
“Do Readers Dream of Electronic Books?”

Discussion document
Ifbookthen Conference

Milan, February 3rd 2011

ATKEARNEY

b  **k** republic



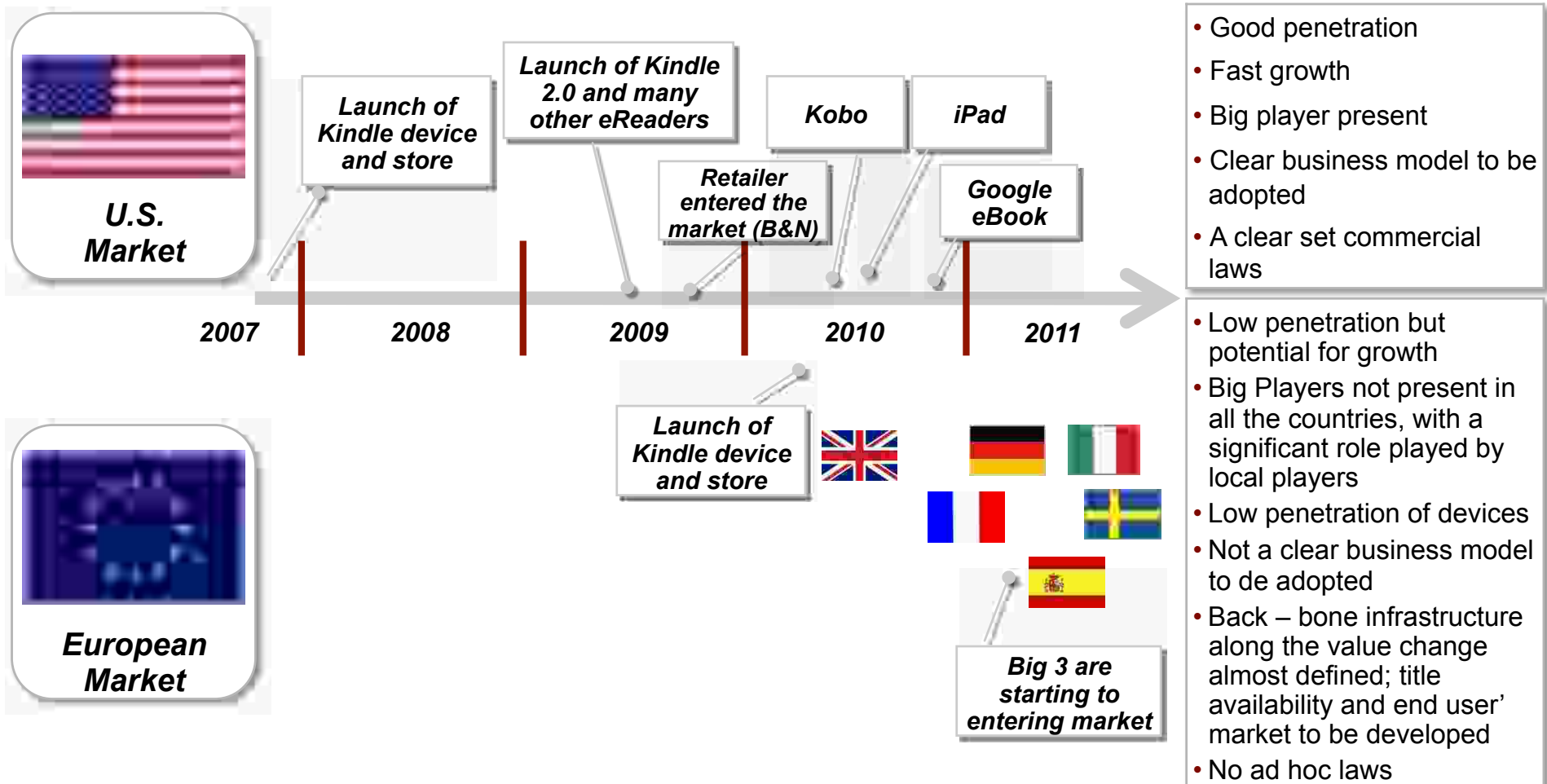
Preface

- 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

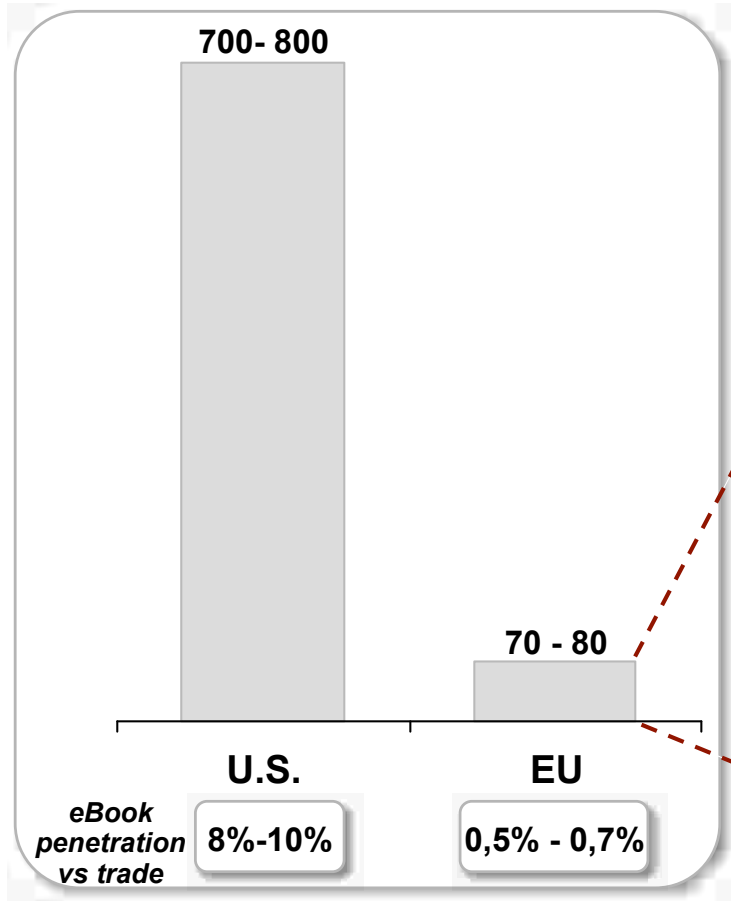


- Good penetration
- Fast growth
- Big player present
- Clear business model to be adopted
- A clear set commercial laws

