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# “Do Readers Dream of Electronic Books?”

Discussion document  
Ifbookthen Conference

Milan, February 3<sup>rd</sup> 2011

**ATKEARNEY**

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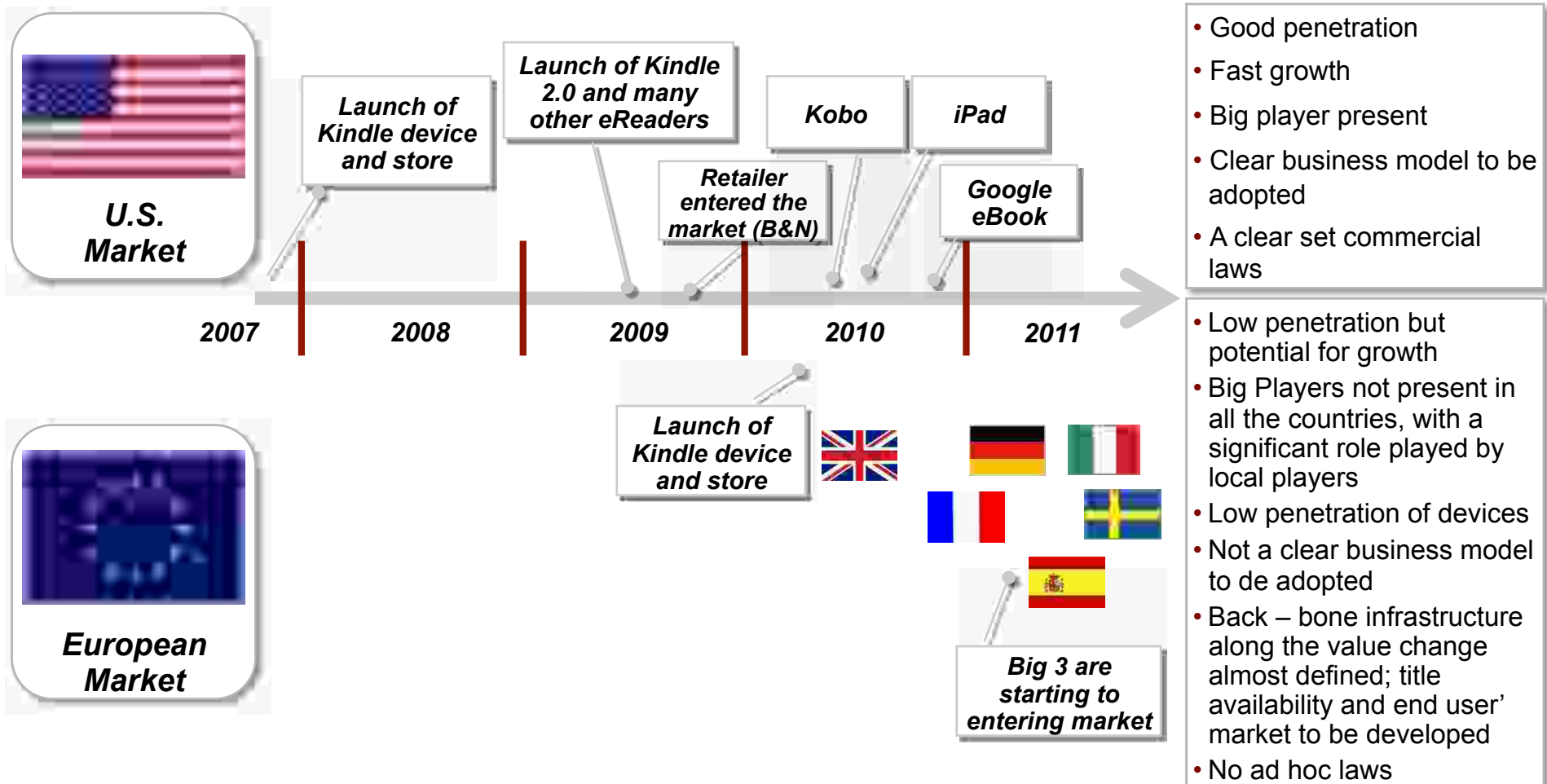
## Preface

- The aim of this document is to provide **an overview of the digital publishing in Europe and a comparison with the US market** (that is still in its growth phase but three years ahead of EU)
- All the analysis presented in these pages were developed with a **joint effort of A.T. Kearney and Bookrepublic**, a high quality digital distribution platform for small and medium sized publishers and an online bookstore for buying ebooks
- Given there are no official/public data about digital publishing in Europe for 2010, all the numbers presented derive from:
  - Interviews with key publishers from major EU market (UK, Germany, France, Spain, Italy, Sweden)
  - Analysis and elaboration of public data from public sources / press search
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# Europe is still in start – up phase whereas U.S. are in the fourth year of eBook adoption

