au represents a single point in time and the trading activity of online booksellers from overseas whose catalogues interact with the aggregating processes of Booko.com.au. The Booko.com.au data also incorporates delivery charges, whereas the Nielsen BookScan data does not.
<table>
<thead>
<tr>
<th>Sales rank</th>
<th>Titles</th>
<th>RRP</th>
<th>ASP</th>
<th>Diff (as % of RRP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Tick, Tock</td>
<td>$32.95</td>
<td>$20.67</td>
<td>37.3%</td>
</tr>
<tr>
<td>2</td>
<td>Awakened: House of Night</td>
<td>$29.99</td>
<td>$19.30</td>
<td>35.6%</td>
</tr>
<tr>
<td>3</td>
<td>Ugly Truth: Diary of a Wimpy Kid</td>
<td>$14.95</td>
<td>$11.19</td>
<td>25.2%</td>
</tr>
<tr>
<td>4</td>
<td>Girl Who Kicked the Hornets’ Nest</td>
<td>$24.95</td>
<td>$19.03</td>
<td>23.7%</td>
</tr>
<tr>
<td>5</td>
<td>Girl with the Dragon Tattoo</td>
<td>$24.95</td>
<td>$19.22</td>
<td>23.0%</td>
</tr>
<tr>
<td>6</td>
<td>Lake of Dreams</td>
<td>$29.95</td>
<td>$21.61</td>
<td>27.9%</td>
</tr>
<tr>
<td>7</td>
<td>Losing the Last 5 Kilos</td>
<td>$29.95</td>
<td>$21.64</td>
<td>27.8%</td>
</tr>
<tr>
<td>8</td>
<td>Diary of a Wimpy Kid</td>
<td>$14.95</td>
<td>$11.92</td>
<td>20.3%</td>
</tr>
<tr>
<td>9</td>
<td>Girl Who Played with Fire</td>
<td>$24.95</td>
<td>$19.16</td>
<td>23.2%</td>
</tr>
<tr>
<td>10</td>
<td>Fast Fresh Simple</td>
<td>$39.99</td>
<td>$25.11</td>
<td>37.2%</td>
</tr>
<tr>
<td>11</td>
<td>Before I Fall</td>
<td>$10.00</td>
<td>$8.49</td>
<td>15.1%</td>
</tr>
<tr>
<td>12</td>
<td>Rodrick Rules: Diary of a Wimpy Kid</td>
<td>$14.95</td>
<td>$11.84</td>
<td>20.8%</td>
</tr>
<tr>
<td>13</td>
<td>Last Sacrifice: Vampire Academy</td>
<td>$19.95</td>
<td>$13.82</td>
<td>30.7%</td>
</tr>
<tr>
<td>14</td>
<td>Dog Days: Diary of a Wimpy Kid</td>
<td>$14.95</td>
<td>$11.91</td>
<td>20.3%</td>
</tr>
<tr>
<td>15</td>
<td>Last Straw: Diary of a Wimpy Kid</td>
<td>$14.95</td>
<td>$11.79</td>
<td>21.1%</td>
</tr>
<tr>
<td>16</td>
<td>Clean &amp; Lean Flat Tummy Fast!</td>
<td>$27.99</td>
<td>$21.64</td>
<td>22.7%</td>
</tr>
<tr>
<td>17</td>
<td>Secrets to the Grave</td>
<td>$32.99</td>
<td>$22.53</td>
<td>31.7%</td>
</tr>
<tr>
<td>18</td>
<td>Letters and Numbers</td>
<td>$14.95</td>
<td>$14.56</td>
<td>2.6%</td>
</tr>
<tr>
<td>19</td>
<td>The King’s Speech</td>
<td>$29.95</td>
<td>$26.35</td>
<td>12.0%</td>
</tr>
<tr>
<td>20</td>
<td>You Belong to Me</td>
<td>$24.99</td>
<td>$17.64</td>
<td>29.4%</td>
</tr>
<tr>
<td>21</td>
<td>The Plantation</td>
<td>$32.99</td>
<td>$22.13</td>
<td>32.9%</td>
</tr>
<tr>
<td>22</td>
<td>MasterChef Australia (Volume 2)</td>
<td>$39.99</td>
<td>$21.02</td>
<td>47.4%</td>
</tr>
<tr>
<td>23</td>
<td>Jamie’s 30-minute Meals</td>
<td>$49.95</td>
<td>$43.66</td>
<td>12.6%</td>
</tr>
<tr>
<td>24</td>
<td>Ben Cousins: My Life Story</td>
<td>$35.99</td>
<td>$28.37</td>
<td>21.2%</td>
</tr>
<tr>
<td>25</td>
<td>Eat, Pray, Love</td>
<td>$24.95</td>
<td>$21.62</td>
<td>13.3%</td>
</tr>
</tbody>
</table>

**Average for books published in Australia** 28.9%

**Average for books published overseas** 23.8%

**Average for all books** 26.0%

Table 8 RRP s and ASPs charged by Australian booksellers for top 25 selling print books (shaded rows indicate books published in Australia; non-shaded rows indicate books published overseas).

Source: (Nielsen, 2011)
Factors that may be affecting the price competitiveness of Australian booksellers

We have identified four factors that may be affecting the price competitiveness of Australian booksellers in the context of books published overseas:

- the low value importation threshold for the imposition of GST
- the strength of the Australian dollar
- the value of wholesale book prices, and
- the value of postage costs.

These factors are discussed in the following sections.

The low value importation threshold for the imposition of GST

At present, the Australian Government does not collect import duty and GST on imports that have a total value of less than $1,000 (with the exception of alcohol and tobacco). This means if a consumer purchased the same books from an Australian-based bookseller (through either a physical or online shopfront) and an overseas online bookseller, the Australian Government would impose GST of 10 per cent on the former but not the latter (as long as the total value of the books is below $1,000).

The low value importation threshold for the imposition of GST has been raised in numerous submissions to the BISG as a key factor affecting the price competitiveness of Australian booksellers. Box 3 provides a summary of the views expressed by notable stakeholder groups.
“Australian booksellers are also disadvantaged in the international market place by GST. Under current import laws GST is not collected on goods coming into Australia under $1,000. Most book orders are between one and five books, well under the $1000 threshold. This means that Australian retailers are giving overseas retailers a 10% head-start on discounting. Many countries also provide a GST or VAT refund on export sales which gives an even greater margin available for discounting, and puts Australian booksellers even further behind in the competition stakes.”

Australian Booksellers Association

“There have been wide concerns that the Australian Tax Office practice of not seeking to charge GST on private imports of goods worth less than $1000 is damaging Australian retailers.”

Australian Publishers Association

“GST being charged on books in Australia means that it can be cheaper to print in the UK and ship to Australia. On-line orders of less than $1,000 are currently shipped to Australia without payment of GST. New Zealand (NZ) is the only other country that imposes GST on books.”

Printing Industries Association of Australia and Australasian Paper Industry Association

“... structural impediments and the dominance of the multinational online e-tailers mean that Australian publishers and booksellers are struggling to be competitive with overseas operators on price, and this is affecting author remuneration. The issue of GST on online sales within Australia is also yet to be resolved in any way favourable to them.”

Australian Society of Authors

Box 3 Summary of stakeholder views on the impact of GST on the price competitiveness of Australian booksellers, selected submissions to the BISG


It is possible, using the Booko.com.au data outlined in Table 7, to provide an indication of the impact the GST threshold is having on the price competitiveness of Australian booksellers. We did this by subtracting the GST component from the total price charged by Australian booksellers for the top selling print books. We then re-compared the ATP and MTP charged by Australian online booksellers and overseas online booksellers.

Table 9 summarises the impact that removing the GST component on books purchased through Australian online booksellers has on the price differential between Australian and overseas online booksellers. More specifically, we found that removing GST on books purchased through Australian online booksellers:

- reduced the price advantage enjoyed by overseas online booksellers for books published overseas by approximately 37 per cent (in the case of ATP) and 24 per cent (in the case of MTP)
- increased the price advantage enjoyed by Australian online booksellers for books published in Australia by approximately 60 per cent (in the case of ATP) and 76 per cent (in the case of MTP), and
- reduced the price advantage enjoyed by overseas online booksellers for all books by approximately 87 per cent (in the case of ATP) and 45 per cent (in the case of MTP).
# The competitiveness of the Australian book industry

## Department of Innovation, Industry, Science and Research

## PwC 74

### What would you like to grow?

---

<table>
<thead>
<tr>
<th></th>
<th>Difference in ATP</th>
<th>Difference in MTP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>GST</td>
<td>No GST</td>
</tr>
<tr>
<td>Books published overseas</td>
<td>-26.0%</td>
<td>-16.5%</td>
</tr>
<tr>
<td>Books published in Australia</td>
<td>10.7%</td>
<td>17.2%</td>
</tr>
<tr>
<td>All books</td>
<td>-9.4%</td>
<td>-1.3%</td>
</tr>
</tbody>
</table>

**Table 9** Difference in ATP and MTP charged by Australian and overseas online booksellers, as a percentage of overseas online bookseller prices, with and without GST on books purchased through Australian online booksellers

Source: (Booko.com.au, 2011) and PwC analysis

In addition to this analysis, the consumer survey provides insight to the impact the GST threshold has on the price competitiveness of Australian booksellers. The findings from the consumer survey are outlined below:

Respondents were tested about the awareness of whether books purchased from overseas online booksellers attracted GST (Figure 43). A plurality (43 per cent) noted correctly that they do not pay GST on books purchased from overseas online booksellers. One quarter of respondents believed that some form of books attracted GST. The remaining 31 per cent, meanwhile, did not know whether they had to pay GST or not on books purchased from overseas online booksellers.

![Figure 43](image_url)

**Figure 43** Respondent awareness of the GST threshold on books purchased from overseas online booksellers

Source: (TNS Global, 2011)

As Figure 44 illustrates, 36 per cent of respondents indicated they would be more likely to purchase a book from overseas online booksellers if the books were GST free. 42 per cent of respondents, meanwhile, indicated they would be less likely.

---

Department of Innovation, Industry, Science and Research

PwC

74

What would you like to grow?
Conversely, 52 per cent of respondents indicated they would be more likely to purchase a book from Australian online booksellers if the books were GST free (Figure 45). Meanwhile, 29 per cent indicated they would be less likely.