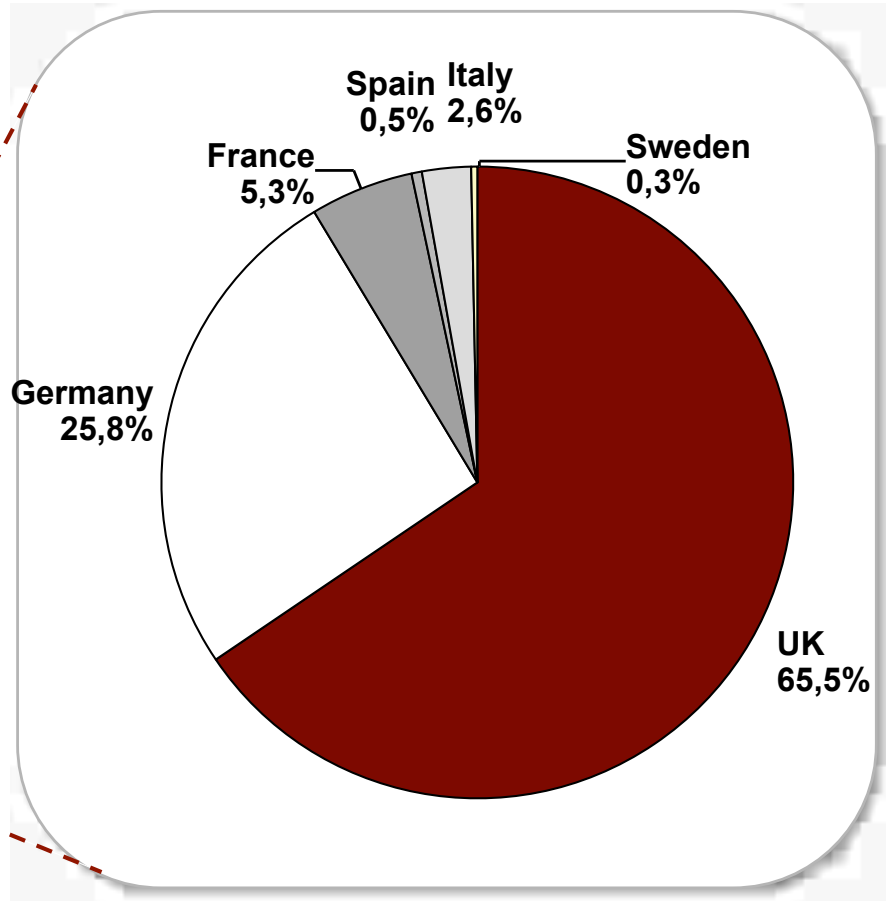
- Low penetration but potential for growth
- Big Players not present in all the countries, with a significant role played by local players
- Low penetration of devices
- Not a clear business model to be adopted
- Back – bone infrastructure along the value change almost defined; title availability and end user’ market to be developed
- No ad hoc laws

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)