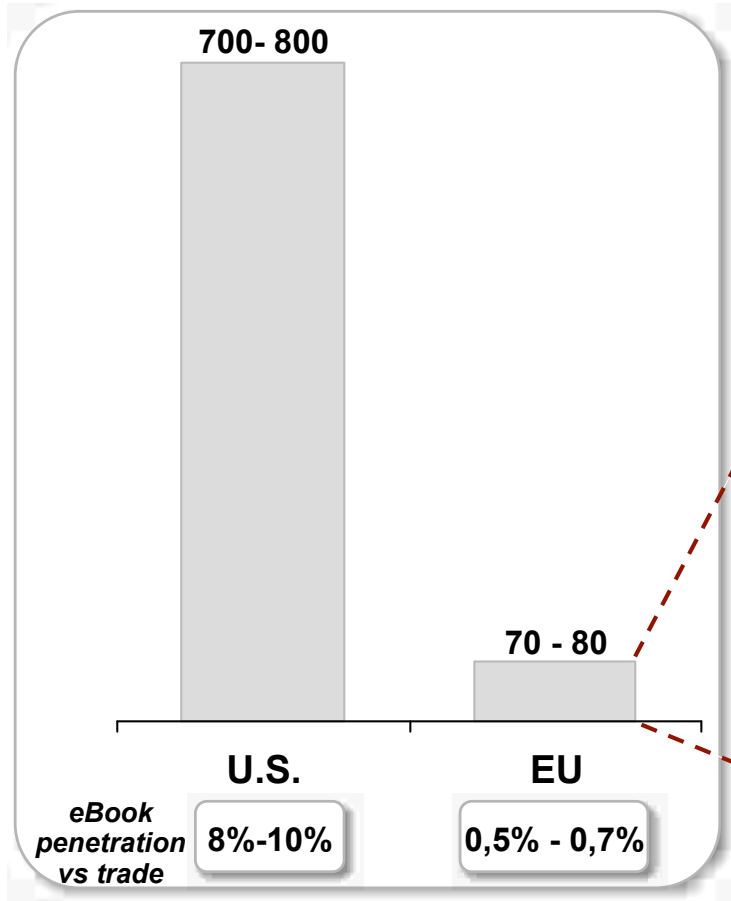
## New gen eBook’s market development U.S. vs EU