Figure 45 Respondent perspectives on whether they would be more likely to purchase books from Australian online booksellers if they were GST free
Source: (TNS Global, 2011)
The findings from the consumer survey suggest:

- a considerable proportion of Australian consumers are either unaware of the GST threshold or have an inaccurate understanding of whether GST is imposed on books purchased from overseas online booksellers, and
- more Australian consumers would be willing to purchase a GST-free book from an Australian online bookseller than an overseas online bookseller
- more Australian consumers would be less likely to purchase a GST-free book from an overseas online bookseller than an Australian online bookseller, and
- consequently, the presence of GST on books is not sufficient by itself to drive Australian consumers away from domestic booksellers to overseas booksellers.

The strength of the Australian Dollar

The past decade has witnessed the gradual strengthening of the Australian Dollar against the world’s major currencies – increasing by approximately 100 per cent against the United States Dollar and 80 per cent against the Great Britain Pound over the period 2002 to 2011 (XE.com, 2011).11

The strengthening Australian Dollar is widely seen as reducing the price competitiveness of Australian booksellers relative to their international counterparts. The University of Melbourne Book Industry Study Group (2011), for instance, states in its submission to the BISG that:

“Currency appreciation has also sharpened the public perception that books in Australia are overpriced, reinforcing consumer resistance to buying locally published works and accelerating the shift towards online purchasing of both printed and electronic texts.”

Likewise, in its recent inquiry into the parallel importation restrictions (PIRs) on books, the Productivity Commission (2009):

- highlighted an apparent “correlation between movements in estimated price differentials [between books sold in Australia and the United States and United Kingdom] and exchange rates”, and
- maintained that “all else equal, a depreciation of the Australian dollar increases the price competitiveness of locally published books and reduces the incentive to import books (as is the case with all products)” (emphasis in original).

It is possible, using the Booko.com.au data outlined in Table 7, to provide an indication of the impact that the strength of the Australian Dollar threshold is having on the price competitiveness of Australian booksellers. We did this by attempting to identify how much the Australian Dollar would have to depreciate against the major relevant

---

11 On 5 January 2002, the Australian dollar bought 51.84 US cents and 35.91 UK pence. On 13 April 2011, the Australian dollar bought 104.57 US cents and 64.25 UK pence (XE.com, 2011).
currencies (i.e. the United States dollar, the Great Britain Pound and the Canadian Dollar) so that the ATP charged by overseas online booksellers for books published overseas was equal to the ATP charged by Australian online booksellers. According to our analysis:

- if the Australian Dollar depreciated by approximately 20 per cent (e.g. to a rate of 0.8211 against the United States Dollar and 0.512 against the Great Britain Pound), then the ATP charged by overseas online booksellers for books published overseas would be, on average, equal to the ATP charged by Australian online booksellers, and

- if the Australian Dollar depreciated by approximately 40 per cent (e.g. to a rate of 0.6158 against the United States Dollar and 0.384 against the Great Britain Pound), then the ATP charged by overseas online booksellers for all 13 books published overseas would be equal to or higher than the ATP charged by Australian online booksellers.

According to the Reserve Bank of Australia (2011), the ten year (i.e. 2001 to 2010) average exchange rate for the Australian Dollar against the United States Dollar was 0.7385 – approximately 28 per cent below the exchange rate as at 27 March 2011. Likewise, the ten year average exchange rate for the Australian Dollar against the Great Britain Pound was 0.4333 – approximately 32 per cent below the exchange rate as at 27 March 2011.

In addition to this analysis, the consumer survey provides insight to the impact that the strong Australia Dollar has on the price competitiveness of Australian booksellers. Respondents to the consumer survey were asked to indicate whether the Australian Dollar exchange rate influences whether they would purchase from Australian-based online booksellers or overseas online booksellers. As Figure 46 illustrates, equal proportions of respondents (37 per cent) agreed and disagreed that the exchange rate would influence their book purchasing decision. This suggests that the exchange is a factor, but not a driving factor, behind consumer decisions to use an Australia or overseas online bookseller.

![Figure 46 Respondent perspectives on whether the Australian Dollar exchange rate influences whether they would purchase from Australian or overseas online booksellers](source: TNS Global, 2011)
The value of wholesale book prices

Stakeholders in their consultations with PwC have suggested the price competitiveness of Australia’s booksellers is being constrained by the value of wholesale book prices. More specifically, that the price paid for wholesale books published overseas by Australian booksellers is, on average, greater than that paid by booksellers overseas.

PwC does not have access to comprehensive wholesale book prices that would enable us to make a conclusive judgment about this issue. There are two broad pieces of evidence, however, which suggest that the price competitiveness of Australian booksellers may be affected by the wholesale value of books.

The first broad piece of evidence relates to the discussion in Section 3.4 about the book distribution arrangements in Australia. More specifically, if the distribution system for books is as inefficient as highlighted by previous studies and submissions to the BISG, it would likely be affecting the price paid by Australian booksellers for wholesale books relative to their international counterparts.

As Section 3.4 discussed, the available evidence suggests that inefficiencies in Australia’s book distribution system could be adding an additional $0.40 to $1.00 to the unit cost of a book (relative to the book distribution system in the United Kingdom).

It is possible, using the Booko.com.au data outlined in Table 7, to provide an indication of the impact that inefficiencies in Australia’s book distribution system could be having on the price competitiveness of Australian booksellers. We did this by:

- subtracting $0.40 and $1.00 from the ATP charged by Australian online booksellers for the 13 books published overseas, and
- comparing the results against the ATP charged by overseas online booksellers for the same 13 books.

On the basis of this analysis, we estimate that inefficiencies in Australia’s book distribution system could account for between 6 per cent and 16 per cent of the price differential between the ATP charged by Australian and overseas online booksellers for books published overseas (Table 10).

<table>
<thead>
<tr>
<th></th>
<th>Average price differential</th>
<th>Average price differential (after subtracting $0.40)</th>
<th>Average price differential (after subtracting $1.00)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$</td>
<td>-$6.44</td>
<td>-$6.04</td>
<td>-$5.44</td>
</tr>
<tr>
<td>%</td>
<td>-26.0%</td>
<td>-24.4%</td>
<td>-22.0</td>
</tr>
</tbody>
</table>

Table 10 Summary of changes to price differentials between the ATP charged by Australian and overseas online booksellers for books published overseas, reflecting estimated distribution costs

The second broad piece of evidence relates to the regulations surrounding the parallel importation of books into Australia. Similar to the United States, the United Kingdom and Canada, Australia’s copyright architecture includes restrictions on the importation of book titles in the absence of permission from the relevant copyright holders.
In 2009, the Productivity Commission released the findings from its comprehensive inquiry into Australia’s system of parallel importation restrictions (PIRs) on books. On the basis of the evidence available to it, the Productivity Commission (2009) concluded that: “Australia’s PIRs put material upward pressure on book prices. The magnitude of the effect will vary over time and across book genres, but at times will be substantial.” The Productivity Commission (2009) based this judgment on the observation that the PIRs restrict competition for the supply of wholesale books in Australia. As a consequence, domestic copyright holders of books have greater market power and are potentially able “to charge higher prices for their goods” than if they had to compete directly against international suppliers.

On 11 November 2009, the Australian Government announced that it had “not accepted the Productivity Commission’s recommendation to remove the parallel importation restrictions on books” (Emerson, 2009). The Australian Government noted:

“In the circumstances of intense competition from online books and e-books, the Government judged that changing the regulations governing book imports is unlikely to have any material effect on the availability of books in Australia. If books cannot be made available in a timely fashion and at a competitive price, customers will opt for online sales and e-books” (Emerson, 2009)

REDGroup Retail’s recent entering into voluntary administration has re-ignited the debate about the impact of the PIRs on the competitiveness of Australian booksellers. The chairman of REDGroup, for example, claimed that “import restrictions and GST-free online shopping were making it impossible for local retailers to compete with foreign internet sites such as Amazon.com” (Speedy & Romei, 2011). Others have questioned the role that the PIRs played in REDGroup’s market difficulties – highlighting instead the business strategies of REDGroup Retail and a growing consumer preference to shop online (Crikey, 2011).

On the weight of the available evidence, we conclude there is a conceptual case that the PIRs do have an impact on the value of wholesale book prices in Australia. The exact magnitude of this impact, however, is difficult to ascertain – particularly in the context of the strengthening Australian dollar and the growing market share of discount department stores (which, as the Productivity Commission states, “apply some downward pressure on prices in the segments that they choose to stock”).

**The value of postage costs**

A number of submissions to the BISG have raised the prospect that the price competitiveness of Australian online booksellers is potentially being affected by subsidised postal rates enjoyed by overseas online booksellers. The Printing Industries Association of Australia and Australasian Paper Industry Association (2010), for example, state that:

“Research should investigate what subsidies postal services from other countries are getting from their governments. Postal costs in other places, such as the USA, Singapore and the UK, appear to be significantly cheaper than in Australia.”
Similarly, the Australian Publishers Association (2011) notes that there are “indications that UK online book retailers receive greater bulk postal rate discounts than provided locally by Australia Post, which needs further investigation.”

We sought to explore this issue by comparing the unit postal costs charged by Australia Post and Royal Mail. More specifically, we compared:

- how much Australia Post charges business users for delivery of a 500 gram satchel within Australia and to the United Kingdom – reflecting both Australia Post’s standard rate and an estimated contract discount rate (applicable for businesses that post 20 or more parcels a week), and

- how much Royal Mail charges business users for delivery of a 500 gram international packet to Australia – reflecting a variety of bulk mail discounts offered by Royal Mail.

As Table 11 illustrates, there is a noticeable difference between the unit costs charged by Australia Post and Royal Mail. On the basis of current exchange rates, a business in the United Kingdom posting 100 parcels (500 grams) to Australia could enjoy a unit postal cost of $3.04. In contrast, a business in Australia posting the same volume and weight of parcels within Australia would pay an estimated unit postal cost of $5.75 – 89 per cent more than business in the United Kingdom pays for delivery to Australia.

---

12 Australia Post offers discounts to business customers that send an average of 20 parcels per week. Australia Post does not publicly release information about the discount rates it offers. We have assumed a discount rate of 5 per cent – which is slightly higher than the 3 per cent and 4 per cent discount rates offered by Royal Mail for bulk international mail.
There is little publicly available data that helps explain the variance between the unit postal costs of Australia Post and Royal Mail. Possible explanations include:

- the relative size of the United Kingdom and Australia – Royal Mail is likely to enjoy greater economies of scale in mail delivery, helping to keep unit costs down, and
- the relative distribution of British and Australian population centres – as highlighted earlier, Australia is a geographically large and demographically dispersed country. This is likely to increase the costs associated with postal delivery.