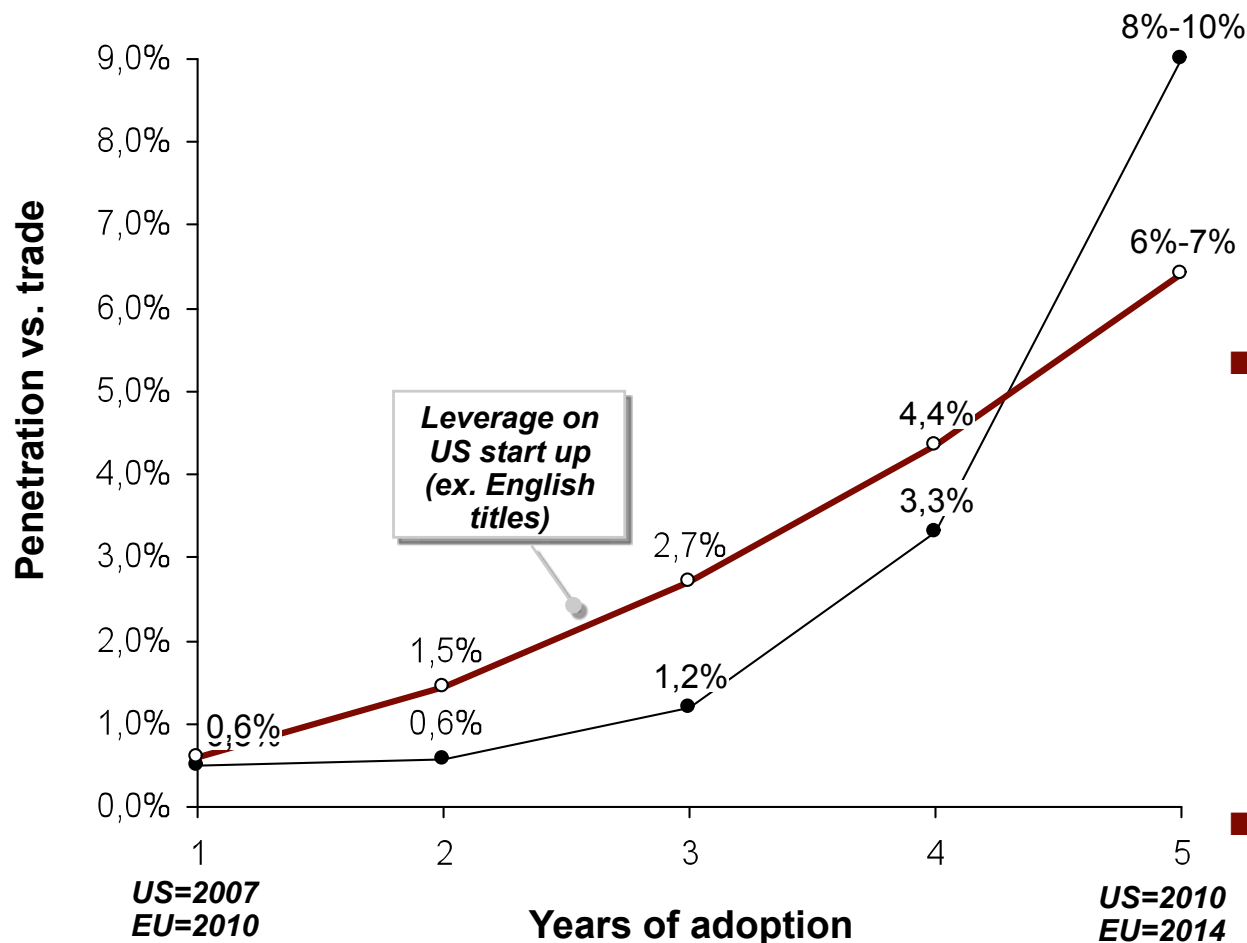
In Europe main enabling drivers for eBook booming are not fully developed

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			
	PB eB	PB eB	PB eB	PB eB	PB eB	PB eB
VAT	0% 19%	7% 19%	5,5% 19,6%	4% 20%	4% 18%	6% 25%
	eBook Penetration	eBook Penetration	eBook Penetration	eBook Penetration	eBook Penetration	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. (%)



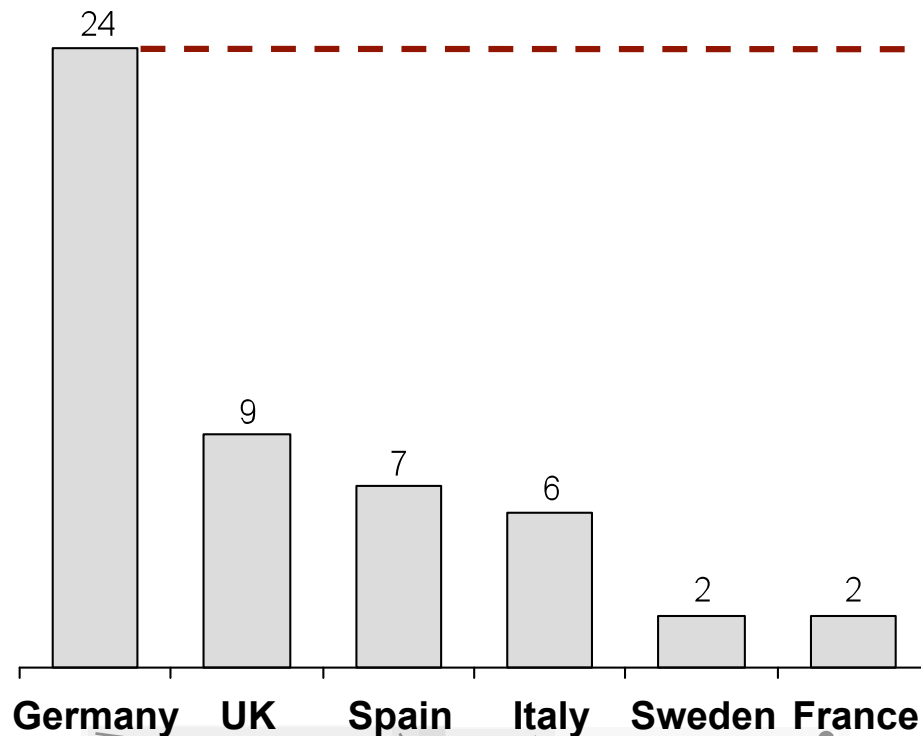
CAGR

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, Librandia, Edigita)