Illustrative

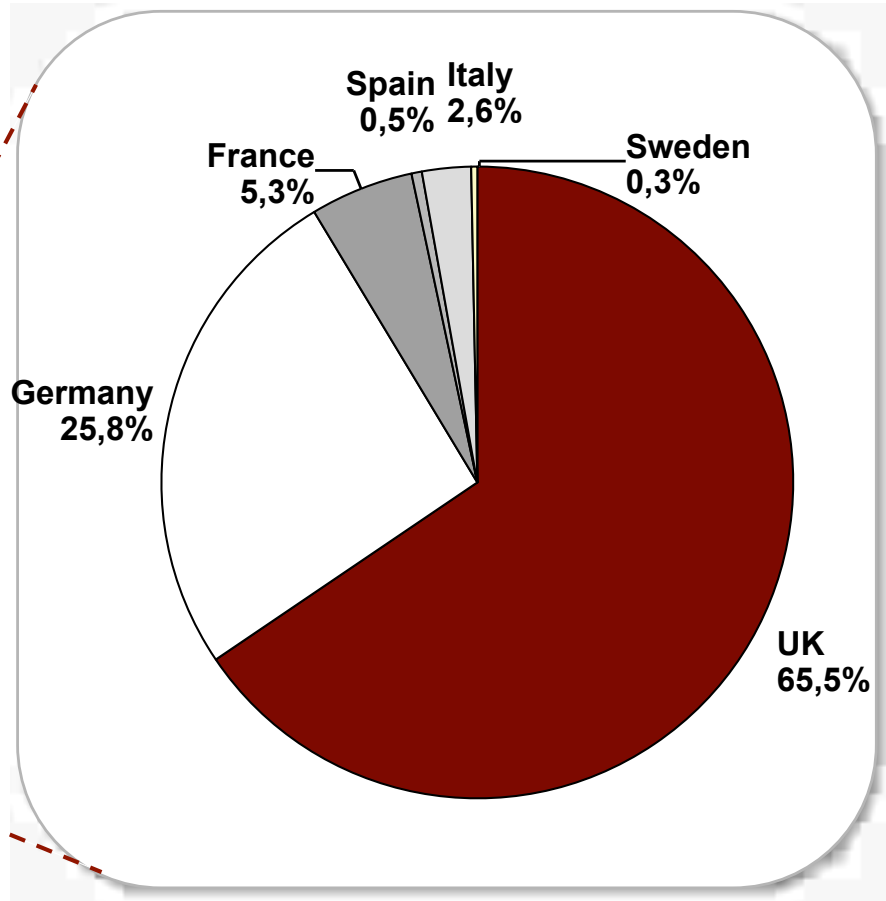


# European eBook's market size is still small, with UK showing the higher market share

**eBook Trade Market size**  
(mln€; 2010)



**eBook Trade Market share by EU**  
(%; 2010)



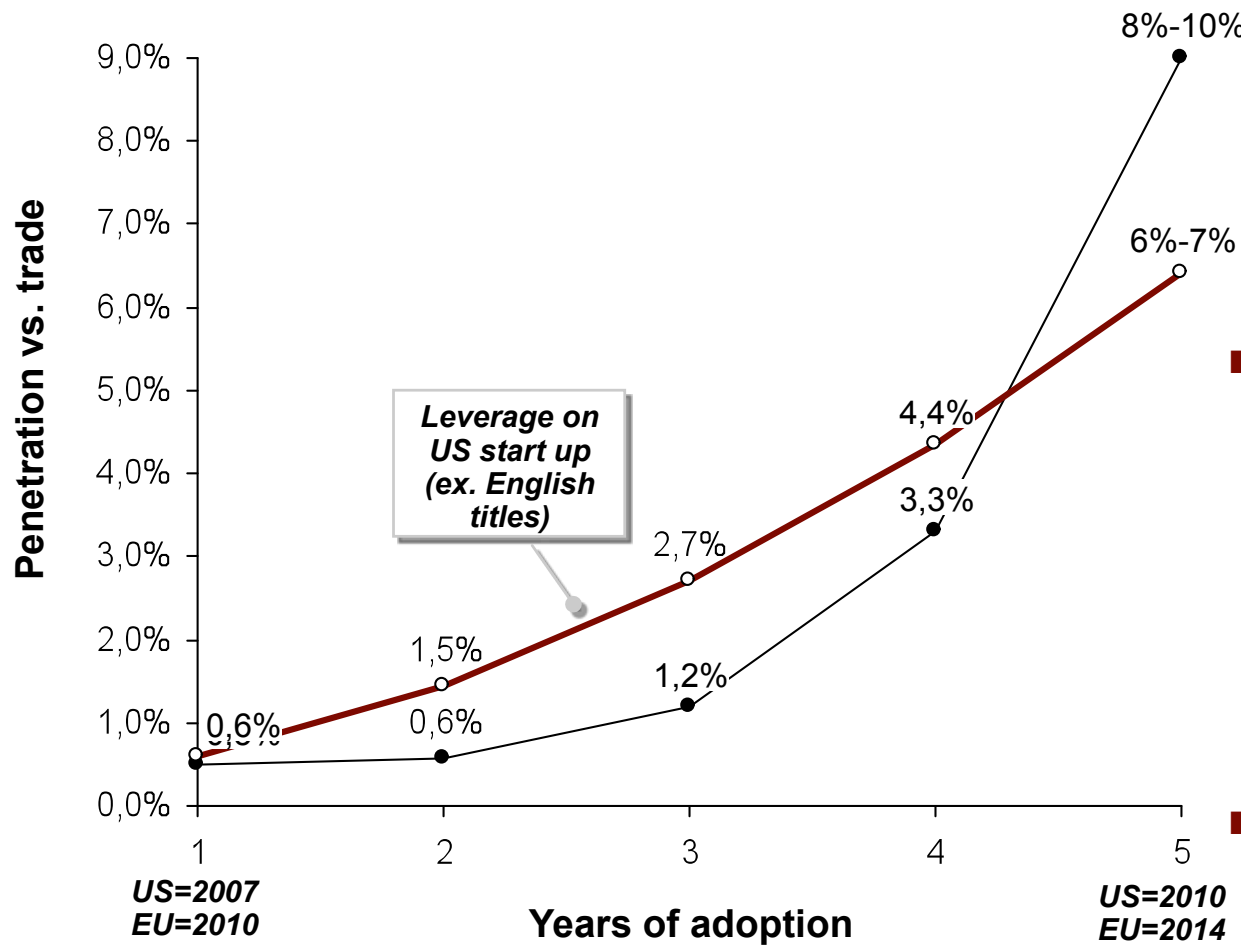
# In Europe main enabling drivers for eBook booming are not fully developed

Enabling Drivers as of 2010	UK	Germany	France	Italy	Spain	Sweden
Availability of titles in local language						
	~ 500.000	~ 100.000	~ 50.000	~ 7.000	~ 4.000	~ 4.000
Number of eBook reading devices						
	~ 1.600.000	~ 800.000	~ 600.000	~ 470.000	~ 250.000	~ 150.000
Distributor – eRetailer infrastructure						
	D: 9   R: 15	D: 24   R: 20	D: 2   R: 12	D: 6   R: 20	D: 7   R: 24	D: 2   R: 7
Big Player presence	 Amazon; Apple	 Apple	 Apple; Google			
	<b>PB</b>   <b>eB</b>	<b>PB</b>   <b>eB</b>	<b>PB</b>   <b>eB</b>	<b>PB</b>   <b>eB</b>	<b>PB</b>   <b>eB</b>	<b>PB</b>   <b>eB</b>
VAT	0%   19%	7%   19%	5,5%   19,6%	4%   20%	4%   18%	6%   25%
eBook Penetration	2% - 3%	<0,5%	<0,2%	<0,2%	<0,1%	<0,1%


High/ Favorable      Low/ Unfavorable


# EU is expected to grow with a lower speed than U.S. given to different market driver conditions

Expected penetration of eBook in EU after 5 years vs U.S. (%)



**CAGR**

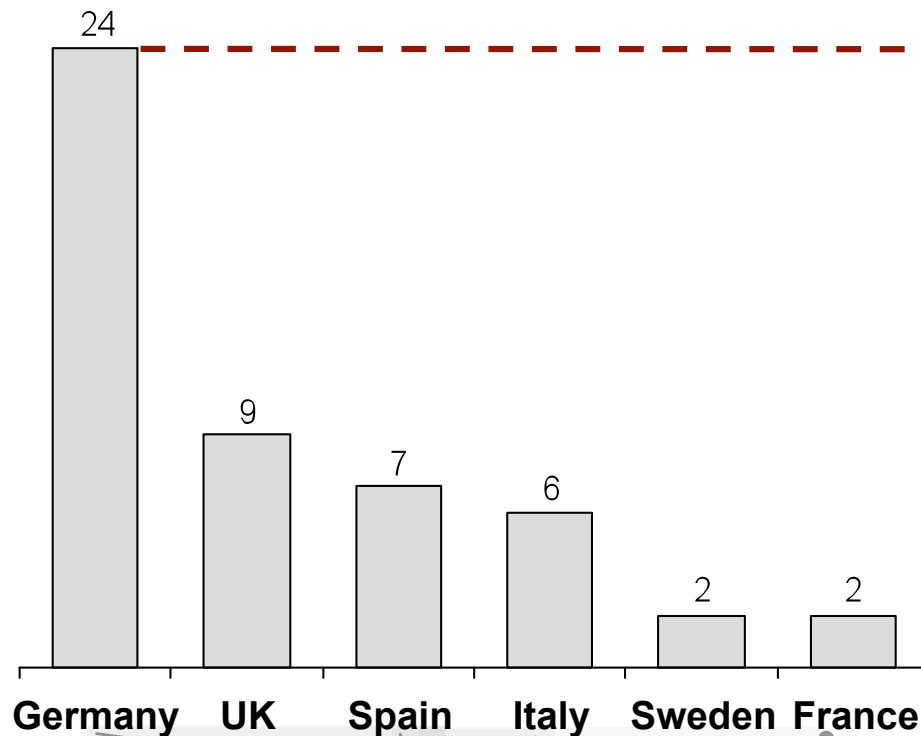
**US** 130-140% 

**EU** 90-100% 

- E-book penetration in Europe is expected to grow with a lower speed than in U.S. for reasons like:
  - Technology population's "proficiency"
  - Local publisher's protectionism
  - Availability of ad hoc contents
  - ... still higher competition / offering and tech improvements could drive even faster growth
- In particular, UK will probably follow a path similar to US:
  - CAGR UK : 125%-130%
  - CAGR other EU: 90%-100%