There may be other reasons for the differences in unit costs and business prices, but they are not apparent to us at this time.

<table>
<thead>
<tr>
<th></th>
<th>250g – 500g satchel or other item</th>
<th>500g international packet</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Australia Post</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regular parcel, within Australia (standard)</td>
<td>$6.05</td>
<td></td>
</tr>
<tr>
<td>Regular parcel, within Australia (estimated contract discount)</td>
<td>$5.75</td>
<td></td>
</tr>
<tr>
<td>Air Mail, to the United Kingdom</td>
<td>$20.30</td>
<td></td>
</tr>
<tr>
<td><strong>Royal Mail</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unsorted, worldwide, economy, 100 items</td>
<td>$5.42</td>
<td>£3.49</td>
</tr>
<tr>
<td>Unsorted, worldwide, economy, 150 items</td>
<td>$5.36</td>
<td>£3.46</td>
</tr>
<tr>
<td>Unsorted high volume, Australia, economy, 100 items</td>
<td>$3.04</td>
<td>£1.96</td>
</tr>
<tr>
<td>Unsorted high volume, Australia, economy, 1,000 items</td>
<td>$2.93</td>
<td>£1.89</td>
</tr>
<tr>
<td>Unsorted high volume, Australia, economy, 2,000 items</td>
<td>$2.92</td>
<td>£1.88</td>
</tr>
</tbody>
</table>

Table 11: Comparison of unit postal costs, Australia Post and Royal Mail

Source: (Australia Post, 2011; Royal Mail, 2011)

13 Reflective of the exchange rate as of 15 April 2011: 1 GBP = 1.5513 AUD.
As discussed in Section 1.2, the value of books purchased online by Australians is estimated to have grown from $17 million in 2001 to $280 million in 2010 – or from 1 per cent to 12 per cent of the value of total book sales. The findings of the consumer survey commissioned to support this study suggest the value of online sales of print books will grow by approximately 50 per cent between 2010 and 2011 – from $250 million to $380 million (TNS Global, 2011). Likewise, our projections discussed in Section 2.3 suggest the value of eBook sales will increase by an annual average of between 44 per cent and 94 per cent from 2010 to 2014.

The consumer survey sought to uncover factors driving the online sales of print books in Australia. It did this by asking respondents to nominate the reasons why they used online booksellers. As Figure 47 illustrates, the most popular reason (nominated by 56 per cent of respondents) was ‘prices of printed books are cheaper [online] than other sources’. The next most popular reasons were ‘offers a wide range of printed books’ (nominated by 30 per cent of respondents) and ‘has hard-to-find books not available through other sources’ (nominated by 30 per cent of respondents).

![Figure 47 Nominated reasons for using online booksellers](Source: (TNS Global, 2011))

Generally speaking, there was little difference between the reasons nominated by respondents who shopped at Australian online booksellers and overseas online booksellers. Domestic online booksellers were seen to have quicker delivery (nominated by 19 per cent of consumers who shopped at Australian online booksellers,
versus 2 per cent for overseas online booksellers) and were more often perceived as offering discounts on multiple book purchases (13 per cent versus 3 per cent) (TNS Global, 2011).

There are some similarities between the findings of our consumer survey and a survey commissioned by the Australian Communications and Media Authority to explore consumer engagement in electronic commerce. When asked to nominate the reasons for purchasing online, 74 per cent of respondents cited convenience. “The next most common drivers for purchasing online were lower cost (38 per cent), access to a better range of choice (16 per cent) and goods not available in the shops (11 per cent)” (Australian Communications and Media Authority, 2010).

The growth in online sales of printed and electronic books poses both opportunities and challenges to the local book industry. These are discussed in turn below.

4.1 Opportunities

Online retailing provides booksellers with additional channels they can use to sell books to consumers. With a greater breadth of sales avenues, booksellers can:

- capture readers (or potential readers) who prefer to shop online or who are unlikely to visit a ‘bricks and mortar’ bookstore (Elder, 2010)
- position themselves to meet the expected growing demand for eBooks, and
- better tailor their offerings (e.g. to those who prefer the experience of shopping in a physical bookstore and to those who prefer to shop online).

According to Barmakov (2009), multi-channel retailing “is an opportunity to provide customers with a single, convenient and loyalty-building experience across a number of channels” and “enables firms to build lasting customer relationships by simultaneously offering information, products and support.”

Online retailing also has the potential to reduce costs for businesses operating across the book supply chain. This is particularly the case for booksellers. As Zumbo (2011) states, online retailing:

“… allows retailers the ability to move part or all of their business online, thereby freeing themselves from the ever-growing rents charged by shopping centre landlords. Australia has some of the highest retail rents in the developed world, with a recent survey revealing that Australian CBD rents are second only to New York.”

Likewise, Wilson (2011) notes that “[a]s opposed to the retail trade in general, operators in this industry generally do not require a physical shop front from which to operate.” He also states that “[u]nlike traditional retailers, wages are only a small component of the total cost structure for players in this industry… The relative share of revenue allocated to wage costs in [online retailing] has posted static growth over the past five years.”

There is also potential for online retailing to reduce costs in distribution. Rather than the traditional method of shipping books from distributors to
booksellers to consumers, online retailing allows for books to be delivered directly to consumers from distributors. EBook retailing offers further potential for distribution savings, as it reduces the need for the physical shipment of books. It is important to note, however, that e-commerce does impose new costs on booksellers. As the Productivity Commission (2011) notes, it “requires sufficient IT infrastructure to support a web-based service and the skilled staff to develop, maintain, manage and maintain these websites.” The Australian Booksellers Association (2011) similarly notes that “[d]ue to the infrastructure costs of Digital Rights Management and eBook metadata the cost of establishing and maintaining an eBook eCommerce site are considerably higher than a print book website.”

Online retailing provides booksellers with the opportunity “to expand their customer base beyond state and national borders without having to invest in retail establishments” (Productivity Commission, 2011). Through dedicated e-commerce platforms, Australian booksellers and publishers are able to sell books directly to readers in traditional international markets (like the United States and the United Kingdom) and emerging markets (like China and India). EBook retailing offers particular advantages in this regard, as Australian booksellers and publishers can offer international readers the same instantaneous purchasing experience they enjoy from any other eBook retailer.

Lastly, eBook retailing provides authors and content developers with increased opportunities to self-publish and capture a greater proportion of sales revenue. Generally speaking, the barriers faced by authors in self-publishing an eBook are less than those for a print book (as an eBook does not incur any physical production costs). Furthermore, distribution channels exist (such as the Kindle Store and the iTunes store) that allow authors and content developers to sell their eBooks directly to consumers.

Novelr (2011) describes the benefits and incentives of eBook self-publishing from an author perspective:

“If you’re an indie writer, you get to sell books at a price way, way lower than what a Traditional Publisher can sell at. And yet you make more money, because your only costs are to an ebook and cover art designer (whereas the traditional publisher has to support a legacy system, plus the traditionally published author gets a 30% cut, while you get 70%).

“In the meantime, readers are more inclined to buy your stories, even if you’re an unknown author, simply because your book prices are cheaper. So you get high sales, low ebook prices, but high revenue once you’ve hit sufficient scale. And the best thing is that it’s infinitely scalable: your ebooks are out there, getting sales every single day. No shelf-space, no print runs to worry about.”

It is important to note, of course, that self-publishing has its own costs for authors. By self-publishing, authors are generally not able to draw on the considerable marketing, editing and broader commercial expertise offered by publishing houses. This report discusses the self-publishing model for authors in more detail in Section 9.2 below.
4.2 Challenges

Online retailing has the potential to marginalise elements of the Australian book industry. Booksellers that are unable to offer consumers an online sales channel (particularly for eBooks) will likely experience decreased book sales – threatening their viability as an ongoing business. As the Australian Booksellers Association (2011) states, "booksellers who are unable to supply their customers eBooks will have to downscale their business, resulting in lost jobs and the likelihood of businesses closing."

Furthermore, as discussed in Section 2.3, increased eBook sales also have the potential, over time, to reduce demand for print books. This would in turn, likely threaten the volume of work undertaken by Australia’s book printing industry, as well as that of Australia’s book distributors.

Online retailing also exposes Australian booksellers to increased competitive pressures. First of all, through increasing internet penetration and experience with e-commerce, consumers have greater access to reviews and other relevant forms of product information. "By utilising this information, including access to the most competitive price in the market, to make their purchasing decisions, consumers are now applying greater competitive pressure to retailers" (Productivity Commission, 2011). In addition, online retailing places Australian booksellers in direct competition with leading international booksellers, such as Amazon and Book Depository. As Section 1.2 described, these international booksellers accounted for approximately 53 percent of the value of books purchased online by Australians in 2010. Section 3.5 also highlighted that overseas online booksellers can currently sell certain books into the Australian market at a price that is cheaper than that offered by domestic booksellers. This price differential has been noted as a factor behind REDGroup Retail entering into voluntary administration in February 2011 (Lloyd, 2011; Stafford, 2011).

Online retailing potentially challenges the primary business model of trade book publishers in Australia. As Lee, Davis and Thompson (2009) state:

“To cater for a modest but affluent market in which imported books and locally originated titles are sold side by side, successful Australian trade publishers have developed a distinctive business model in which revenue is derived from multiple sources: importation, the publication of Australian-originated titles and of local editions of overseas-originated titles, overseas rights sales, exports and, in the cast of several of the largest firms, revenue from distributing third parties.”

Online retailing threatens this business model as it:

- allows consumers to purchase overseas-originated print titles from overseas online booksellers – which, in turn, reduces the revenue generated by Australian publishers from these books, and
- is encouraging a shift for authors to sell the global rights for their work (rather than selling the rights for different territories to different publishers), as eBook retailing in particular makes it more difficult to keep track of and manage territorial restrictions.
The growing popularity of eBooks and online retailing have raised concerns within the Australian book industry about the potential for piracy. Internationally, eBook piracy has already been described as a “colossal threat” and “the biggest issue publishers face right now, bar none” (Bradshaw, 2011; Smith H., 2011).