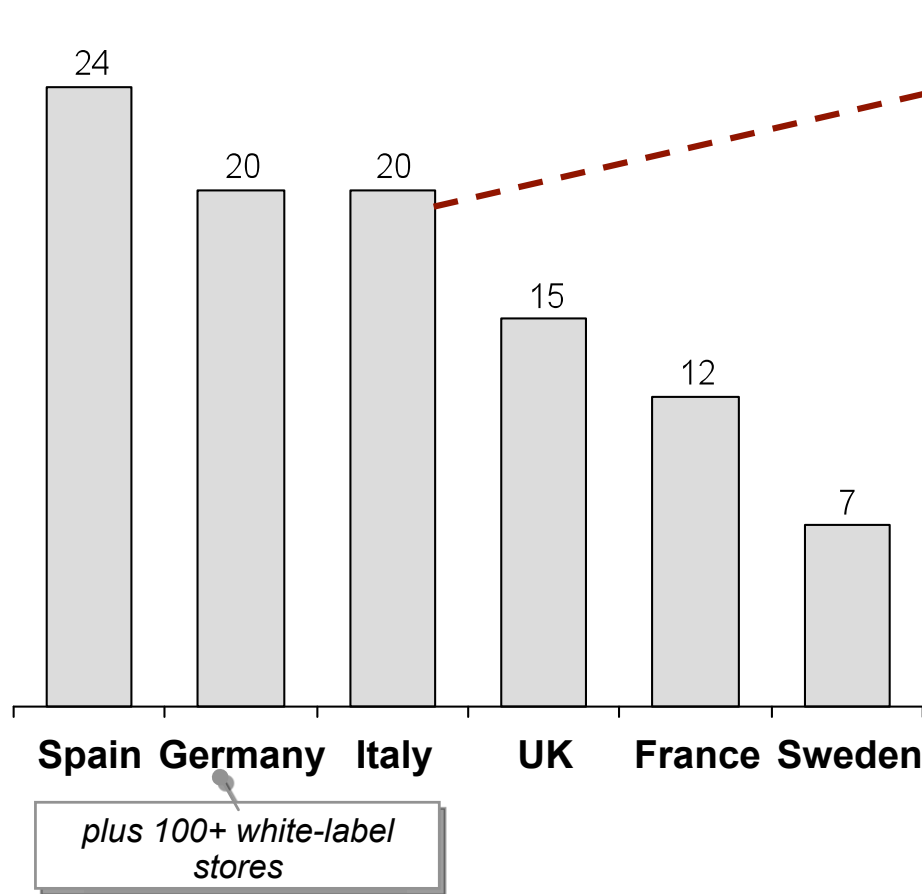
New Business Model: Aggregators in Germany

- 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**

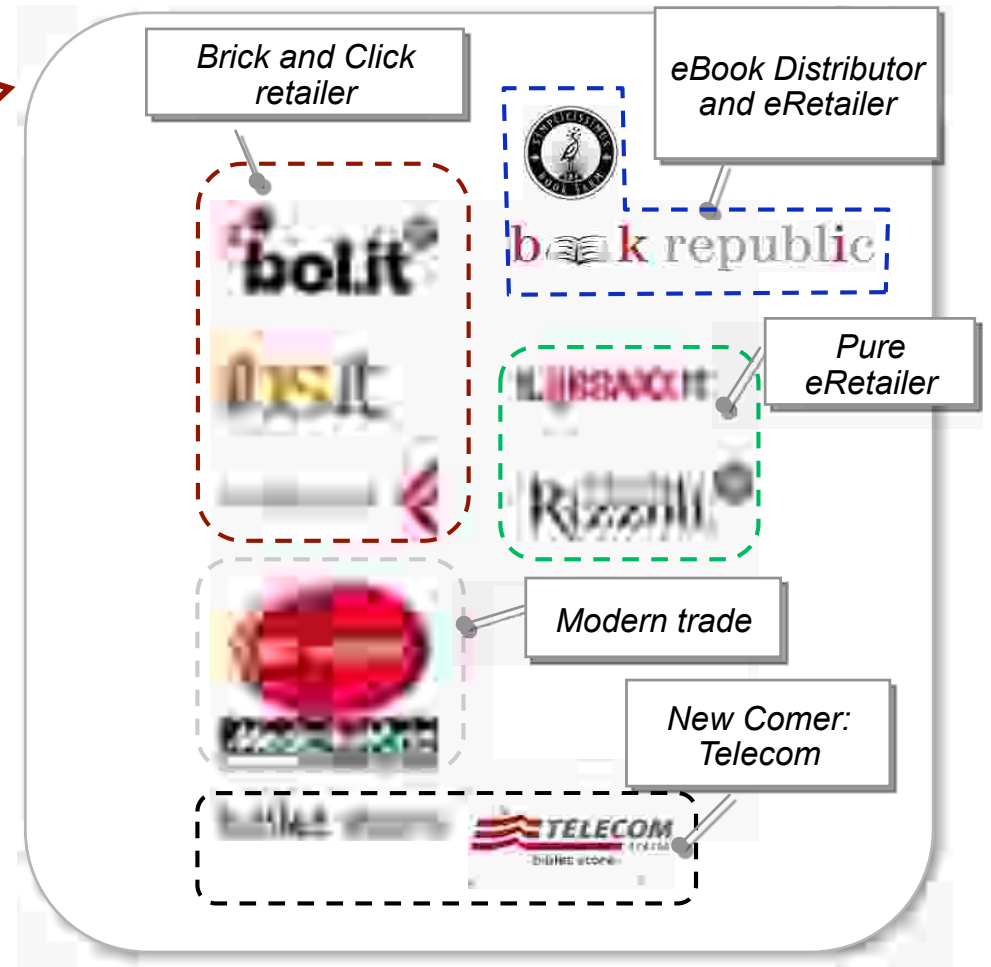


The competition for eBook retailing is coming from different types of players that are entering in the market