# The number of platform for eBook' distribution varies cross countries and new business model are emerging

# of platform for eBook distribution



Biggest publishing groups have set up a joint digital platforms (Libreka, Libranda, Edigita)

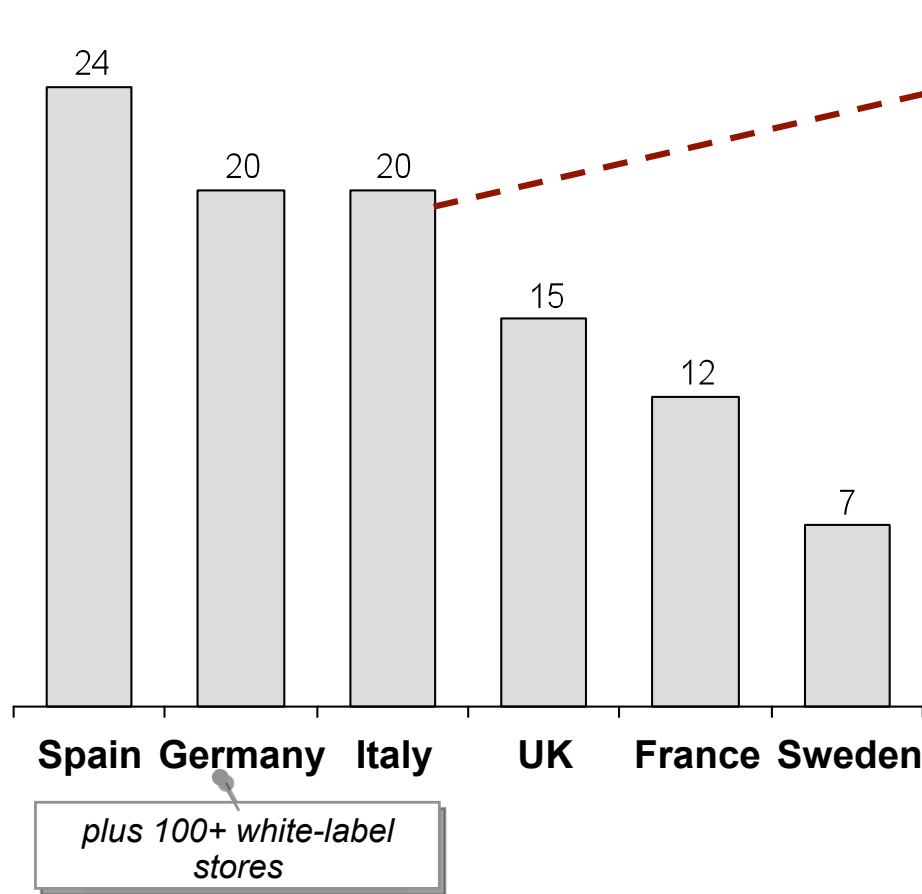
## New Business Model: Aggregators in Germany

- Often people from music distribution (MP3)
- Same functions as wholesalers, owning the **rights to (sub) license to retailers** and shops; they don't have direct relation with bookstores but **only with online retailers:**
- Strong focus on an active marketing and sales to eRetailers
- Mailings and customer relations management
- Integrated technical and legal solutions
- **No shop or direct sales to end users**