Observed trends in consumer behaviour lend credence to these claims. Recent research undertaken by Attributor (2010), for example, found that “daily demand for pirated e-books can be estimated at 1.5 – 3 million people worldwide” and “the total interest in documents from file sharing sites has increased more than 50 percent throughout the course of 2009.” Likewise, a survey conducted by Entertainment Media Research found that 36 per cent of British tablet owners and 29 per cent of British eBook readers “download books without paying for them, a quarter of whom plan to do so more often in the next year” (Bradshaw, 2011). Lastly, a survey by Book Industry Study Group (2011) of American college students found that more than 40 per cent of respondents “said they bought a textbook from a pirate website or know others who have. In addition, many respondents reported copying their friends’ textbooks.”

In Australia, a survey undertaken by the ARC Centre of Excellence for Creative Industries found that 27.8 per cent of domestic internet users in 2009 had used file-sharing services like bitTorrent (up from 23.6 per cent in 2007) (Ewing & Thomas, 2010).

In its submission to the BISG, Music Industry Piracy Investigations (2010) maintains that, while the “digital landscape presents many exciting new opportunities for book publishers and authors in the development of compelling commercial book models”, it also poses great risks. Music Industry Piracy Investigations in particular highlights the potential role that the National Broadband Network (with its faster download speeds) could play in facilitating increased digital piracy. It states:

“Thus, while the potential for legitimate growth and innovation in the new NBN-enabled economy is significant, the extent of online copyright theft may no doubt increase also. In circumstances where free illegal alternatives remain available without effective sanctions (or even the prospect of effective sanctions) the full potential of innovative digital distribution models for music and books may be throttled” (Music Industry Piracy Investigations, 2010).

A related issue to that of piracy is changing consumer expectations about the price of content. Industry players noted to PwC that with the prevalence of free content online – both legitimate (e.g. through the ABC Online) and illegal – consumers are increasingly expecting that all content should be free. This trend is particularly impacting campus bookselling. Stakeholders noted to PwC that an increasing number of university students are not prepared to pay for textbooks and recommended readings; believing, instead, that appropriate substitutes – either direct (e.g. pirated copies) or indirect (e.g. Wikipedia) - can be found for free online.
Concerns have been expressed to the BISG that growing online sales of print and electronic books has the potential to reduce demand for Australian authored and published works. The Australian Publishing Association (2011), for example, states that:

“The risks to Australian authors — especially new authors — in an increasingly globalised and electronic market are:

- “More opportunities for Australian authors to sell their works overseas will be counterbalanced by their lower (relative) visibility because the ‘pond’ is so much bigger;
- “Australian publishers have less ability to invest in and develop new Australian authors;
- “Australia’s literary ‘character’ is so diluted by the availability of highly price-competitive US and UK books that all Australian authors face increasing difficulty in finding a market;
- “If the number of independent booksellers is reduced, authors’ access to an established testing ground for new and experimental work will be reduced.”

While these claims deserve serious consideration from the BISG, the experience of the Australian music industry suggests that the impact of globalisation and digitisation on market demand for Australian authored and published works may be less than feared. The Australian music industry operates in an incredibly globalised environment. For instance, the Australian Government abolished parallel importation restrictions on sound recording in 1998. International retailers – most notably, the iTunes Store – have a strong presence in the sale of digital music to Australians. Furthermore, piracy of digital music – from both Australian and international sites – remains an ongoing problem for the local industry.

These factors notwithstanding, the number of commercially released tracks recorded by Australian artists increased from 14,204 in 2000-01 to 21,926 in 2008-09 - an annual average of 5.6 per cent (AMPCOM, 2004-2009). The proportion of total tracks released that were recorded by Australian artists also increased over the same period – from 12.5 per cent in 2000-01 to 16.7 per cent in 2008-09 (Figure 48).

Figure 48 Proportion of total tracks released in Australia that were recorded by Australian artists, 2000-01 to 2008-09
Source: (AMPCOM, 2004-2009)
This chapter explores a range issues surrounding the export of Australian books and associated services, and investment and innovation across the supply chain in the Australian book industry.

5.1 Australia’s book exports

Section 1.3.4 painted a mixed picture of Australia’s book exports. On the one hand, the value of book exports increased in nominal terms by an annual average of 3.6 per cent from 2001 to 2010 (from $163 million to $225 million). Despite this increase, however, the share of publisher revenue accounted for by book exports declined over the same period – from an average of 14 per cent over 2001-2005 to an average of 12.7 per cent over 2006-2010.

The remainder of this section identifies and discusses a range of drivers and inhibitors of Australia’s trade in book exports. It also suggests options for enhancing the drivers and mitigating the inhibitors.

5.1.1 Drivers

There are two key drivers of Australia’s trade in book exports. First, Australia is an English-language country. Australian-originated books can thus be easily consumed by readers in three of the world’s largest book markets (the United States, United Kingdom, and Canada), as well as by the vast number of readers in other countries who are also capable of reading in English.

Second, Australian authors continue to produce content that is able to attract readers in other countries. The development and marketing of this content has been supported and driven by Australian publishers and such organisations as the Literary Board and Copyright Agency Limited.

Likewise, there are two factors that have the potential to increase Australia’s trade in book exports. The first of these is the growth of the Chinese and Indian economies. The GDP of both countries is expected to grow by an annual average of between 8 per cent and 10 per cent over the next five years (Bykere, 2011). Furthermore, both countries have large numbers of English speakers – approximately 700 million across India and China (Education First, 2011). It is primarily for these reasons that the market for English-language books in these countries “is booming” (Tryhorn & Wray, 2009).

Given that it already enjoys strong trade ties with China and India, and has hosted a growing number of vocational and tertiary students from both countries, the Australian book industry is seemingly well placed to tap the expanding Indian and Chinese book markets.
The second factor that has the potential to increase Australia’s trade in book exports is the rise of eBooks and online retailing more broadly. As noted above, online retailing enables Australian booksellers and publishers to sell books directly to readers in both traditional and emerging markets. eBook retailing offers particular advantages in this regard, as Australian booksellers and publishers can offer international readers the same instantaneous purchasing experience they enjoy from any other eBook retailer.

The export potential of the growing digitisation of the book market is well recognised. As the Australian Publishers Association (2011) states:

“Australia is a major English-speaking book producer and the digital economy provides enormous opportunities. There are particular niches within overall exports where Australia has done particularly well (for example, Australia and New Zealand publishers make a significant contribution to supplementary primary literacy materials in the US). There are particular opportunities in emerging markets such as Africa, Latin America, the Middle East and Asia.”

Likewise, Random House (2011) notes in its submission to the BISG:

“The Opportunity – to harness the potential of a digital publishing economy and a global digital market place to export content, our culture and expertise, on a scale not previously imagined. The potential exists for Australia to build on its success creating world class reading content and expand on its already highly successful literary export industry as a result of the reduced barriers that a digital market enables.”

5.1.2 Inhibitors

Submissions to the BISG highlight, in essence, a key factor that is seen as inhibiting Australian books and associated services being distributed in international markets: the tyranny of distance. Even in an increasingly globalised and digitised world, Australia’s relative geographic isolation makes it harder for Australian author and publishers to maintain a presence in international markets. Furthermore, Australia’s location increases the costs for authors and publishers in developing and sustaining markets in other countries. As the Australian Publishers Association (2011) states:

“Although the digital market breaks down distance barriers in delivering books, there are still very real distance challenges in market development, particularly for medium and small publishers. Travel and accommodation costs are high and the kind of lengthy marketing effort required to open up emerging markets is beyond the resources of all but the largest publishers.”

5.1.3 Options for increasing Australia’s trade in book exports

We have identified two primary options to enhancing the drives and mitigating the barriers outlined above:

- Exploring opportunities to leverage social networking sites that have an international presence and a focus on books. The Reading Room, for instance, seems to offer Australian authors and publishers a mechanism to invest in international market development (given the Reading Room’s presence in the United
The Reading Room by providing original content (such as author interviews and industry perspectives) and participating in forums.

- Establish a common mechanism to promoting Australian authors and books overseas. There would appear merit for Australian publishers to pool their resources (and share associated costs) in undertaking international market development that benefits the book industry as a whole. Such instances of international market development may include:
  - attendance at key international book fairs
  - promotional tours of key Australian authors in strategic and emerging markets, and
  - promotional tours relating to strategic and emerging genres.

They may be scope for government to support such a market development mechanism to encourage broad publisher participation.

5.2 Investment and innovation

As the book industry confronts the growing popularity of eBooks and online retailing, there is a greater need for businesses across the supply chain to innovate and seize the opportunities presented by the new environment. This section seeks to support the book industry in this regard by identifying and analysing factors that may be inhibiting investment and innovation across the supply chain, and providing options for addressing these barriers.

5.2.1 Inhibitors

First of all, it is likely that a number of macro factors are inhibiting investment and innovation in the book industry. These include:

- the small scale of the Australian book market
- the strengthening Australian Dollar and ongoing difficulties faced by Australian booksellers (and retailers more broadly) in enticing consumers to spend and in competing with overseas-based online retailers
- Australia’s high labour costs relative to key competitor countries, and
- the recent, lengthy debate about parallel importation restrictions and the uncertainty this generated about the regulatory regime surrounding the market for books in Australia.

These factors combined are not likely to have created a conducive environment for investment and innovation in the Australian book industry. Also, and just as importantly, none of these factors are ones that the Australian book industry can necessarily control or influence directly. This is not to encourage despair, but to ensure that discussions about investment and innovation in the Australian book industry are approached from a realistic perspective.

In addition to these macro factors, there are a range of more industry-specific factors that are likely to be inhibiting investment and innovation
in the Australian book industry. First, some existing industry structures may be discouraging innovation. For instance, in its submission to the BISG, the Printing Industries Association of Australia and the Australasian Paper Industry Association (2010) suggests that excess printing capacity in Australia may be impeding capital investment and innovation:

“There is significant under utilisation of printing equipment in Australia. Printing is a capital intensive business and firms in the UK and USA have been able to cut labour costs by improving equipment through large investments made possible by higher available volumes. The Australian industry must look at innovative ways to fully utilise existing capacity.”