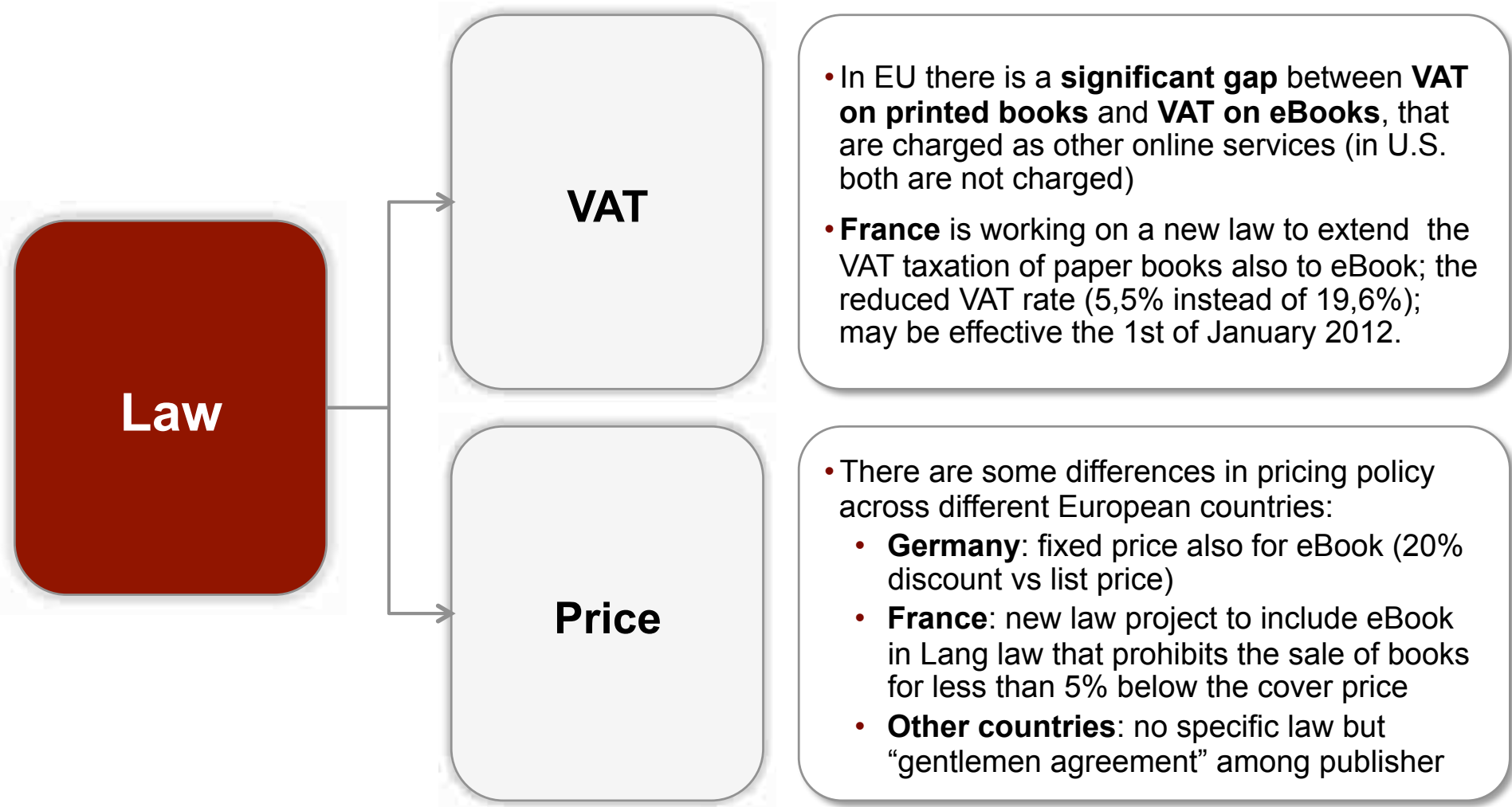
of stores for eBook



Type of eRetailer – Italy clustering

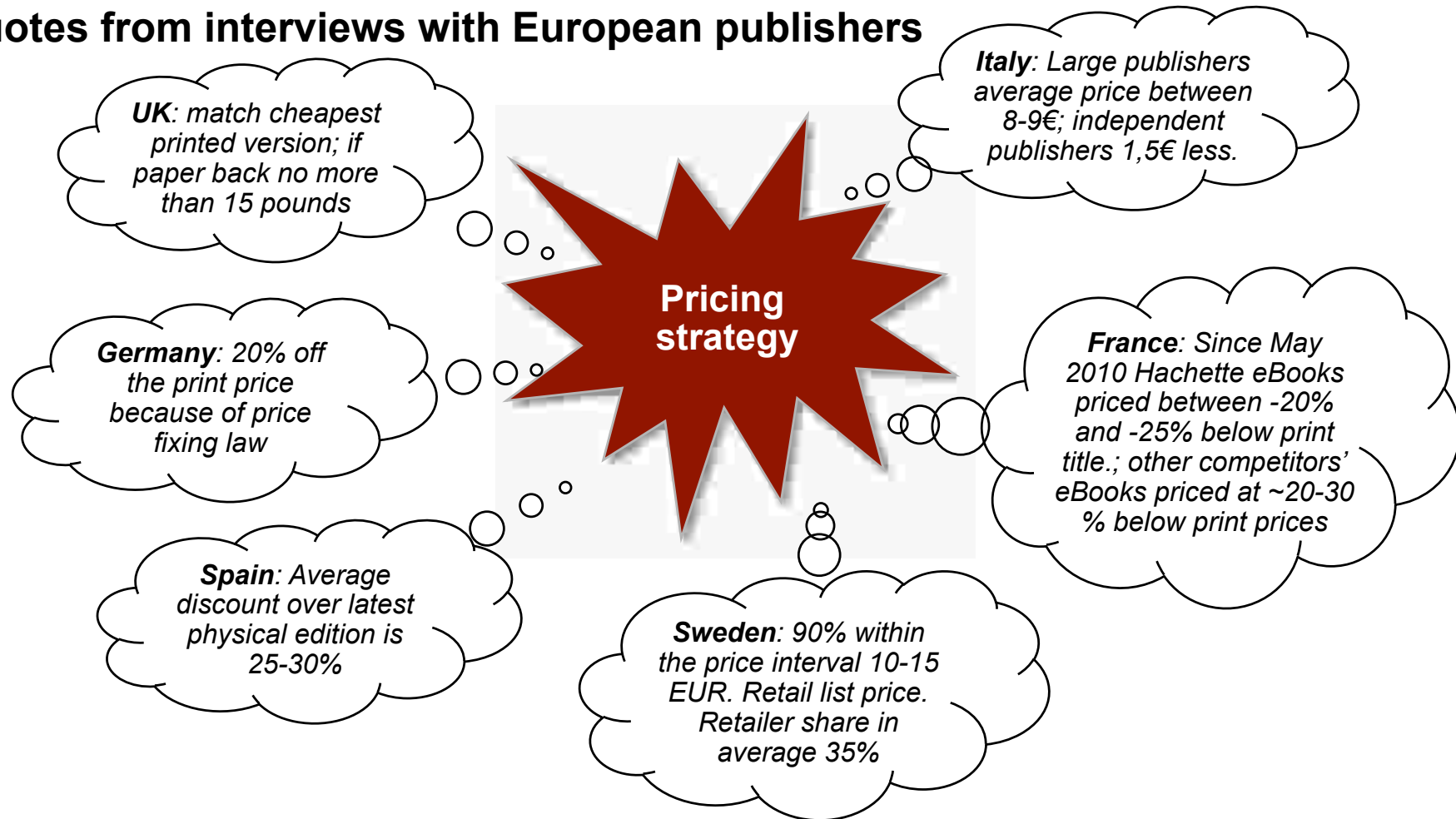


VAT on eBooks is higher compared to printed