



LIVRES CANADA BOOKS®

Digital Exports Revisited

Creating, Distributing, and Monetizing Digital
Content across International Markets

Digital Exports Revisited: Creating, Distributing, and Monetizing Digital Content across International Markets

© Livres Canada Books, 2017
All rights reserved.

ISBN 9781927784891

Published by Livres Canada Books, the national association of the Canadian book publishing industry for promoting export sales.

Prepared for Livres Canada Books by Brian O’Leary. While every effort has been made to report information correctly, the publisher assumes no responsibility for the accuracy of the information supplied by the author, and disclaims any liability for loss or damage caused by errors or omissions. The opinions expressed in this report are those of the author.

Livres Canada Books
1 Nicholas Street, Suite 504
Ottawa, Ontario
K1N 7B7
CANADA

www.livrescanadabooks.com

Table of Contents

Primary Recommendations	1
Primary Findings	2
Overview	3
Context: An Evolving Global Landscape.	3
Preparing to Distribute Digital Content Outside of Canada.	6
The Digital Book Value Chain	6
Content Suppliers	7
Distributors	8
Digital Storefronts	9
Device Suppliers	10
Reader Software	10
A Substantial Customer Base	11
Optimizing Digital Workflows	11
Preparing Your Digital Catalogue	12
Formats, Devices, and Operating Systems	14
Formats	15
Devices	15
Operating Systems.	17
The Impact of Mobile Content Discovery and Consumption	18
Territorial Rights	19
History and Background of Territorial Rights	19
What Were Territorial Rights in Traditional Print Publishing Intended to Do?	19
What Advantages Have Territorial Rights Provided to Publishers?	20
Market Trends.	21
Selling Digital Rights by Territory	21
Retaining Digital Rights and Selling through an Aggregator	22
Current and Future Considerations	23
Are There Downsides with Territorial Rights?	23
Do Territorial Rights as Currently Managed Risk Limiting Sales?	24
Technical Considerations	25

Selling Digital Content Outside of Canada 26
Working with Digital Asset Distributors. 26
Working with Aggregators 27
Direct Distribution to Consumers 28
New, Emerging, or Anticipated Content Delivery Options 28
Optimizing Metadata for International Sales. 30

Market Profiles 31
United States 32
France 33
United Kingdom. 34
Belgium 35
Switzerland 36
Australia 37
New Zealand 38
China. 39

Appendix 1: Detailed Results of a Canadian Publisher Survey 40

Appendix 2: Sources Used to Prepare this Report 49

Appendix 3: Glossary 52

About the Author 54

Primary Recommendations

Publishers looking for opportunities to increase digital exports of Canadian titles should consider these recommendations:

- Canadian publishers that are not already using EPUB should learn about the standard, stay current on its evolution, and optimize their content creation efforts to seamlessly generate EPUB files. This is particularly important now that the International Digital Publishing Forum (IDPF) has combined its operations with the World Wide Web Consortium (W3C).
- Because the cost of app development is typically high, most Canadian publishers should favour ebooks that are extensions of print titles over enhanced versions or platform-specific apps.
- Selling directly to readers makes sense primarily for larger Canadian publishers or those with unique, branded content that can overcome barriers to discovery and access.
- Think globally, as the primary content aggregators are acting that way now.
- Revisit backlist content. Its value may grow in a long-tail sales environment. Some publishers have reported that as much as 60% of their ebook sales come from backlist titles.
- Improve the acquisition and maintenance of both print and digital rights. Most publishers' systems will need to be improved to track and commercially exploit rights available through digital exports.
- Workflows, particularly the effort required to marry content and metadata, must be improved to cost-effectively meet demand for digital content and formats.
- Consider alternative digital-content business models, including the use of subscription pricing, that have emerged in the last several years.
- Prepare metadata for digital products at the same time that descriptive content is prepared for physical products. Creating metadata for physical and then digital products doubles the work and places pressure on trading partners.
- Maintain descriptive metadata in editable formats. Avoid providing copy as PDFs or other fixed-layout options, as this requires rekeying, which potentially introduces errors.
- When marketing copy is ready for the Canadian market, share it with trading partners. Give partners time to review, comment on, and update descriptive metadata.