Second, in the context of eBooks, investment and innovation is likely to be impeded because of the sheer novelty of the market – that everyone is still more or less ‘finding their feet’ as they try to ascertain the best means of generating a profit from the new digital environment. Uncertainty, however, should not be an excuse for inaction. As PwC (2011) concluded in its recent study on the future of eBooks:

“If the book industry fails to establish the marketplace now, companies may find themselves playing catch-up later after losing sales and customers and newcomers. What is more, by waiting, establishing players may lose the opportunity to establish pricing policies, eBook format standards, and partnerships that set consumer expectations and define the marketplace. In addition, if legitimate vendors fail to meet consumer demands, either in terms of content choices or reasonable prices, their potential customers may turn to file-sharing websites for pirated books – a situation similar to the one that set back the music industry.”

Third, a possible factor impeding innovation in the Australian book industry is the lack of a mechanism to encourage and enable industry collaboration. As noted in Section 3.4.1, the book industries in the United States and the United Kingdom are both supported by cross-industry bodies – notably, the Book Industry Study Group and Book Industry Communication. These organisations not only commission research for the benefit of their broader book industries, but they also help normalise cross-industry collaboration. While there are a number of industry associations in Australia (such as the Australian Publishers Association and the Australian Booksellers Association), there is not an equivalent of the Book Industry Study Group or Book Industry Communication to provide a forum or focus for collaboration.
5.2.2 Options for addressing barriers to investment and innovation

We have identified two primary options to mitigating the barriers outlined above:

- Exploring possibilities to consolidate aspects of the book industry supply chain – the Australian book printing industry may have greater potential for innovation if it is able to address the problem of under-utilisation of printing capacity.

- Establishing a body to help normalise cross-industry collaboration – there would appear scope for the Australian book industry to form a cross-industry body, similar to that of the Book Industry Study Group in the United States and Book Industry Communication in the United Kingdom.
In light of the growing digitisation and globalisation of the market for books, the following chapters seek to provide guidance on how different elements of the Australian book industry supply chain can best navigate and exploit the challenges and opportunities that lie ahead.

Chapter 6 first outlines examples of traditional business models used in the book industry supply chain. Chapters 7 and 8 then provide some conceptual foundations that can be used to underpin and guide the development of future business models for the book industry. Lastly, Chapter 9 details some options for improved business models and highlighting how these options address the opportunities and challenges described in earlier chapters.
6 Examples of traditional business models

Figure 49 represents the traditional supply chain linking Australian consumers with print books, through ‘bricks and mortar’ shopfronts (and libraries and educational institutions). Greater detail about the business models supporting this traditional supply chain is provided below.

Figure 49 Supply chain – ‘bricks and mortar’ shopfront, selling print books

6.1 Publishers

The Australian book publishing industry is diverse. As is noted in Section 1.3, there are approximately 4,000 book publishers across Australia. These range from Australian branches of global publishing houses to micro-publishers that may publish only one or two books a year. Reflecting this diversity, there is a variety of means by which Australian book publishers seek to transform the value they bring into profit. Some, for example, seek to achieve economies of scale by publishing a range of genres, while others prefer to specialise and target the needs of a particular segment of the market. Furthermore, as Cengage (2009) highlights, the relationships publishers have to develop and maintain in order to sell their products differs from educational book publishers (which traditionally focus directly on educational providers and staff) and trade book publishers (which largely focus on booksellers).

Despite this variation, it is possible to make two general observations about the business models used by Australian book publishers. The first is that the value of book publishers generally lies with their ability to connect authors and content developers with the market. This is an important role. It requires on the part of a publisher:

- a sense of actual or latent market need, and which authors have the potential to meet this need, and
- the ability to transform an author’s content into a product for which the market would be willing to pay, and to maximise the chances that this will occur.
As it is ultimately dependent on the vagaries of consumer decision-making, book publishing is not a mechanical process, but largely a subjective exercise, buttressed by experience, research and planning tools, where possible.

The second general observation is directly related to the previous point – specifically, that risk management underpins the business models of Australian book publishers. Book publishing is an inherently risk-laden business. As the Australian Publishers Association (2009) states:

“For every book accepted or commissioned for publication, publishers are taking the risk not only that the net return from sales will not cover fixed costs and advances, but that the resources expended on a given title would have been more profitably allocated to another book. There are no guarantees that a new title will sell to expectation. Indeed, most new titles fail to find their market in the way the publisher would have hoped. For every 10 titles published, on average two succeed, by meeting or exceeding expectations, a further three may cover costs with a small margin, and the other five fail to find a market and end up being published at a loss.”

To help manage the risks associated with book publishing, Australian book publishers have typically relied on portfolio management. That is, rather than focusing on the profitability of individual titles, book publishers seek to ensure that their portfolio of titles as a whole is profitable. As Lee, Davis and Thompson (2009) state, the “aim is to spread risk across a diverse assemblage of titles, while at the same time applying consistent selection criteria and publishing practices to maintain the overall value of the imprint.”

The larger trade book publishers have also adopted a macro version of portfolio management. The key here is to rely on not only a diversity of titles, but also a diversity of revenue streams. These streams include “importation, the publication of Australian-originated titles and of local editions of overseas-originated titles, overseas rights sales, exports and, in the case of several of the largest firms, revenue from distributing third parties” (Lee, Davis, & Thompson, 2009).

6.2 Printers

There are two general business models used by book printers in Australia.

The first is targeted primarily at medium to large Australian book publishers. It involves offering these publishers a comprehensive (and ideally complementary) suite of services, based on offset and digital printing. Given the lengths of print runs required by Australian medium to large publishers, book printers utilising this business model need sufficient technical capacity to print books at a price and quality that is competitive with international book printers. Australian book printers can compete by also leveraging their locational advantages. These include:

- Responsiveness – Australian book printers are able to offer medium to large publishers timely service; especially relative to international
Examples of traditional business models

book printers, which are generally faced with longer freight times. The responsiveness of Australian book printers is of particular value to Australian book publishers under the 30 day rule of the Parallel Importation Restrictions. As the Australian Competition and Consumer Commission (2007) noted in its analysis of the proposed merger between McPhersons Printing and Griffin Press: “Most publishers said that it is almost always impossible to print offshore or import directly and still meet the 30 day requirement (except with airfreight, which is not cost-effective).”

- The ability to establish effective working relationships with book publishers.

The second book printing business model is targeted primarily at smaller Australian book publishers and self-publishers. The suite of offered services tends to be more limited or specialised, and based on either offset or digital printing. As smaller publishers and self-publishers generally have shorter print runs, book printers utilising this business model are typically in competition with other Australian book printers (rather than international book printers).

6.3 Booksellers

The goal of a bookseller is to sell books at a sufficient volume and value to achieve a desired profit margin. Different types of booksellers, however, attempt to achieve this goal in different ways.

Chain bookstores (e.g. Dymocks, Angus & Robertson and Collins Booksellers) generally seek to generate a desired profit margin by locating shopfronts in high pedestrian traffic areas (such as shopping malls) and leveraging the benefits of franchising. These include:

- greater economies of scale and cost sharing in such key activities as marketing, brand management, purchasing and business intelligence, and

- providing franchisee owners with a direct stake in the chain’s wellbeing – incentivising their performance and contribution to the broader goals of the franchise.

Chain bookstores (and independent bookstores) seek to attract customers by offering the promise of a range of titles – some of which will sell in greater volume and more reliably than others. The inventory of chain bookstores is typically aimed at the popular consumer market. Some chain bookstores, however, are fashioned as ‘book superstores’, which base their value proposition on the concept of offering consumers a seemingly inexhaustible range of titles (Trachtenberg, 2010).

Unlike chain and independent bookstores, discount department stores (e.g. Big W and Target) do not seek to provide consumers with an extensive range of titles. Rather, discount department stores seek to

---

14 “[U]nder section 29(5) of the Copyright Act, the holder of Australian copyright for a new book has 30 days to supply copies of the book to the Australian market after its release in another market” (Productivity Commission, 2009).
provide their customer base with a wide range of consumer products at a competitive price. They thus tend to focus on a limited range of mass-market books, which they buy in significant volume and at considerable discount.

Generally speaking, independent bookstores lack the scale to afford the rents associated with high pedestrian traffic areas or to purchase books at the same volume (and price) as the chain bookstores and discount department stores. Independent bookstores generally seek to generate a desired profit margin by:

- offering a specialised range of titles – focusing, for example, on literary fiction or art and architecture - and an “intimate knowledge of books” (Morris, 2011)
- diversifying into associated goods (such as “cards, stationery, pens and even leather goods”) and focusing on making the shopfront a destination in its own right (to compensate for not being located in high pedestrian traffic areas) (McMillen, 2011; Morris, 2011), and
- engaging directly with local communities – as David Gaunt, co-owner of Gleebooks, states: “We’ve been around for a long time and I don’t think we’ve ever been unaware that the best chance for independent bookstores to survive is to place a strong emphasis on social engagement in the community” (McMillen, 2011). An example of such community engagement is attaching a coffee shop and comfortable seating to a bookstore to encourage longer dwell times.

As was discussed in Section 4.1, online booksellers generally enjoy lower operating costs than ‘bricks and mortar’ bookstores, as they do not have to maintain a suite of physical shopfronts. They generally compensate for not being able to provide consumers with a print book instantly by instead offering them:

- convenience – consumers can purchase books at any time of the day and from wherever they have an internet connection, and
- comprehensive listings – Book Depository, for instance, markets itself as exploiting the ‘long tail’ – “the high numbers of low-demand products that populate the tail end of a demand curve” – which it does by hosting a database of 1.7 million titles (Royal Mail, 2011). This ‘long tail’ is further extended as online retailers such as Amazon provide a marketplace for second hand print books.

6.4 Distributors

There are five major book distributors in Australia; all of which are owned by Australian publishing houses. Given that distribution is primarily a volume driven activity, the major book distributors seek to increase the volume of books they handle (and, in turn, reduce unit costs) by distributing the books of:

- its book publishing parent, and
- third party publishers.

The value a book distributor can offer third party publishers is primarily related to the extent of its distribution network. Lee, Davis and Thompson (2009) highlight, for example, the benefits associated for independent publishers by having access to a distribution network:
Examples of traditional business models

“The availability of distribution through the global majors has been crucial in enabling many of these independents to extend their reach. Until the late 1990s, when the majors began taking on third-party distribution agreements in unprecedented numbers, the discount department stores and newsagency chains were largely closed to independent publishers because these outlets shied away from the inconvenience of dealing with numerous small accounts. As Henry Rosenbloom of Scribe put it to us in an interview, poor distribution short-circuited print runs and profits, making it impossible to achieve economies of scale.”
7 Emerging business models

This chapter provides some conceptual foundations that can be used to underpin and guide the development of future business models in the Australian book industry. These conceptual foundations comprise examples of how business models have changed and are changing in the new digital environment.