books and prices are not regulated



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

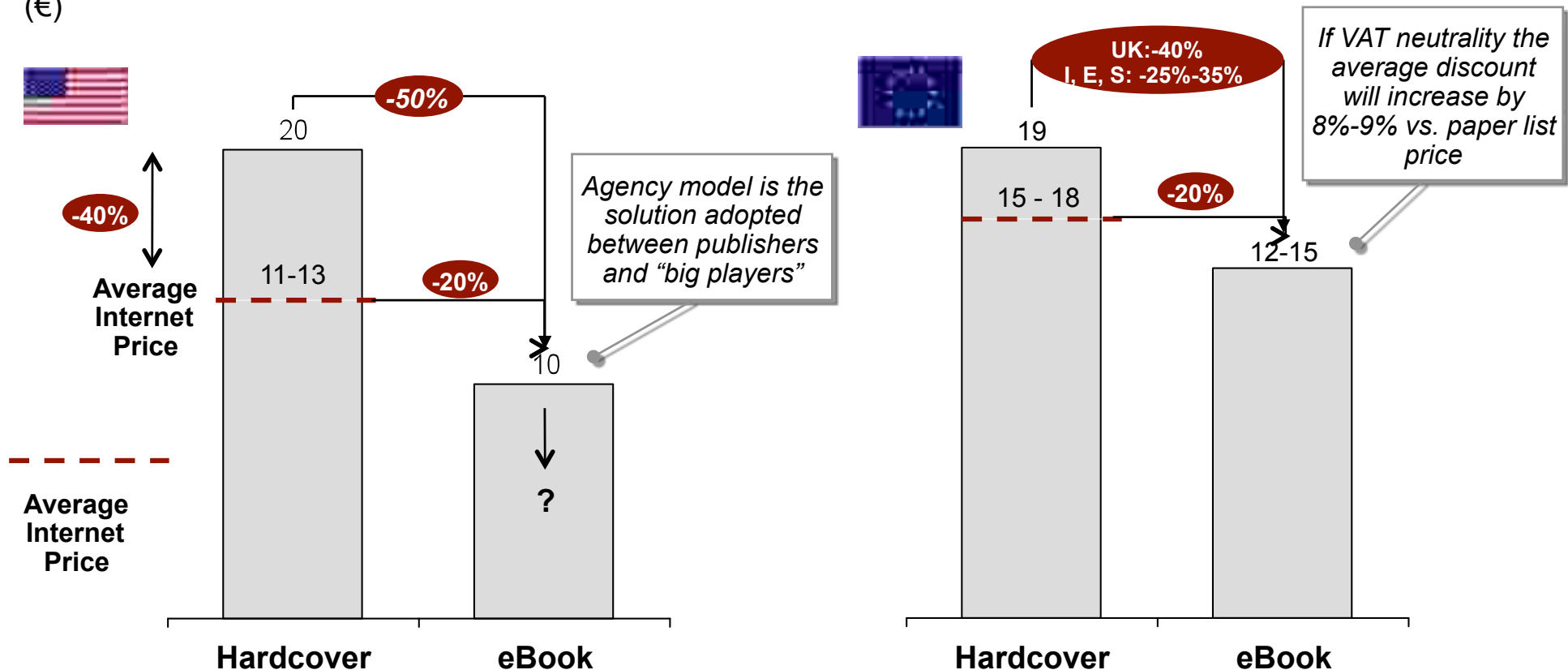
Quotes from interviews with European publishers