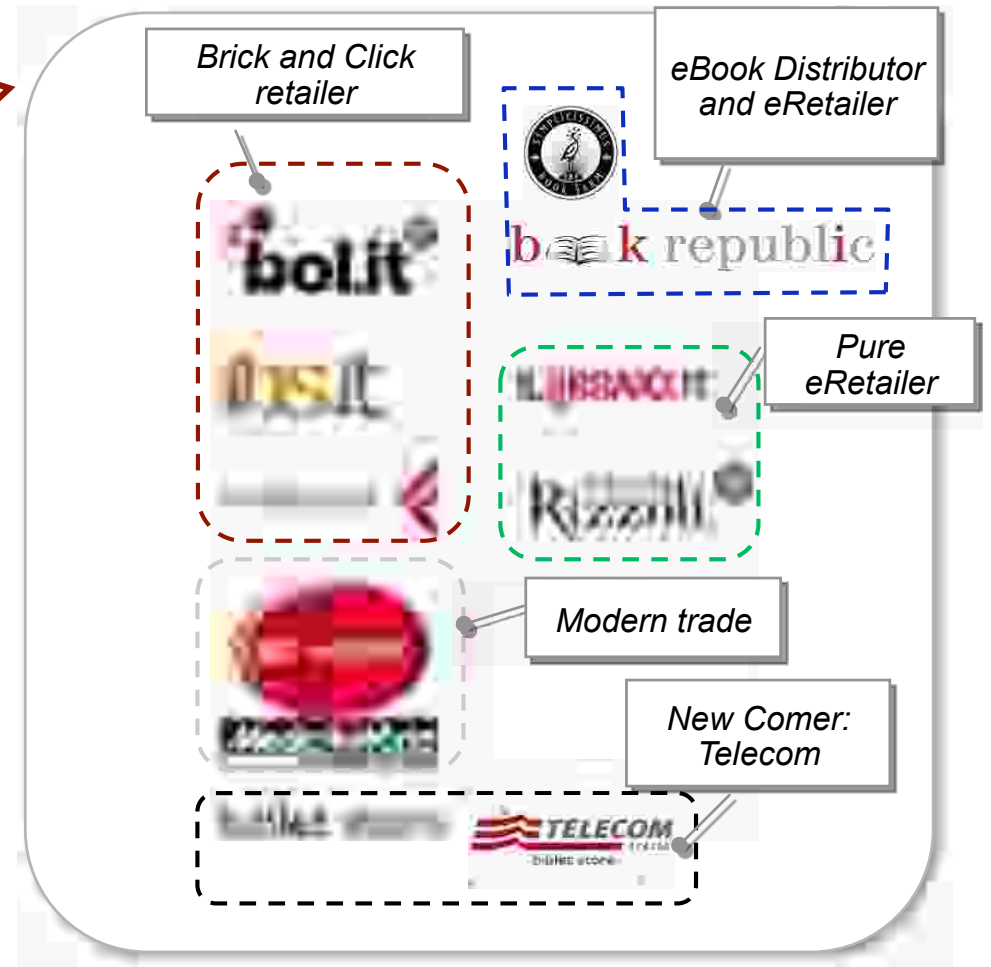


# The competition for eBook retailing is coming from different types of players that are entering in the market

# of stores for eBook

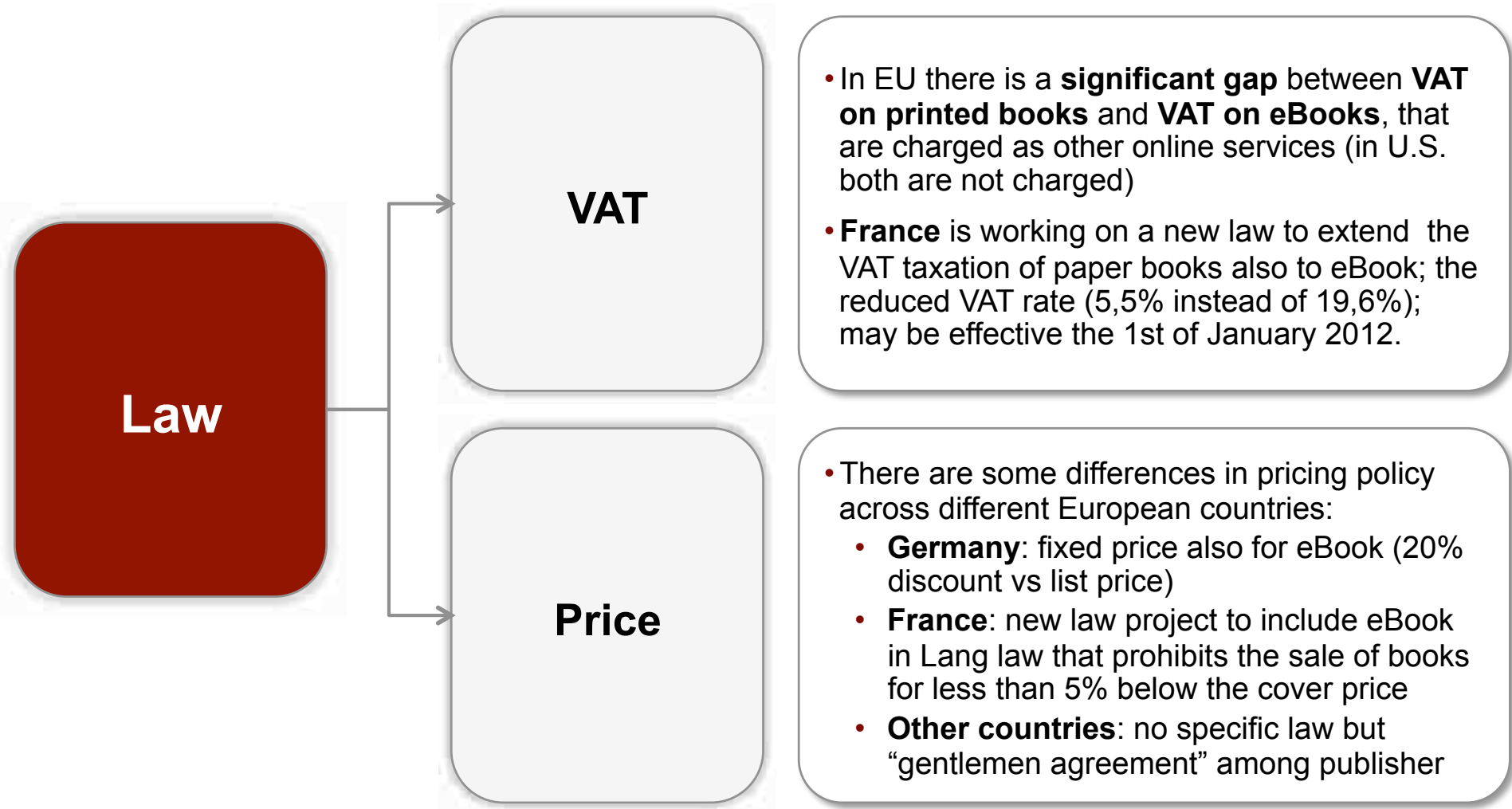


Type of eRetailer – Italy clustering



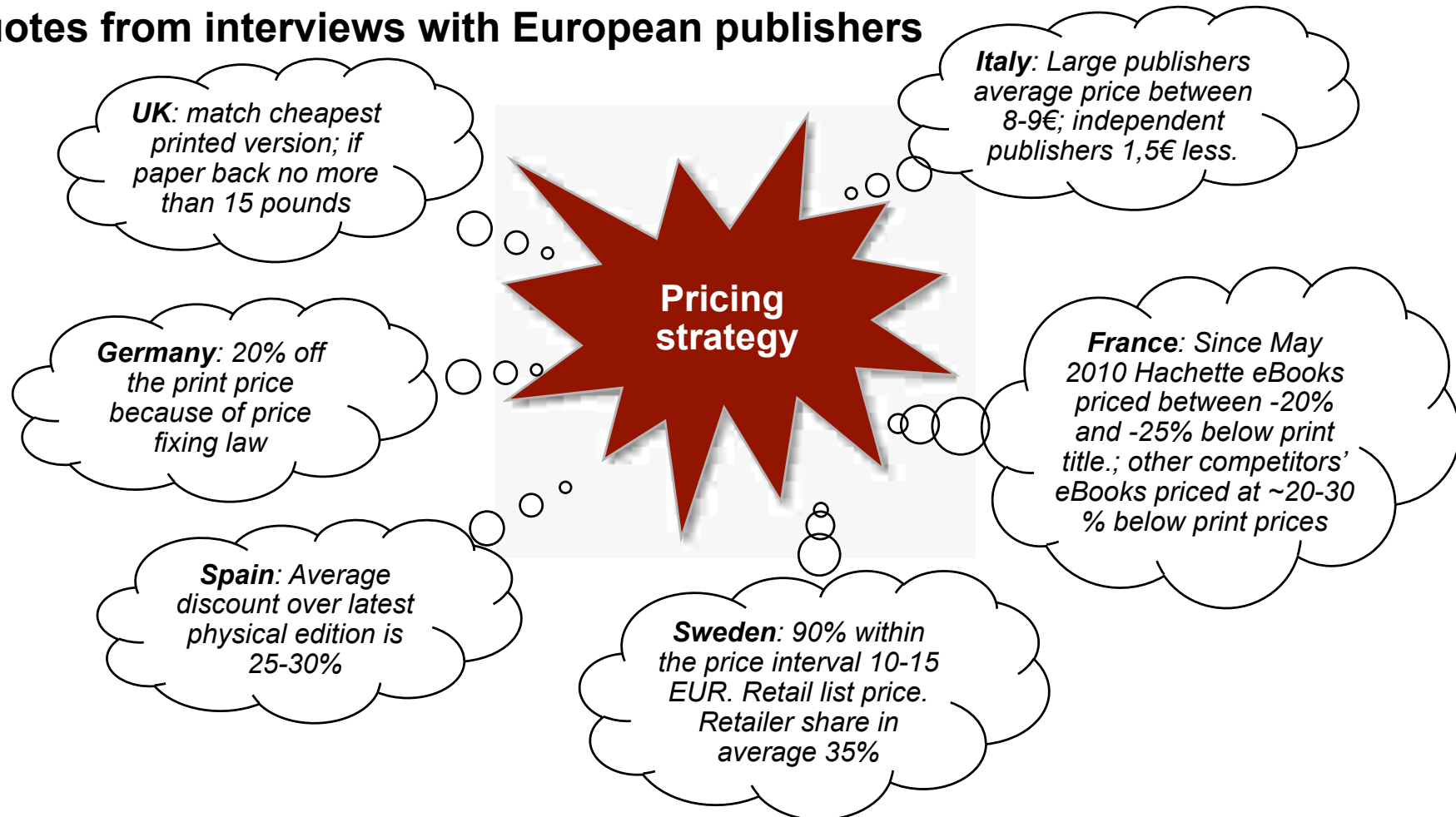