The two diagrams below represent the supply chains that have come to challenge traditional business models in the Australian book industry. Figure 50 represents the supply chain behind the online sale of print books to Australian consumers. The key factors to note are that: consumers have access to a broader range retail options, and print on demand allows printers to play a stronger role in the distribution of print books.

![Figure 50 Supply chain – online shopfront, selling print books](image)

Figure 50 represents the supply chain behind the online sale of eBooks to Australian consumers. Like the diagram above, consumers have greater retail options. There is also greater scope for authors to deliver content directly to consumers (through self-publishing). The dotted line around digital asset distributors highlights bookseller concerns that there is currently no Australian-based supplier of eBooks.

![Figure 51 Supply chain – online shopfront, selling eBooks](image)

Figure 51 represents the supply chain behind the online sale of eBooks to Australian consumers. Like the diagram above, consumers have greater retail options. There is also greater scope for authors to deliver content directly to consumers (through self-publishing). The dotted line around digital asset distributors highlights bookseller concerns that there is currently no Australian-based supplier of eBooks.
A key finding that emerges from Figure 50 and Figure 51 is that, as the book industry moves away from its traditional supply chains, pressure is likely to increase on:

- Australian booksellers – particularly ‘bricks and mortar’ booksellers, which have less capacity to compete directly against overseas online booksellers
- printers – which do not have a role in the production of an eBook, and
- print book distributors – if print book volumes decrease, the opportunities to achieve economies of scale in print book distribution will become more difficult.

We outline below a series of case examples of how authors, publishers, printers and booksellers have adapted or are adapting to the growing digitalisation of the book market. Four broad learnings can be drawn from the case examples:

- The technologies and strategies underlying the case examples (such as self-publishing, pre-publication and print-on-demand) are not novel. The new digital environment, however, has enabled these technologies and strategies to be applied in innovative and successful ways.
- As the Lonely Planet example highlights, responding to the new digital environment does not mean converting print books into electronic formats; but rather, creating a book (or, more simply, content) that can be suitably and effectively delivered in electronic form – which might be vastly different from the print book format.
- The case examples exhibit a blurring of traditional roles across the book supply chain. Lighting Source, for example, provides a mixture of printing and distribution services. Logos, meanwhile, plays the role of both publisher and bookseller.
- Responding to the new digital environment does not necessarily mean all booksellers will simply have to move online. Those that retain a physical shopfront, however, will have to focus more and
more on what makes a ‘bricks and mortar’ shopping experience special in the eye of consumers.

Amanda Hocking is an indie fiction novelist from Minnesota. She has separated herself from traditional publishing channels through self-publishing a series of fiction novels and uploading these to digital websites which support existing e-reading devices. She is currently considered the biggest e-book seller in the world. Since last April, Hocking has sold more than 1 million copies of her nine books and seven of Amazon’s 100 top paid books are authored by Hocking.

Hocking’s success can be attributed to a number of factors. She priced her first e-books at just 99 cents, and subsequent books have been priced at $2.99, making her books a viable alternative to traditional retail options. Amongst her target audience of young, indie readers, her reluctance to become part of the traditional publishing industry has also increased her appeal. However, Hocking has recently signed a deal with publishing house St Martins and the impact of this on her popularity remains to be seen. Hocking notes on her blog that her reasons for signing this deal include a continued inability for readers to find her books through the traditional modes to which they are still accustomed. She also notes the difficulties in editing and marketing her own products and acknowledges there is a role to be played by publishers in this domain.

Hocking’s success is being replicated by other emerging authors. Her utilisation of the internet as a medium for gaining exposure is seen as a common launching pad for other self-publishers. Web fiction is viewed as dynamic and, as demonstrated by Hocking through the use of her blog, more personal and adaptable than traditional means. Web fiction allows authors to build readership by appealing more personable and available. Authors beginning on the web are then able to move their books to Kindle store and earn 70% of the sale price, suggesting that self-publishing can maintain low prices for customers and high margins for authors.

Box 4 Case example of an author – Amanda Hocking
Source: (Hocking, 2011; Novelr, 2011; Ode, 2011)
Lightening Source provides a digital repository storing over 6 million titles which can be printed ‘on demand’ as they are requested by book sellers. The aim of this method of warehousing titles is to print only the number of books that may be required at any one time, thereby reducing inventory costs for book sellers. Lightening Source claims to significantly reduce the distance between bookseller and book buyer through this process. The process is relatively simple, with publishers entering books into the virtual warehouse for an initial start up cost. Lightening Source then adds these titles to their existing distribution channels of wholesalers and retailers. The company then handles all ordering, printing and payments for books.

For publishers, Lightening Source offers a vertically integrated “one-stop shop” for the ordering and printing of their titles, eliminating the need for publishers to manage this process themselves. The perceived benefits of this approach include increased market exposure, access to a wider and more comprehensive distribution channel and a reduction in overheads through the potential elimination of warehousing needs. Importantly the function of Lightening Source ensures that the books are never considered “out of print”, therefore fulfilling customer demands for fast turn-around on orders. Furthermore, books can be ordered in a variety of languages and differing versions to fulfil requirements.

While the concept of print on demand is not entirely novel – universities have been participating in these activities for some time. Google offers the ability to scan and digitise books, but this presents difficulties with licences to print works and also with the quality of the downloaded product. The point of difference held by Lightening Source is that it not only offers a digital repository, but also the ability to drive and manage the book printing process. This results in the production of high quality products that are familiar to the consumer. It also allows publishers to maintain a greater amount of control over their digital products.

Box 5 Case example of a printer—Lightning Source
Source: (Brantley, 2007; Lightning Source, 2011)

Logos Bible Software has become a leader in multilingual electronic publishing. Logos offers a pre-publication option for readers which allows customers to preview books and drive their publication. Logos does this by placing a chapter or portion of a pre-published book online and asking customers to bid on this book and lock in a price. Once the number of bids has reached a level which covers the cost of production, the book is then published to order and shipped to the bidding customers. This offers customers the opportunity to play a role in both the pricing and marketing of the books.

Pre-publication has previously been used by publishers to promote the sale of new books as a marketing tool that offers a lower starting price, often for a limited period of time. The difference between this mode of pre-publication and the Logos model is that the publisher can set the pre-publication price. Logos uses a community pricing structure which allows the price to be set through participatory means. This innovative pricing model is able to ensure that the publisher is receiving the price that is required to cover costs by setting a baseline price, and the consumer is paying what they believe to be reasonable for the product, with the added incentive of promoting the product to others in order to ensure its publication. The aim for the publisher is to gain market share through selling for a community agreed best price rather than maximising revenue on each sale.

Box 6 Case example of a publisher—Logos
Source: (Logos, 2011; Schipul, 2007)
Lonely Planet is a travel book publisher which has been producing travel guide books for over forty years and originated in Australia. By admission of the company’s transformation manager, Lonely Planet has developed “particular processes, tools and workflows” for the production of these books which have been the company’s key driver. However, in order to adapt to a changing publishing environment, Lonely Planet has entered the mobile digital publishing arena with the production of mobile guides which can be downloaded from their website. The company’s successful adaptation to this environment has been accomplished through the recognition that the digital publishing market often requires differing content to traditional publishing. For example, Lonely Planet did not simply re-publish their existing books in digital formats to be compatible with e-readers and mobile devices, but they created a new product specifically for this purpose in the form of audio tours.

Exemplifying this approach to developing digital content, Lonely Planet has also embraced the concept of customisation through the establishment of a “Pick and Mix” function for their popular travel guides, allowing customers to buy, download and often print only the chapters that they wish to read. This approach was based on a consideration of the changing needs of the traveller and the recognition that with an increased availability of information, value could no longer be seen in the transportation of large printed books.

Box 7 Case example of a publisher– Lonely Planet
Source: (Lonely Planet, 2011; Webb, 2011)

Indigo is a retail and online bookstore which launched in 1996 with the aim of becoming Canada’s first “cultural department store”. Indigo has since expanded and is now the largest book seller in Canada. Indigo’s approach to book selling is highly customer focussed and actively recognises the need to promote books as a lifestyle, and not a product. Indigo’s success has been attributed to its expansion into other products and services that appeal to book buyers. The company has therefore leveraged the appeal of the bookstore to promote a series of giftware and music products. Indigo’s physical stores have introduced the sale of visually appealing items (such as fresh flowers) and have made an effort to not look simply like a bookstore. Indigo also actively supports the promotion of literacy within the community through its Love of Reading” Foundation.

Indigo’s online bookstore has been a particular point of differentiation for the company. It offers unique options that allow the customer to tailor their shopping experience to their individual needs, for example, the establishment of a “birthday reminder function” for gift-shoppers. For eBook readers, reading devices such as Kindles are also sold directly on the site creating further convenience. Importantly, Indigo’s user interface supports its view of being a cultural department store. It also offers opportunities for self-publishing and e-certificates and a comments section for customers to comment on services offered.

Box 8 Case example of a bookseller – Chapters Indigo
Source: (Chapters Indigo, 2011; Townshead, 2010)
8 Business models need to address consumer purchasing drivers

In thinking about where business models may go it is useful to note that success reflects the ability of the business to most directly address the demands of consumers (wherever they are in the supply chain).

Previous studies and scholarly literature (particularly in the areas of books, eBooks and physical and online retailing) suggests that consumers will rely on a series of factors when making purchasing decisions. Three of the most prevalent factors are outlined in the following sections.

8.1 Price and differentiation

Consumer decision making theory suggests that consumers will rely on both cognitive and emotional factors when making decisions about purchases (Hansen, 2005). Cognitive factors include considerations of price and quality. Both price and quality will impact upon a consumer’s willingness to conduct an extensive search when looking to purchase a product (Neal, Quester, & Hawkins, 2006). Price will become a significant factor in the purchase decision when there is little else to differentiate a product (Neal, Quester, & Hawkins, 2006).