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

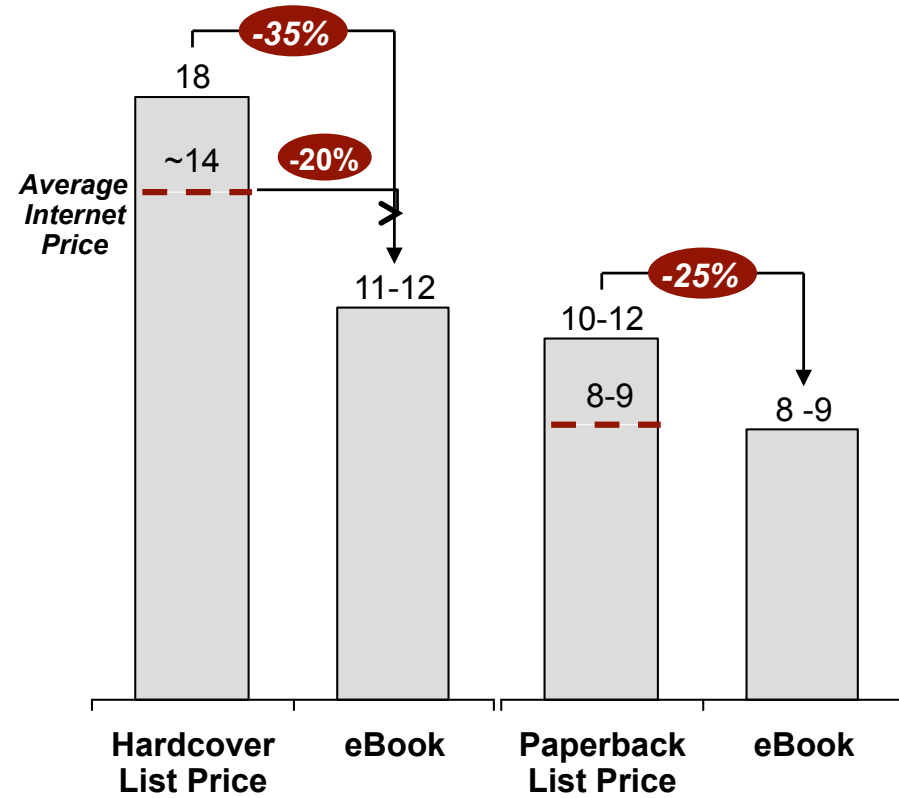
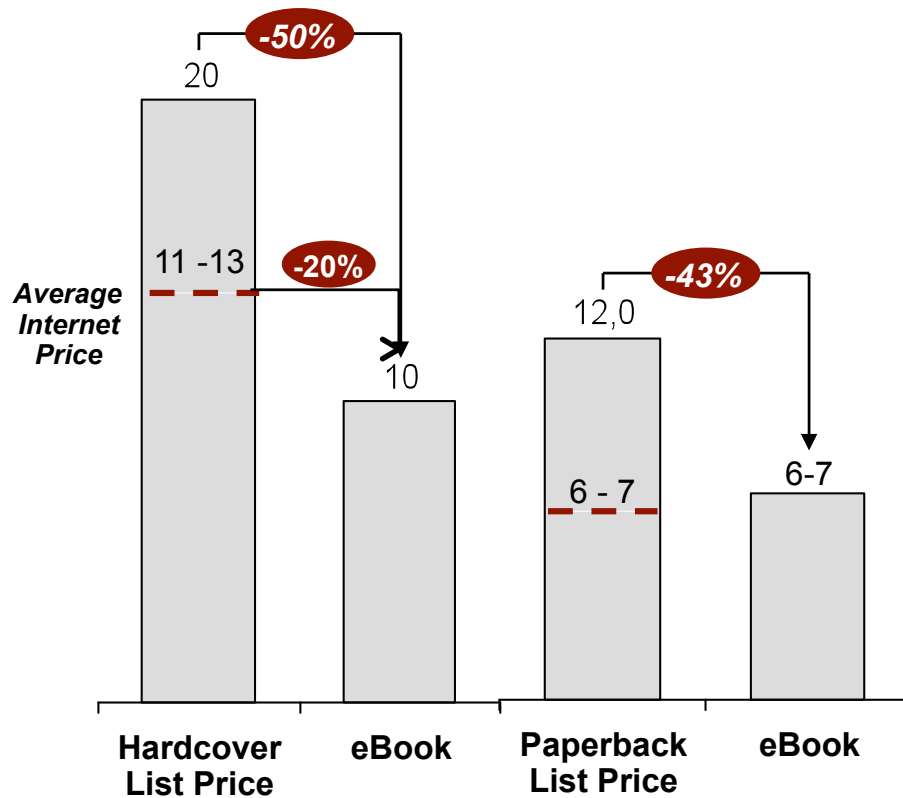
Average hardcover list price vs. eBook (€)