Detail on each of these recommendations is included in the sections that follow.

Primary Findings

The ebook market continues to evolve, but certain core findings, listed below, apply across the markets of greatest interest to Canadian publishers.

- Since Livres Canada Books first studied digital exports in 2011, exports of Canadian books have become more common. A third of all publishers responding to a survey for this report indicated they now earn more than 30% of their revenues from titles sold outside of Canada.
- Digital book publishing has also become common among Canadian publishers, with only 5% of those surveyed indicating they did not publish digitally, down from a third of those answering in 2011.
- Although most of those surveyed reported earning less than 10% of total revenues from sales of digital formats, a quarter of publishers now gain more than 10% of their revenues from ebooks.
- Demand for ebooks in both Canada's core and emerging export markets has stabilized, with market shares falling between 10% and up to 25% of total unit volume, depending on the type of book. Genres like romance and science fiction/fantasy show higher penetration rates for digital formats.
- EPUB has become the standard for providing content to digital platforms. EPUB is maintained by the International Digital Publishing Forum (IDPF), which in 2016 announced plans to merge with the Worldwide Web Consortium (W3C). This merger took effect in 2017.
- The share of publishers reporting "no problems" in creating digital books has more than doubled. This shift likely reflects efforts by Canadian publishers to standardize ebook creation.
- In describing the primary challenges they face in selling digital books outside of Canada, "content not available in digital form" has declined from 20% to just 3% of those publishers who responded. In a similar finding, the share of publishers who felt they were unsure if they owned digital rights has dropped from 13% in 2012 to less than 2% of those responding.
- Mobile devices such as tablets and smartphones are now the preferred way to consume digital content. The number and complexity of ebook-reading platforms is a challenge that any publisher looking to deliver digital content must continue to address.
- Publishers are increasingly selling format-specific (print, digital) rights. In the 2016 survey, 16% of the responses received indicated they sold rights by format, up from 2% in 2012.
- At the same time, publishers face pressure to sell print and digital rights together. Although the likelihood is lower than it was in 2012, four in ten publishers still report it as a challenge.

Overview

Livres Canada Books is dedicated to developing and increasing Canadian publishers' sales in international markets. As part of its charter, the organization provides market intelligence as well as financial, promotional, and logistical support to Canadian publishers looking for ways to grow their international sales.

Livres Canada Books recognizes that new technologies are changing how publishers must think about creating, managing, and disseminating digital content. Established, often “arm’s-length” models are giving way to more complex decisions about selling and licensing content in international markets.

These decisions are complicated by different penetration and growth rates for ereading in various markets. The time available for making book content available internationally may be growing shorter. If so, that is a trend that would make complex digital workflows a potential impediment.

In 2016, Livres Canada Books surveyed Canadian publishers about their digital export activities to update two earlier reports, *Exporting Digital Books: A Guide to Best Practices for Canadian Publishers* (2011) and *Territorial Rights in the Digital Age* (2012), and provide them with information they need to compete and grow in an emerging digital marketplace.

The results of the survey are included in [Appendix 1](#) and discussed throughout this report. The research provides guidance for markets where export sales have traditionally been strong (the United States, the United Kingdom, and France), as well as trends in other countries that publishers identified in the survey.

Context: An Evolving Global Landscape

When Livres Canada Books first studied the global market for digital content, year-over-year sales of ebook formats were expanding at a rapid pace. In 2011 and 2012, industry observers predicted similar, sustained growth in the number and share of ebooks sold in a variety of markets, including the United States, the United Kingdom, France, and Spain. Five-year predictions made in 2011 estimated that digital books would occupy a third of the market in the United States, a fifth of the market in the United Kingdom, and a sixth of the market in France.