# VAT on eBooks is higher compared to printed books and prices are not regulated



# Setting the right price is a strategic topic for publishers to match customers' expectation and boost market development

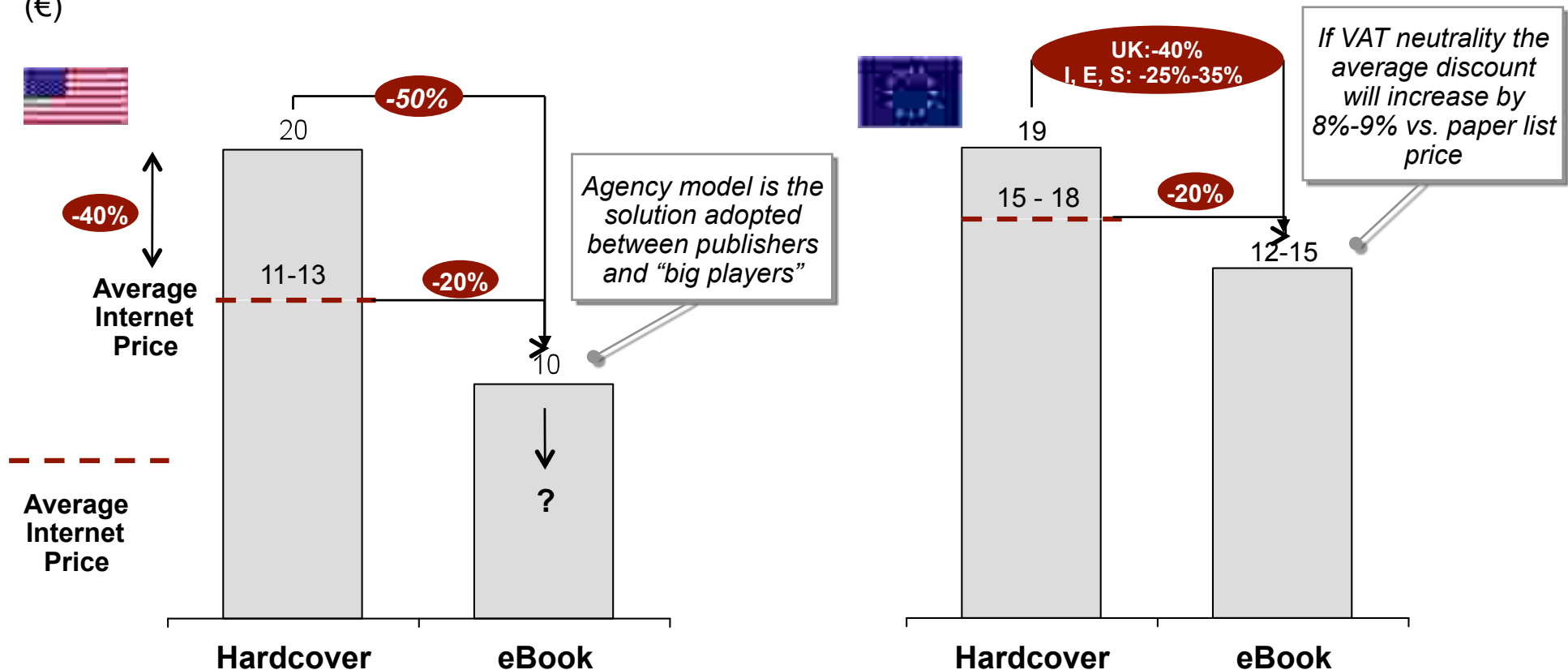
## Quotes from interviews with European publishers