- 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

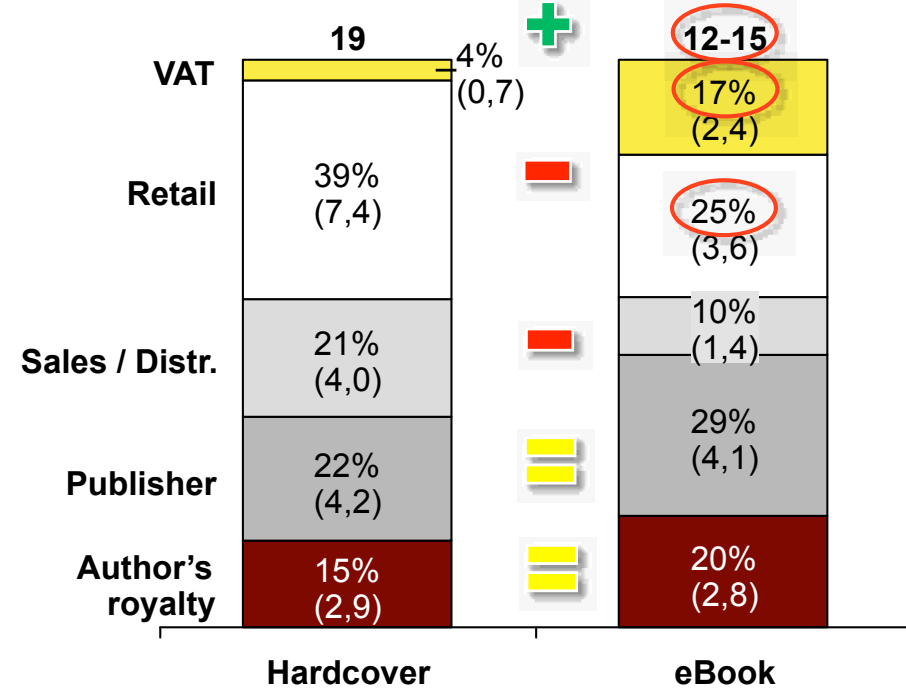
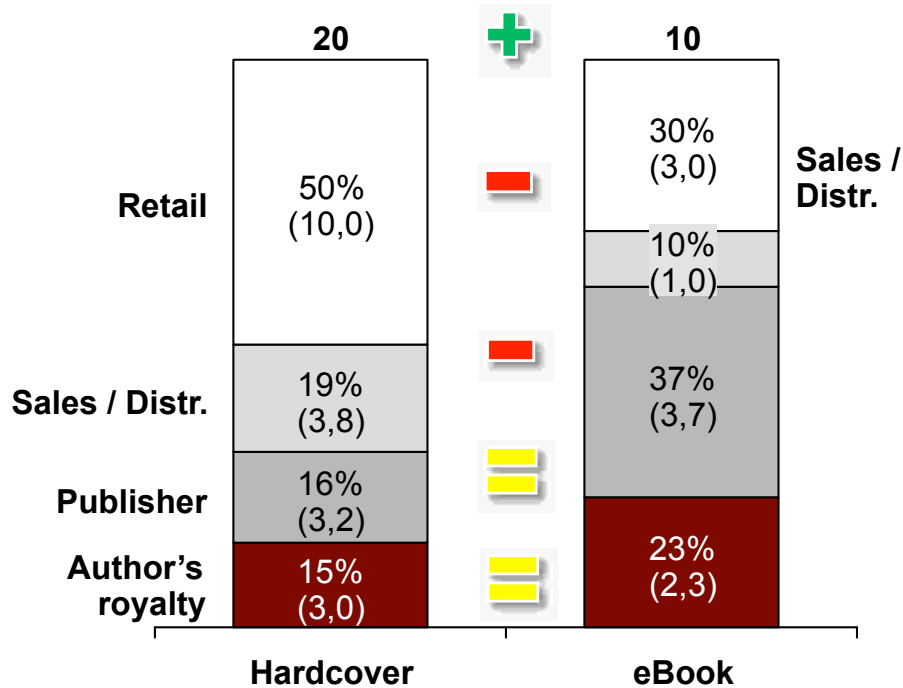
Average hardcover list price vs. eBook
(€ - 20 top sellers)



- 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