

# The potential future of publishing and making Money from eBooks

This white paper is extracted from a larger document produced by VP Group Ltd for a client outlining the state and predicated future of the publishing industry. While the full contents of the original findings remain client confidential, the client has agreed to share the future looking and salient information below. This extract focuses on mono eBooks rather than colour, the client had asked for research on both.

## Outline

In this paper an eBook is considered an electronic book rather than a paperback which is a physical product. This means apps and eBooks that turn pages on line in Java are under this generic term of eBook.

## History

Paperbacks have been product for hundreds of years and have in the last 70 years available in both mono and colour to the mass market. However since the mid 1990's, the advent of the Adobe Acrobat™ reader, eBooks and digital documents have been produced, more recently there have been PC and smart phone apps to enhance the user experience. The largest current retailer is considered in this white paper as Amazon™, while there are others in this market Amazon™ control both the device and distribution of eBooks. While ereader devices include the Kindle™ range, Nook™ and Ipad™, the common format is that of epub.

## File Formatting

Our research has shown the market price of converting a mono file to be \$55 (£35), and colour file from \$55 to \$1,000 (£35 to £600), while interactive colour eBooks can cost over \$100,000 (£60,000) this is via an outsourced provider rather than in house. The outsourced provider can apply volume discounts or contract rates to these prices. However at London Book Fair in 2012 our researchers asked these providers which format could be provided, many (20%) of these vendors could not answer this question at all. Some had the modern standard ( 10%), while the bulk had older standards which could be rejected by the eBook Platforms and vendors as incompatible files, which could create extra costs or fees . Some of these vendors had automated systems that converted and formatted to an agreed style sheet in under 20 minutes and then proceeded to validate the file. While others actually hand crafted the epub code into an epub file then did not bother to validate the code. In the research only 15% had validation as part of the process, however only 5% could state the standard they validated to. The research was with a group of 45 vendors, no names were taken just the basic information, as the focus was on price, timing and validation.

## Return on Investment

*ROI for converting the files then submitting to the three largest platforms could take up to ten years.* Our research showed that the smaller more established publisher and the larger established publisher had issues converting to ebooks. The main issue was publishing rights under the contract to create the ebook, the second issue was around market rights publishers had no real documented contract in which market the titles could be sold in, thirdly which titles to do first and how long it might take ( project management was required) , fourthly which platforms to start with and lastly no experience or budget on the converting or marketing of eBooks. To a researcher's horror they met a small publisher who had outsourced the conversion, yet a member of staff openly admitted to submitting the wrong title to a platform and not knowing how to correct this error. They have converted 10 tiles out of the 200 titles the produced, yet had no real understanding of a process or methodology. This a researcher has found is not uncommon.

## Disclaimer

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Our research showed that for niche publishers \$1.6 (£1) average per title per month, via four channels the number was 1,000 eBook's across the four platforms. Our reach suggests that other popular titles could reach \$3.2 (£2) per title per month and \$50 (£80) for interactive colour ebooks per title per month.

These figures confirm that the ROI could be many years on a single title and still many years for a single publisher, dependant on a number of variables. This ROI data was taken over a 36 month timeframe, and showed a single title selling 500+ copies for three months running. 60% of the 1,000 titles sold zero within the 36 month period. There were both seasonal and topic dependant peaks along with regional trends which mirrors paperback sales, only in terms of trend.

## In-house skills

Our research confirmed that a small number of publishing currently understood the format or without assistance could convert and validate an epub file. There was no age profile but a high dependence and understanding of file conversion along with computer languages plus problem solving . In our case the client broke down (with our assistance ) the processes from conversion and submission to the platforms to 9 steps. Each step took less than 20 minutes per file and took 2 hours of training within a live environment per role per group. The success of data conversion per platform was 95%, with 5% being files that did not conform to epub file formats for the platform. While this appears to be resource hungry in this and other cases the converting and validating of the title is only one of these steps. The other nine are key to placing the title in the correct way to each platform.

## Platforms

The research highlighted over 14 platforms with one being the historic leader, a second to be the soon to be market leader and the third having over 500 million devices on a single platform but late to the market. The others tend to aggregate content form a number of sources, the margin and payments for each platform do differ. The trade terms in some cases come with a withholding tax in a number of countries along with sales tax issues. Each platform was found to have seasonal trends and content demand requirements. Each platform had ePub as a lowest common denominator, however the meta data and method of submitting and validated did differ. However this only really affected the last two steps of the nine part process. Stopping or halting publication was different across platforms, many within 24 hours but some just too hard to stop publishing. The same is true of updating files the large platforms made it possible, however smaller aggregators were harder.

## Volumes

Our research showed that the volumes of paperbacks and eBooks had little or no correlation. The volumes of paperbacks overall are expected to decrease in 2013 by between 25-50%, in 2014 the volumes are expected to decline by a further 50%. This will leave not only publishers with unsellable stock in warehouses and on the bloated balance sheets, but devalue the offering of a paperback purchase. Many of the traditional publishers are looking to address this by moving to Print on Demand, in both mono and colour. However this move is too little too late, as the volumes are decreasing too rapidly and the potential market players in the POD market too large. Our research showed that there are only 6 companies that actually integrate to the Global paperback market. One of which is considered the best, however others offer regional on national coverage which might well suit a publisher. One is owned by a larger company who might well exit this POD market sometime within the next 18 months, because the expected returns are simply not there.

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Our research showed that eBook volumes in some publishing companies has increased by 100% in one week. This increase in volumes showed the mono market has good growth potential from a low base. However the real volume and margins are in colour eBooks of a certain type. This market our research proved could be worth more than the mono market and give better return over a longer period.

To validate the findings above Amazon stated in there Q4 2012 accounts that paperback sales where the same volumes as 2009. *"The fourth-quarter operating income was up more than expected," RJ Hottovy, an analyst at Morningstar, said. "This supports the bull case that Amazon can monetise its growth over the longer term."*

*"We're now seeing the transition we've been expecting," the company's chief executive Jeff Bezos said, revealing that ebook sales had risen 70 per cent last year and now represented "a multi-billion dollar category".*

*Physical book sales – on which Amazon established its reputation in the 1990s – saw their slowest December growth in the company's 17-year existence.*

Colour interactive eBook's, are more dependent on eReader devices capabilities than the content.

### Conclusion

Publisher's need to take a number of variables into consideration, in terms of planning, rights, countries submissions to platforms, existing and new platforms, new formats, new screen sizes and timing. Finding staff or outsourced providers who actually understand from a hands on experience is in our research less than 100 people in the UK. Job title has very little to do with title, however much more relevant to experience and understanding. The process and platforms can change every month, and do. Without the experience the staff can and do get left behind, too often there is a lack of documentation or clarity on what is possible and the issues.

Both research and experience that the vacancies for full time and part time roles are unrealised. While there is a buyers' market, in this area there is skill shortage. However there is no effective skills training in this area.

However the above is not as important as user empowerment. The authors no longer need a publisher to reach mass market, Amazon allow for authors to load their published work directly to their platform. This user empowerment might well be without a brand, or big budget marketing but allows books such as fifty shades of grey eBook, to reach a mass market allowing a traditional publisher to take on paperback rights. The authors also have direct feedback from social networks and platform interaction. Publishing might no longer be a closed market. Highly motivated authors use the internet to gather this empowerment, the expertise can be found on line for little or no cost, while some of it might be outdated it give the author direction to find distribution for their writing.

Published work is therefore considered by some as a commodity rather than a premium product, this follows the same pattern seen in other industries like Music. Were the large players have to consolidate into two or three global players, mid-size companies are lacking and the volume is produced by the indie companies.

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