Those numbers proved to be too high. In 2013, the growth rate for sales of digital formats began to slow across almost all markets. By 2015, UK publishers reported a decline in total ebook sales, a trend that extended to other markets (including the United States) in 2016. The share of digital sales is generally thought to have peaked in 2015 between 20% and 25% of all sales in the United States and at lower levels in other international

markets. Although digital sales have continued to increase in some markets, notably France, the growth rates are more modest than those seen during the ebook boom between 2009 and 2013.

In a similar way, the significant ramp-up in ereader adoption all but stopped between 2012 and 2016. The Pew Research Center recently reported that the majority of digital content consumption now takes place on mobile devices—tablets and smartphones. This trend was expected, but the pace of change was surprising. Less frequent readers have come to see multi-function mobile devices as a cost-effective alternative to dedicated ereaders.

Even with the decrease in the growth rate for digital formats, the shift toward digital sales has driven changes in the ways publishers create, promote, price, and distribute their titles. In the last five years, a period during which the number of devices that can support mobile reading proliferated, publishers and digital book retailers converged around EPUB as the most useful format.

Traditional methods of book marketing and promotion are also shifting within the industry. Increasingly, the direct promotion of digital content has given way to effective use of metadata and tagged content to foster discovery. The value of word of mouth has given rise to more refined thinking about organizing content by reader interests (content verticals) and what constitutes critical mass of desirable subject matter. While local market knowledge will always remain important when promoting digital books in export markets, it is also true that reading communities can be geographically dispersed, perhaps reshaping local marketing and distribution roles.

In 2011, most publishers hoped that the price of digital books could be maintained at levels close to what paperback editions garnered, but at that time consumers responded most favourably to target prices that were 20% to 30% lower than that. The demand for lower prices for digital books has continued. If anything, the discounting has become more complex and unpredictable.

An October 2016 study called *Standards in Ebook Pricing in the International Marketplace*, published by eBOUND Canada, found that ebooks sold outside of Canada were typically priced 15% lower than in Canada itself, with occasionally wide swings in local prices. The report characterized international book pricing as “complex, inconsistent and changeable.”

Work done by Peter Hildick-Smith of the Codex Group in 2015 found that on Amazon, the five largest publishers in the United States set a price for digital books that averages US\$10.81. The average price of all other digital books sold on Amazon was \$4.95—less than half what the largest players charge. This significant price variation reflects the impact of agency pricing, instituted in the United States and United Kingdom in 2010. This pricing model has provided a bulwark against the erosion of some hardcover sales, but higher prices may also be contributing to the decrease in digital sales.

Publishers responding to the survey conducted for this report reflected the complexity that eBOUND Canada reported. Among English-language publishers, 58% said they priced digital books below print formats; only 17% said prices were typically the same. A quarter indicated the pricing policy varied, a number that will be interesting to follow in the time to come. Among French-language publishers, pricing below print formats is much more likely (86%), with only 9% indicating that the two formats have similar prices. Only about 5% of French-language publishers reported that their approaches vary.

The eBOUND Canada study recommended that Canadian publishers consider several steps to better manage digital books and international prices:

- ongoing price experimentation
- ongoing promotional pricing for backlist titles
- working closely with ebook vendors to strategize on price experimentation
- conducting careful research on the prices of comparative titles

No matter who controls the pricing decision and the customer relationship, new digital formats with low marginal costs increase the importance of testing prices in various markets. Such testing is now common among retailers and larger publishers, and it can reveal opportunities to increase revenues and enhance profitability while offering titles at a lower price.

Finally, channels are changing. Horizontal distribution has moved to aggregators that include Amazon, Apple, Google, Kobo, and others. Barnes & Noble is an effective option in the U.S. market, but its digital platform has struggled over the last three years. In 2016, UK chain Waterstones reversed several years of investing to extend its digital services, instead signing an agreement with Kobo to handle that service.

The challenge of managing worldwide distribution has increased concern about the risk of piracy. There are at least some indications that piracy of digital content may constitute more of a leading-edge signal of emerging opportunities. If so, publishers will have still more reason to negotiate rights that take into account global distribution. With those rights clearly established, publishers may also benefit by selling directly to consumers or by partnering with vertical aggregators. In all cases, the message is the same: rights need to be simplified to make them easier to act upon and manage.