According to Ringstad and Loyland (2006), the demand for books is particularly price elastic. They also found that other cultural goods could easily become substitutes for books, such as movies, music or television. This may have a crowding-out effect on physical books as consumers look for alternatives if the price is perceived as too high, such as eBooks.

Generally speaking, eBooks can present consumers with cost-savings. The cost of an eBook is typically cheaper than that of a print book. The survey commissioned as part of this project found, for instance, that the average price paid for an eBook ($10) was less than half that of a print book ($23).

In order to read eBooks, consumers are required to have a device capable of accepting and displaying eBook files. The costs associated with having such a device vary, depending on whether a consumer purchases an eBook-specific device (such as a Kindle or Kobo) or uses a convergent device (such as a smartphone or tablet); the latter of which are generally purchased with the intention of undertaking a range of functions (including, but not limited to, eBook reading).

8.2 Product experience

Consumers will consider the functionality of a product when making decisions about purchases. This includes a consideration of the consumer’s goals when buying the product including the fulfilment of
their immediate or future needs (Puccinelli, Goodstein, Grewal, Price, Raghubir, & Stewart, 2009). Various products and shopping environments (retail or online) provide means for a consumer to fulfil these needs. Puccinelli et al (2009) further suggest that a consumer will often already have a concept of intended product experience formed before purchase.

The eBook provides a number of functionally appealing attributes for a consumer, particularly consumers already comfortable with using technology. The key benefit of products such as eBooks and online technologies is the ability to personalise the product experience (Moon, Chadee, & Tikoo, 2010). eBooks are searchable and indexable. The font size can be changed, as well as the brightness and contrast. As such, the consumer is able to specifically tailor their reading platform to their needs. Further customisation of the reading experience is now offered as many new eBook readers are internet-connected. Readers interested in a specific concept, phrase or word can use hyperlinks to discover more detail about it.

The alternative view to the rational, functional basis of decision making is the influence exerted over decisions by emotional factors (Pollai, Hoelzl, & Possas, 2010). Emotions can impact upon a consumer’s intent to purchase a product. Consumers will often use an existing emotional connection with a good or service to predict future satisfaction with this product (Pollai, Hoelzl, & Possas, 2010).

Chrystal (2010) suggests that eBooks lack the emotional usage experience of printed books. As such, printed books provide intimacy and familiarity to the user. Some factors cited include feelings of warmth, comfort, relaxation, pleasure, enjoyment and stability. The eBook in its current format cannot fulfil many of these emotional needs. This is expected to change over time, however, as younger readers, more used to digital devices, become the dominant book buying group.

8.3 Familiarity and trust

Familiarity and trust can impact upon consumer decision making both at the product level (what the consumer is actually buying) and the retail level (where they are buying it).

Chrystal (2010) suggests that in order to entice consumer’s to change their learned purchase behaviours, a new product must be able to offer users a similar or better experience than the original, with the same level of convenience, durability and reliability, and importantly, add value to the current model so that users will desire to make a transition. Without fulfilling these criteria, consumers are not motivated to change their purchase behaviour.

Online retailers have often faced barriers to attracting new customers due to an inability to convey the same level of trust as physical stores (Benedickts, Brady, Darke, & Voorhees, 2010). A consumer will trust the seller when:

- the seller is perceived as reliable
- the seller is has experience and competence, and
- the seller has positive intentions towards the welfare of the buyer.
Benediktus et al (2010) also found that hybrid sellers had an advantage over online sellers in the market due to their existing physical presence. The consumer was more familiar with these sellers and more willing to trust them.
9 Options for improved business models

This chapter provides guidance about how business models could be improved to allow key sectors across the book industry supply chain to adapt to, and thrive in, the new digital environment. A focus on individual sectors, however, is not sufficient to ensure a sustainable future for the Australian book industry. Industry-wide changes are required to support authors, publishers, printers, distributors and booksellers in addressing the opportunities and challenges posed by digitisation. We outline these industry-wide changes below. These are followed by suggested changes to the business models of individual sectors.

9.1 Improving the distribution of books

It is clear to us that there are number of industry changes that could be explored on an industry-wide basis to improve individual and collective competitiveness.

As Chapter 3 makes clear, distribution affects the competitiveness of Australia’s book supply chain at numerous points. The fragmented nature of Australia’s book distribution system, and a lack of universal standards, imposes additional costs on the wholesale price of books, and results in lengthy delivery times. The absence of an Australian eBook wholesaler is seen as inhibiting the ability of Australian booksellers – particularly independent booksellers – to capture a share of the increasing consumer demand for eBooks.

Looking forward, an efficient book distribution system has the potential to enable the growth and sustainability of Australia’s book industry. A speedier and more reliable distribution system would:

- improve the ability of Australian booksellers to compete more effectively against overseas online booksellers (by allowing them to respond more adeptly to changes in local demand, and to offer a comprehensive range of eBooks)
- strengthen a key element of the value proposition offered by Australian book printers – responsiveness – and allow Australia printers to compete more effectively in the offering of print-on-demand and distribution services, and
- facilitate the use of ‘just in time’ business practices and ‘virtual inventories’ by publishers and booksellers, which should reduce the volumes of returns and improve inventory management.

There are three means by which Australia’s book distribution system could be improved, as discussed in the following sections.

We note that, while there is a temptation to see the following industry-wide initiatives as being impeded by the absence of a collaborative mechanism, and hence changes can only be driven by government, in
recent years other media and entertainment industries have demonstrated that commercial rivalries can be put aside to mitigate the costs of developing common and online platforms. For example:

- Freeview was established as the free-to-air television’s arm that markets the new digital multi-channels and negotiates with set-top-box manufacturers, and
- the outdoor advertising industry collaborated to fund a new measurement system, MOVE, which helped increase their revenues in 2010 by 25 per cent.

These changes demonstrate that when there is an industry perception that there is a ‘burning platform’ to justify change then change can happen.

Consolidating print book distribution

Consolidating Australia’s book distribution system is not a new solution. It was a key recommendation of Accenture’s examination of the challenges and opportunities facing the Australian book industry in 2001. Accenture (2001) estimated that if “the industry consolidated distribution and reduce average unit costs to levels now enjoyed by the best performing publishers, it would realise savings of approximately $50 million a year.”

While it may not be a new solution, consolidating print book distribution is certainly not a straightforward one. Encouraging the establishment of a limited number of specialist wholesalers/distributors would appear to be one way of realising consolidation. This would require, however, the active cooperation of the major Australian publishers, which currently manage, and generate revenue from, their own distribution systems.

Australian booksellers and publishers could also consider jointly developing and adopting a web-based order management service, similar to Batch.co.uk in the United Kingdom. While such a service would not necessarily reduce average unit costs, it would generate efficiencies by simplifying the ordering and invoicing processes.

Establishing an industry body charged with improving supply chain efficiency

Drawing on the experiences of the United States and United Kingdom book industries, this option would involve the Australian book industry collaborating to establish an industry body tasked with improving supply chain efficiency. This body would primarily be responsible for:

- the development, maintenance and promotion of standards (e.g. on RFID and EDI)
- administering accreditation/certification schemes – to encourage best practice amongst industry members, and
- identifying and proposing solutions for problems in the Australia’s book industry supply chain.

Such a body could also have the benefit of facilitating and normalising collaboration between different sectors of the Australian book industry – which might, in turn, encourage the sense that there is such thing as an Australian book industry and cross-sector innovation.
Establishing an industry-owned eBook wholesaler

To allow all Australian booksellers to participate in the eBook market, Australian publishers and booksellers could collaborate to establish an industry-owned eBook wholesaler. Such a body could provide a range of digital-asset distribution services to publishers (such as file conversion, digital storage, and metadata/DRM management) and act as a ‘white label’ for Australian booksellers. That is, booksellers would maintain their own ‘front end’ e-commerce systems for attracting consumers and selling eBooks, while the ‘back end’ would be provided by the eBook wholesaler.

9.2 Individual sector changes

9.2.1 Authors

As discussed in Section 4.1, the rise of eBooks provides greater scope for authors and content developers to self-publish and capture a greater proportion of sales revenue.

The case example of Amanda Hocking is illustrative in this regard. On the one hand, Hocking demonstrates how self-publishing can be made to work for new authors – by using price and an absence of territorial restrictions to overcome the barrier of obscurity and to generate a significant volume of sales. Conversely, Hocking also demonstrates the limits of self-publishing – more specifically, that it can be easier (from an author’s perspective) to rely on a professional publishing house to look after such functions as editing, marketing and distribution.

In either case, the Amanda Hocking example – and others like her – has the potential to increase the bargaining power of authors vis-a-avis publishers, as the option (or threat) of self-publishing is more realistic (and lucrative) in the context of eBooks.

More broadly, there are increased “[e]fforts towards the further professionalisation of Australian authorship – including a push to encourage authors to see themselves as part of ‘commerce’ as much as ‘culture’” (Loukakis, 2011). There is also a growing sense that authors can be a small business (what Hazel Edwards describes as an ‘Authorpreneur’) (Loukakis, 2011). Such a perspective is not only likely to encourage more efficient authoring practices, but also opens opportunities for authors to engage with government as a definite sub-sector of the book industry.

9.2.2 Publishers

As noted in Section 4.2, online retailing threatens the risk management business model of Australian trade book publishers, as it has the potential to reduce publisher revenue generated by the sale of overseas-originated titles (either published in Australia or imported). With less revenue generated from overseas-originated titles, trade book publishers would become more reliant on the sale of Australian-originated titles – an important component of their business, but one that was only responsible for 40 per cent of their total revenue in 2010.
Possible options that trade book publishers – and, to a similar extent, educational book publishers – could adopt to manage the threat posed by online retailing include:

**Entering into agreements with international publishers to share global rights**

In 2010, HarperCollins Publishers in the United States announced the creation of Harper Voyager – an amalgamation of Eos Books in the United States and the Voyager imprints in the United Kingdom and Australia/New Zealand (Harper Voyager, 2010). A goal of creating Harper Voyager is to allow for books to be sold with global rights, but with an underlying mechanism for the revenue to be shared amongst the constituent publishers (Blacklock, 2010).

The Harper Voyager approach could provide a model for publishers in Australia. Though there are questions about how applicable the Harper Voyager approach would be in other contexts. For example, it is reasonable to expect that international agreements to share global rights are more likely to occur within international conglomerates (such as was the case with Harper Voyager) than between different publishing houses. Furthermore, incentives for overseas publishers to enter into agreements with Australian publishers to share the revenue from eBooks sold with global rights would need to be determined.