**Customers expect eBook' prices to be cheaper than print book**

# In terms of discount of eBook vs. hardcover list price there's a gap between U.S. and EU countries

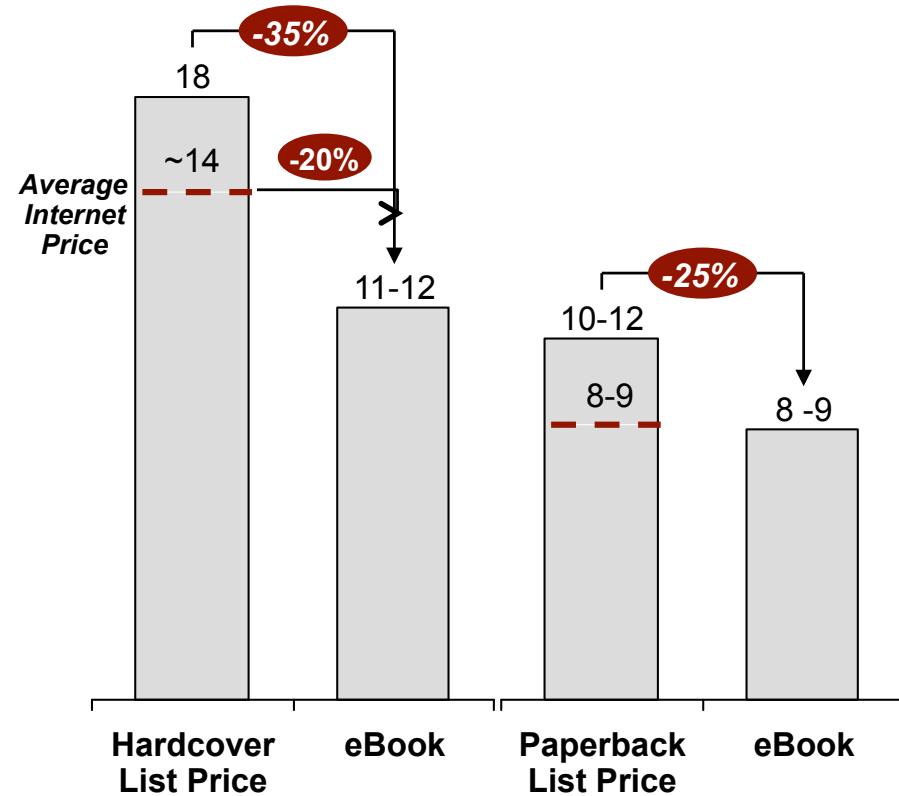
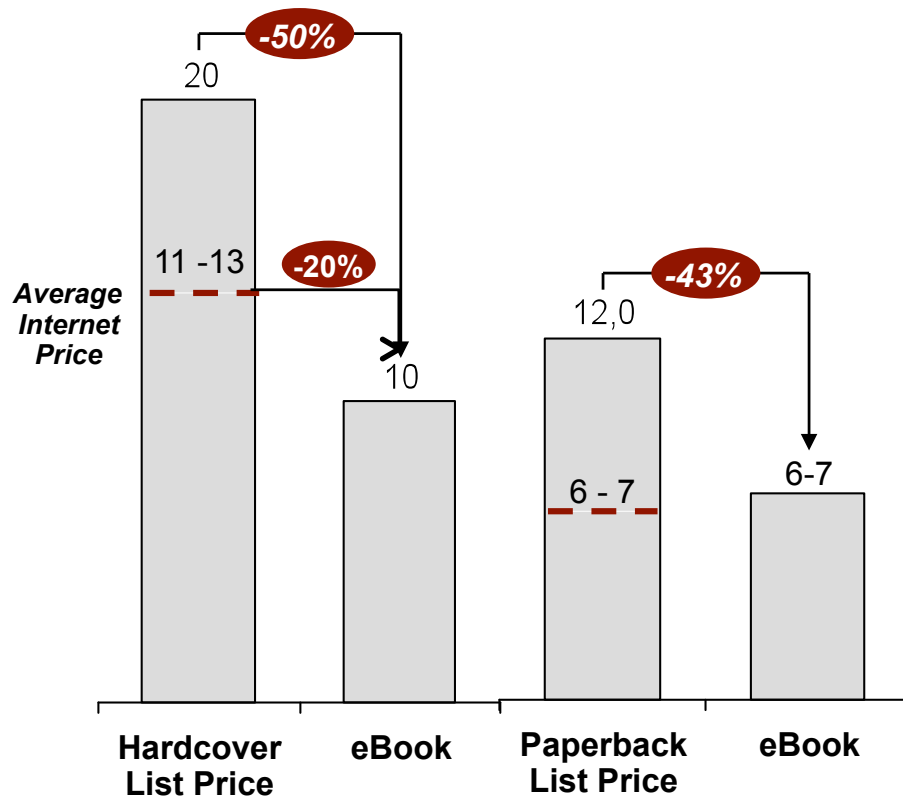
Average hardcover list price vs. eBook (€)



- Will EU average discount converge to U.S. discount?
- Need to move from cost-plus to demand driven price policy? Impact on piracy?

# For paperback, data are showing that printed and digital price converge

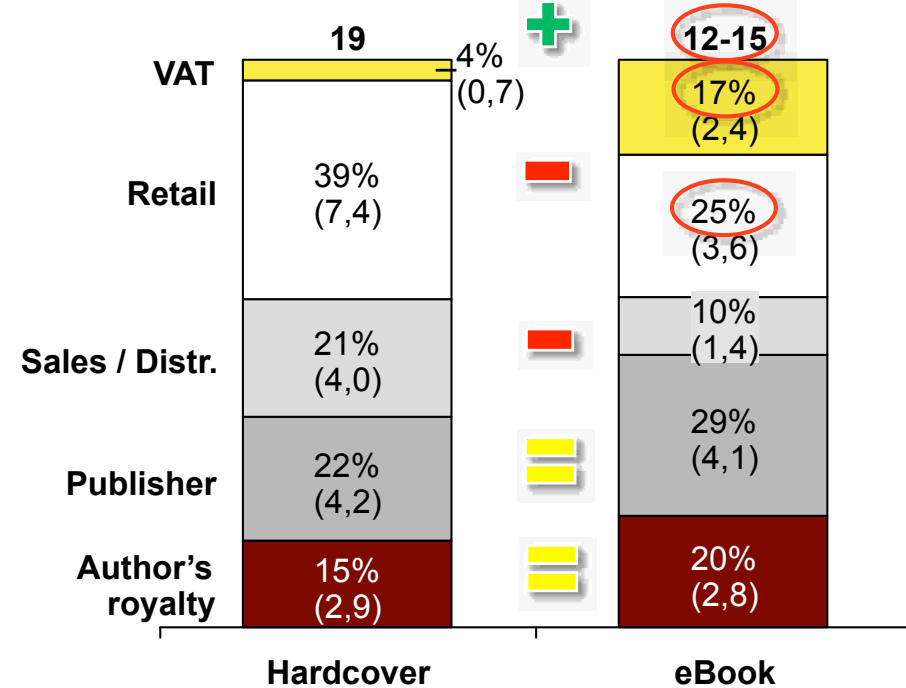
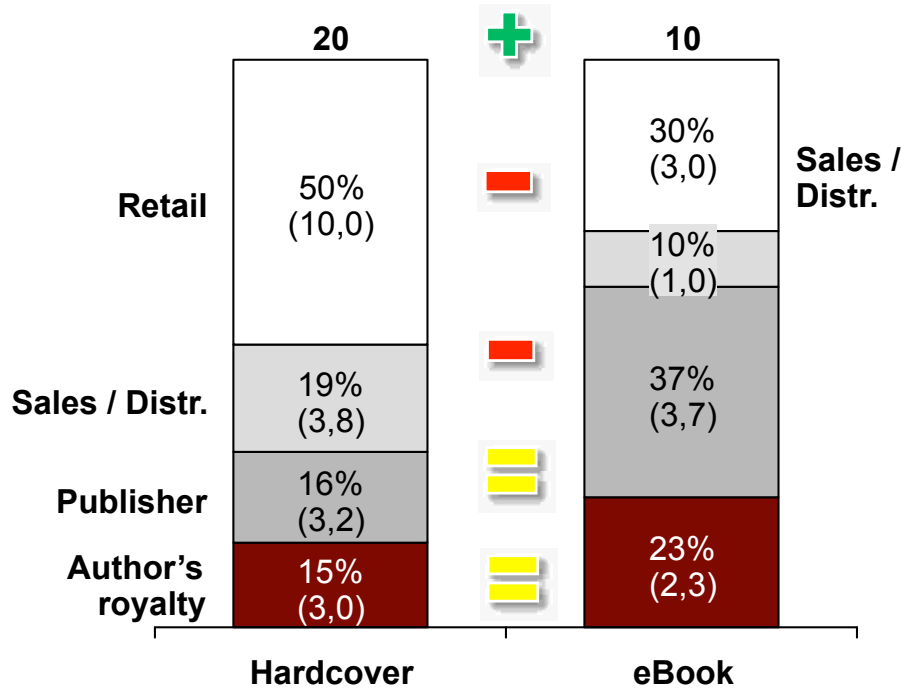
Average hardcover list price vs. eBook  
 (€ - 20 top sellers)



- Is the e-book cannibalizing the paperback market?
- Will paperback and e-book remain aligned in the future?

# As in the U.S., in Europe retailers and distributors will be highly impacted by the eBook growth

Average hardcover list price vs. eBook (€)



• Will e-retailers / big three have sufficient market power to ask for higher discount?  
 • Will customers ask for a higher price difference from printed books?

negative   
 neutral   
 positive

# Questions and answers