**Competing with international publishers for global rights**

If, over time, the growth in eBook sales leads to more authors selling the global rights to their work, Australian publishers could compete directly with international publishers for ownership of global rights sold by overseas authors. Australian publishers would face disadvantages in such a competition – as they would unlikely enjoy the same market presence and access to resources as the large international publishing houses. Australian publishers could seek to mitigate this competitive disadvantage by offering higher royalty rates than their international counterparts – though such an approach may exacerbate the cost pressures already felt by Australian publishers.

**Greater centralisation**

In the face of cost pressures caused in part by the growing popularity of the internet (and prevailing consumer expectations for free content), a number of other Australian media industries have embraced centralisation. This involves companies centralising or hubbing certain functions under a single organisation; the latter of which is then able to pool talent and generate economies of scale in the provision of those functions, leading to cost savings for the original companies. Key examples of centralisation include:

- Pagemasters – which is sub-contracted by The Age and The Sydney Morning Herald for a range of sub-editing and layout work.
- Southern Cross Media Group – which provides centralised newsroom services to radio stations across Australia (Dodd, 2009).

There may be scope for Australian publishers to centralise functions that are likely to benefit from greater economies of scale, such as layout and typesetting.
Experimentation

The book industry is on the cusp of a new era. In the face of uncertainty, there is value for book publishers in experimenting with alternative means of delivering and charging for content. Lonely Planet is probably the most high profile example in Australia of a publisher that has been willing to experiment with alternative mechanisms of content delivery (e.g. through print books, eBooks and apps) to accommodate the varying needs of its customer base. Other examples of actual or proposed experimentation include:

- Consumer engagement – the example of Logos above (Box 6) highlights how publishers can use relatively old approaches (such as pre-publication) to engage with customers and, at the same time, increase certainty about likely market take-up.
- Pricing – Frey (2011) proposes that “[r]ather than focusing on selling large numbers of books to become profitable, eBooks may very well become loss leaders, setting the stage for a series of other pricier products and services surrounding the author’s area of expertise.”

9.2.3 Printers

Of all the individual sectors of the Australian book industry, book printers are facing the greatest challenges from overseas competition and the rise of eBooks. We have identified two options that could help Australia’s book printers adapt to the increasingly globalised and digitised market for books.

Consolidation

A key problem inhibiting the competitiveness of Australia’s book printing industry is the under-utilisation of printing capacity, which leads to increased average unit costs. Australia’s book printers could address this issue by exploring opportunities for consolidation across the industry.

Any move towards consolidation would have to be in accordance with all relevant legislation covering mergers and acquisitions in Australia. Previous attempts to achieve consolidation in the book printing industry (most notably, the proposed merger of McPhersons Printing and Griffin Press) were blocked by the Australian Competition and Consumer Commission on competition grounds.

It may be possible to overcome competition concerns in the future by focusing on opportunities for consolidation between:

- major and medium/minor book printers, or
- book printers and other printing companies where the potential for synergies is seen to exist.

Embrace print on demand

There is a tendency for studies of book industries to laud print on demand as the saviour of book printers. While we do not believe that print on demand is a panacea, the technology does seem to offer a
Options for improved business models

means of leveraging the locational advantages enjoyed by Australia’s book printing industry.

More specifically, print on demand is likely to increase the responsiveness of Australia’s book printers. With an efficient print on demand system, book printers would be able to provide greater ‘virtual inventory’ services – printing backlist and other low volume titles cost effectively and when required by publishers and booksellers.

The submission of the Australian Booksellers Association (2011) to the BISG suggests there would be demand for such services:

“Short Run Printing will mean more books will be printed locally and decisions to reprint books will be more responsive. This means that it will less likely that a supplier runs out of stock of titles and if they do run out of stock, it can be available again within days. Booksellers will be more able to supply their customers from local sources, and to supply them speedily, subject to local distribution methods improving to compete with international distribution timelines.”

As this states, however, the ability of Australian book printers to leverage the potential of print on demand effectively – and to compete against the likes of Lighting Source – will depend on the extent to which Australia’s inefficient book distribution system can be improved.

9.2.4 Booksellers

There are no ‘silver bullets’ for booksellers seeking to address the challenges and opportunities posed by the digitisation and globalisation of the book market. A confluence of factors – key amongst them being the strong Australia dollar and the established market presence of major overseas online booksellers – is likely to mean that the bookselling environment is likely to remain competitive for the short to medium term.

The examples and research in Chapters 7 and 8, however, do provide some guidance about what changes can be made to improve the competitive position of Australian booksellers. These changes include:

Differentiation

In the online retailing space, there are a number of existing examples – such as Amazon, Apple’s iBookstore, and Book Depository - that demonstrate the potential value of different business models. Australian booksellers could seek to mimic these business models (either whole or in part). The question remains, however, in a globalised market place, why should an Australian consumer purchase a book from an Amazon-clone when it is just as easy to purchase the book from Amazon?

The key for Australian booksellers seeking to develop or solidify their online presence, is to provide Australian (and international) consumers with a reason to do so. The provision of Australian content could potentially be an important point of difference for Australian online booksellers (Lee, 2010). In the future, this may involve Australian booksellers becoming more closely involved in the support and development of Australian authors.

There may also be scope for Australian booksellers to enter into commercial agreements with book social networking sites – providing
discounts on books for access to the potential market information that could be obtained from such sites.

Leveraging people’s affection for books and bookstores

Books and bookstores have the power to influence people’s emotions – particularly avid and passionate readers. The Indigo example outlined in Box 8 highlights how one company has sought to leverage people’s affection for books and bookstores into a broader business – expanding into other products and services that appeal to book buyers. The advantage of this approach is that it not only allows booksellers to diversify their sources of revenue, but also use a wider range of products to reinforce its core brand and value proposition (in the case of Indigo, presenting itself as a ‘cultural department store’).

Focusing on people’s affects for books and bookstores would appear to be particularly suitable for Australia’s independent bookstores, which typically have experience with product diversification and, generally speaking, tend to arouse more passion on the part of their customers.
Appendices

Appendix A  Terms of Reference  116
Appendix B  Bibliography  119
Appendix A  Terms of Reference

The Book Industry Market Analysis must address each of the following elements:

1 Industry size and potential

In order to determine the current and future size of the Australian book market, researchers will be required to:

a Determine base-line data

– In order to provide a base-line for comparative data, identify (a) the total current value of the Australian book industry; and (b) the current value of each of the following sub-sectors:
  › authors / content developers;
  › publishers;
  › printers; and
  › booksellers.

Value may be determined by employment, sales, industry value-added, productivity and / or revenue or any other available and reliable measure.

– Based on the above, provide an analysis of trends in the industry over the past ten (10) years based on the available data.

b Measure market share of the book industry

– Determine the extent of Australia’s current participation (import and export of products and services including the sale of rights) in the global market for digital and printed books in (a) trade publishing; and (b) educational publishing; and

– Based on the above, provide an analysis of trends in the industry over the past ten (10) years for (a) trade publishing; and (b) educational publishing.

c Compare p-Book and e-Book markets

– Determine the current comparative size of the printed and digital book markets in nominal value and in percentage terms for (a) Australia; and (b) internationally*.

* Defined as the UK, USA, Canada and NZ

d Project future market growth / size

– Based on the experience in other markets such as the US and the UK, develop a number of possible scenarios for future growth of the market for p-books and e-books over the next 3-5 years in (a) the Australian and (b) the international markets taking supply factors and demand from key user groups into account.

e Factors influencing change
Identify key factors that have and are likely to drive the possible future scenarios developed in (d) above and affect change within the Australian market for p-books and e-books.

2 Industry competitiveness and Global opportunities

The research must establish and highlight areas of efficiency and/or inefficiency in the Australian book industry supply chain and what changes must occur to improve the competitiveness of the Australian book industry.

The research must address the risk of the Australian industry and Australian produced works being ‘sidelined’ under the influence of the larger global players.

It should also identify barriers to the development of Australian content, particularly digital content. In seeking to address issues of industry competitiveness, business models and global opportunities, the supplier must undertake the following tasks:

a Industry development

Identify and analyse any factors inhibiting competitiveness of the Australian book industry in the domestic and export market for books.

A list of some of these possible factors identified by industry is at Appendix 1. This is a guide to industry issues and should not be presumed to be a definitive list for research purposes.

Identify and analyse the opportunities and threat/s to the local industry posed by online sales of printed and digital books.

Identify actual or potential drivers and inhibitors to Australian products (books, services and rights) being distributed in international markets; explain why this occurs or will occur; and provide options for addressing these barriers; and

Identify actual or potential inhibitors to investment and innovation across the supply chain in the Australian book industry; explain why this occurs or will occur; and provide options for addressing these barriers.

3 Business models

Digitisation is forcing significant changes to the existing business models in the book industry. These changes are likely to impact on various parts of the industry supply chain. The researcher will be required to identify current and future models of operation within the Australian book industry and the industry adjustment that will be required as a result of these changes.

Provide examples of traditional business models for key sub-sectors within the book industry supply chain:

- publishing houses (international and local);
- printers (multinational and independent);
- booksellers (specialist chains, independent and discount stores) and online booksellers; and
- distributors.
– Provide examples of how business models have changed and are changing in the new digital environment;
– Provide a review and analysis of any existing research which explores the factors, including price of digital books, that make a difference consumer purchasing decision; and
– Develop options for improved business models which integrate digital and traditional production or supply for the identified key sub-sectors.
– Provide analysis and commentary on how these options for business models address the opportunities and challenges identified in part 2.
Appendix B  Bibliography


Loebbecke, C. (Online). The emergence of ebooks: Just another media industry joining the converging digital world? An explorative study on user preferences and industry structure changes.


Loukakis, A. (2011, May 9). The Author as Producer, the Author as Business. *ASA Occassional Paper*.


Schlozer, R. (2009, July 10). E-readers are proving popular, but the heralded cost savings are misleading. Printweek, p. 17.


Stafford, P. (2011, February 18). Poor management, rising rents and online sales rush blamed for REDGroup Retail collapse. Retrieved April 9, 2011, from Smart Company: Poor management, rising rents and online sales rush blamed for REDGroup Retail collapse


Zumbo, F. (2011, January 5). Online retail is the way of the future. Retrieved April 9, 2011, from Business Day: