



Economic Study on Publications on all Physical Means of Support and Electronic Publications in the context of VAT

Annex B: Case studies

TAXUD/2012/DE/339





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1. Tables

Table 1: Market concentration measures: Book publishing and retailing

	Country	Characteristics	HHI ¹
Publishing	Latvia**	4 publishers account for 61.6% of the market. 112 publishers in total.	21.3%
	Germany*	4 publishers account for around 75% of the market. 1,900 publishers in total.	16.5%
	Finland**	4 publishers account for 78% of the market. 304 publishers in total.	16.5%
	Italy***	5 publishers account for 65% of the market. 2,100 publishers in total.	10.5%
	Bulgaria**	2 publishers account for 32% of the market. 302 publishers in total.	5.5%
	France***	12 publishers account for 80% of the market. 225 publishers in total.	5.3%
	Poland*	5 publishers account for only around 40%. 2,100 publishers in total.	3.2%
	Spain*	19 publishers account for 30% of the market. 3,500 publishers in total.	0.1%
Retail	Germany* **	5 retailers account for around 22% of the market. 3,800 retailers in total.	2.6%
	France***	1 (15%) and 4 retailers (50%) of the market. 1,600 retailers in total.	1.1%

Source:

* Figures are from 2004. (Source: European Commission (2004) Publishing Market Watch: Sectoral Report 2: Book Publishing)

** Figures from survey to industry associations.

¹ The Herfindahl index takes into account market shares and the number of market players.

HHI above 25% indicate a highly concentrated industry with low competition. HHI of 15% to 25% indicate a moderately concentrated industry (less competitive). HHI below 15% indicates an unconcentrated industry with higher degree of competition. Finally HHI below 1% indicates a highly unconcentrated and competitive industry. Another way to read the Herfindahl index is: 20% means that the industry is equivalent to one with 5 identical firms. 10% is equivalent to one with 10 identical firms.

The HHIs are constructed on partial data with a lack of comparability. Therefore HHI calculations are only useful if they are triangulated with other data or compared with other results before making conclusions.



*** Figures are from 2011 (Source: European Commission (2012) JRC Technical Reports; The Publishing Industry)

Publishers in total: Figures are from Eurostat.

Table 2: Market concentration measures: Book retailing

	Internet retailers	Bookstores / bookstore chains	Other physical retailers	Institutiona l bodies
EU	4	1	1	-
Latvia	2	3	2	1
French	4	1	2	1
Finland	2	3	4	3
Bulgaria	1	1	1	2
Germany	4	2	1	2
Sweden	3	2	1	-
Poland	4	3	2	1

Note: "Very competitive" = 1, "Moderately Competitive" = 2, "Duopoly" = 3, "Very little competition" = 4

Source: Survey to Industry Associations

**Table 3: Market concentration measures: Newspaper publishing**

	Country	Characteristics	HHI
Publishers	Belgium* (Dutch)	4 publishers account for around 100% of the market	33.4% ²
	Austria*	4 publishers account for 84% of the market. 150 publishers in total.	31.4%
	Finland*	4 publishers account for 100% of the market	25% ³
	Italy**	7 publishers account for around 55% of the market. 390 publishers in total	6.2%
	Bulgaria*	3 publishers account for 35% of the market. 210 publishers in total.	6.1%

Source:

* Figures from survey to industry associations.

** Figures from website of the Italian publisher Mondadori.

Publishers in total: Figures are from Eurostat.

Table 4: Market concentration measures: Newspaper retailing

	Internet retailers	Small retailers	Other physical retailers	Institutional and commercial bodies
Austria	3	1	1	2
Belgium (Dutch)	1	1	1	1
Belgium (French)	2	1	1	2
Bulgaria	-	2	-	-
Finland	3	1	1	1
The Netherlands	1	1	1	1

Note: "Very competitive" = 1, "Moderately Competitive" = 2, "Duopoly" = 3, "Very little competition" = 4

² This measure is being further explored as the information used for the calculation is not in accordance with other data sources.

³ This measure is being further explored as the information used for the calculation is not in accordance with other data sources.



Source: Survey to Industry Associations

Table 5: Market concentration measures: Periodical publishing

	Country	Characteristics	HHI
Publishing	Finland	4 publishers account for 86% of the market. 300 publishers in total.	24.5 %
	Austria	4 publishers account for around 63% of the market. 370 publishers in total.	12.8 %
	Bulgaria	4 publishers account for 17% of the market. 250 publishers in total.	2.5%

Source: Survey to Industry Associations

Table 6: Market concentration measures: Periodicals retailing

	Internet retailers	Small retailers	Other physical retailers	Institutional and commercial bodies
Austria	3	4	4	4
Finland	2	1	1	1
France	1/2	4	-	-
Poland	2	3	3	4

Note: "Very competitive" = 1, "Moderately Competitive" = 2, "Duopoly" = 3, "Very little competition" = 4

Source: Survey to Industry Associations

Table 7: E-book share of the book market (turnover, 2010/2011)

Member state	E-book share
Austria	<1%
Belgium*	1.3%
Bulgaria**	0.08%
Finland**	0.69%
France	1.8%
Germany	0.2-1%
Latvia**	0.06%
Sweden	>0%
Italy	0.04%
Netherlands	1.2%
Slovenia	0
Spain	1%
Sweden**	0.33%
UK	6%



Note: * Data refers to 2011.

Note: ** Information from survey to industry associations

Source: Rüdiger Wischenbart (2011) The Global eBook Market & Industry associations' websites.



2. Annex: Case study 1: The role and impact of associations in the book industry ⁴

This case looks at the role and impact of industry associations on the development of the book industry, and especially the e-book industry. The case includes the German and French book industry associations. One of the reasons for selecting French and German associations is because they operate differently: In Germany, Börsenverein des Deutschen Buchhandels represents 100 % of publishers, 100% of wholesalers and 90% of retailers of books in Germany, hence covering the whole value chain. In France, publishers and booksellers have separate associations: on the one hand, Syndicat National de l'Édition represents 70% of the book publishers; on the other hand, Syndicat de la Librairie Française represents more than 30% of book retailers (both measured in turnover).

The rationale for having a unique association in Germany and several associations in France is rooted in history. The German association argues that there are advantages of having a joint association, in terms of capacity and power. However, it is acknowledged that representing diverse and sometimes contradicting interests of members does not come without difficulties. The French associations acknowledge that diverging interests constitute an argument for having separate associations for publishers and retailers, but they also agree that there must be some advantages in terms of capacity and power of having a joint association.

Members of all three associations widely reflect the composition of the national industries. In France, the Syndicat National de l'Édition only represents independent book shops (large and small) but not the media chains or supermarkets who are also retailers of books. In spite of differences in organization and coverage, the overall role of the associations is very similar; they represent the interests of their members and work to ensure a good legal, economic and technological environment for the industry. However there are slight differences in the way the associations do this. More on this in the paragraphs below.

These associations are very active in promoting the interests of their members. One of their main roles is to help members with the implementation of the fixed price regulation. For instance, both German and French associations look into fixed price compliance issues and if necessary take legal action against those who violate the law, even though they might be members of their own association. In France, the booksellers association also mentioned that they are supporting price negotiations through framework agreements between booksellers and publishers (e.g. to negotiate a general increase in price in favour of booksellers in order to offset a steady increase in operating costs).

All associations provide direct services to their members: marketing campaigns to promote reading, economic studies and counselling, capacity building activities and training, IT systems and logistical platforms. This is particularly striking in the case of the German association, most probably due to its size and regional presence. The German association has a large staff dedicated to assisting members, and has regional

⁴ An interview with a French publisher has yet to be conducted.



branches all over the country, whereas the French associations are smaller and centrally located in Paris.

The associations have a significant impact on the industry through their activities on the political and legislative levels. In France, one major achievement includes the new law that regulates e-book prices since November 2011. Another achievement is the financial programme announced by the French government in March 2013 in support of independent booksellers, as a direct response to some propositions formulated by the bookseller association during the last election campaign. Also, in both countries, the book industry associations have been active in advocacy on VAT rates.

The impact of the association upon members' performance and organization is however less tangible, although assessed positively by the members interviewed. The promotional activities of especially the German associations are mentioned to have a particularly positive economic impact.

All associations are working actively to promote the digital format, both at political/legal and the business/ member level. Support activities include awareness raising and capacity building actions (e.g. training members to deal with new technologies, support to website design etc.). In addition, both French and German associations are involved in the development of open distribution platforms for e-books, to compete with major online players and gain some of the growing revenues of the e-book market. The German association was responsible for launching a distribution platform for e-books called Libreka which is also open for foreign publishers to sell e-books through. Similarly, the French booksellers' association is currently involved in a European project aiming at developing a cloud-based platform for e-books, in partnership with large telecom companies. These efforts are praised by the interviewed members, as they contribute to both increasing the competitiveness and capacity to innovate of the "traditional" players in the book market.



3. Annex: Case study 3: Reaching customers on the e-book market ⁵

The case identifies the different ways players of the supply chain have restructured their business and vertically integrated to reach customers on the e-book market.

Traditionally, print books have been distributed through wholesalers and retailers. This has not fundamentally changed with the publishing of e-books, but the retail step in the supply chain has become very dynamic with the rise of e-books. Amazon has a strong position – it is estimated that Amazon’s market shares in the UK have reached 90% of the e-book market – but traditional and new players are developing vertical integration strategies to reach the end-consumer directly. Meanwhile, the challenges are not logistical anymore, but technological, with a strong focus on the consumers’ experience online.

With the e-book format, it has become easier for authors to reach the consumers directly through retailers, hence avoiding publishers. Amazon, for example, offers the Kindle self-publishing services to authors which includes a favourable royalties program (70% to the author).

While retailers try to circumvent publishers, publishers are also establishing their own e-book distribution/retail outlet (vertically integrating in the supply chain), and by doing so they can reach the consumers directly. An example of publishers who have established their own e-book distribution platform is the Italian publishers RCSMediagroup, Il Gruppo Messaggerie and Gruppo Feltrinelli who created Edigita. The purpose of the Edigita platform is to support publishers in order to promote the e-book format and hence the development of the e-book market. Similar examples can also be found in France, Spain and Germany. ⁶

Traditional wholesalers are also including e-books in their catalogues, and they are pursuing vertical integration strategies to reach the consumer directly and secure their share of the market. In the UK, a wholesaler called Gardners has vertically integrated within the supply chain and is reaching customers directly through an online platform called Hive, while still supporting the traditional booksellers in the industry. The local booksellers nearest to the customer receive remuneration on products when local customers makes purchases online, regardless of whether the customer chose to have their order delivered or pick it up at the nearest book store (however a higher amount in the latter case). The conditions of the agreements between Hive and the booksellers have been developed by Hive but with input from booksellers. More than 360 booksellers are currently members of the Hive network. ⁷

⁵ An interview with a book publisher has yet to be conducted.

⁶ European Commission (2012) JRC Technical Reports; The Publishing Industry.

⁷ Articles from The Bookseller;

<http://www.thebookseller.com/news/gardners-hive-responds-feedback-indie-offer.html>,
<http://www.thebookseller.com/news/gardners-hive-launches-350-indies-board.html>,
<http://www.thebookseller.com/news/indies-could-earn-30-books-sold-gardners-hive.html> & Gardners/Hive (2013) Selling e-Books – Gardners/Hive. Used for EIBF conference in May 2013



Traditional booksellers are also trying to establish themselves on the e-book market. In Germany, traditional players, Thalia, Weltbild, Hugendubel and Club Bertelsmann have set up Tolino, a new e-book retail platform and e-reader which is to compete with Amazon's Kindle and Kindle Store and Apple's iPad and App Store. The platform includes around 300,000 e-book titles, which according to the players represents approx. 40% of the German e-book market.⁸

In this context, the key challenge is to attract consumers, and for this the usability of the online platform is essential. For example, Amazon is constantly working on making themselves an attractive choice for publishers and authors for the distribution of e-books (and books and other media products alike) and they do so by ensuring a strong customer focus and optimizing the buying experience when using Amazon. Optimization is done within three areas: increasing selection, ensuring good prices and making the shopping experience convenient for customers. Examples of customer convenience are optimization of search algorithms, supplying book recommendations, ensuring easy downloads and compatibility with multiple reading devices. Amazon's efforts to improve the customer experience seems to be paying off as the company enjoys a large market share. New players have emerged to offer publishers, wholesalers and retailers new solutions to handle the distribution and sale of e-books. Striking examples are Numilog in France, and MVB/Libreka in Germany.

Numilog in France is set up by the publisher Hachette Livre. Numilog is a wholesaler of e-books but also a retailer selling directly to readers and a store provider who has developed an app, the Club Reader, which can be used on PC, iPad and Android.⁹

Libreka is a distribution platform set up by a division of the German industry association, Börsenverein des Deutschen Buchhandels for publishers and booksellers.¹⁰

In this context, publishers generally mix and match distribution channels for e-books, as is the case for print books. Multiple agreements are established between publishers, wholesalers and retailers for the sales of publishers' e-books. By doing so, they increase the availability of their products and potentially maximize their sales.

The impacts for publishers of entering into an agreement with a retailer about distribution and sales of e-books are unknown. Performance and profit of both publishers and retailers are more dependent on the price setting mechanisms. Generally Amazon prefers the retailer model as they are then free to set prices according to the expectations of readers (under consideration of the wholesale price). This does sometimes result in lower per unit price and profit, than if prices were set by the publisher, but it is beneficial for overall sales and revenue of e-books. It should also be noted that the prices of e-books are less regulated than the prices of print

⁸ Article from Publishing Perspectives: <http://publishingperspectives.com/2013/03/german-powerhouses-launch-tolino-e-book-platform-to-take-on-amazon/>

⁹ European Commission (2012) JRC Technical Reports; The Publishing Industry.

¹⁰ Interviews with industry stakeholders, Libreka! website & MVB (2013) International distribution of digital content with libreka! Used for EIBF conference in May 2013.



books (which is regulated in almost all countries), which gives more possibilities to retailers to adapt their prices.

Impacts in terms of organizational changes are considered rather low for retailers. Typically it is not a matter of entering into an agreement with a new publisher but of making agreements about new books with publishers with whom the retailer already has a business relationship (e.g. for distributing and selling print books). However since the e-book is a new format, the specifications of the agreements are different.

The emergence of e-books in general has required some organizational changes for retailers. For Amazon, one of the specific changes has been in terms of selling reading devices. The production of the Kindle and the distribution of it and other reading devices have affected the organization of Amazon as Amazon has changed from being a retailer and distributor to being a production company as well.



4. Annex: Case study 4: Impacts of pure online players on the market and industry ¹¹

This case study examines the impact of pure online players on the market and industry of books and e-books. The study is conducted through interviews with publishers, taking the online player Google (GoogleBooks and Google eBooks) as a starting point of discussion of the impacts.

GoogleBooks was launched in 2004 as a digital library. Today, GoogleBooks offers scanned versions of books online. Depending on the permission given by the publisher or author, a full or limited preview of the book is available. The scanned books are accompanied by links to pages from which a print book or e-book can be purchased. GoogleBooks does not sell the books itself but generates revenue in advertising. The majority of the European and American industry considered the project a violation of intellectual property rights. The industry therefore responded to the GoogleBooks project through a defensive strategy which resulted in the Google Settlement.

The Google Settlement states which books Google is allowed to make available online. However the settlement was rejected in the US court in 2011 as the settlement was judged to give Google the ability to exploit books without permission of owners. ¹² The settlement has since then been renegotiated and a new settlement was made in 2012. In general, European publishers have not allowed Google to scan their books. However some European publishers are beginning to show an interest in letting out-of-stock books be scanned. Overall, GoogleBooks there is not evidence that GoogleBooks has directly affected the European book market. There have however been indirect impacts.

One indirect impact is the perception of consumers of e-books. GoogleBooks contributed to the widespread idea that e-books should be cheap products, and largely free of charge for readers. This lowered the expectations on prices and the willingness among readers to pay for e-books. This perception is considerably hindering the growth of the e-book segment, as e-books are generally considered too expensive by consumers. On a similar note, interviewees are also concerned that initiatives such as GoogleBooks encourage fraudulent behaviour.

On the other hand, interviewees also believe that the initiative might affect consumer reading habits and preferences, as it promotes e-books. In this sense, Google may well have stimulated growth of the market.

In 2010 Google launched Google eBooks which sells e-books for download. Google eBooks thereby expanded the business model of Google in the book market from free distribution of scanned books to retailing. This reflects a strong tendency in the publishing market, where players are striving to increase revenues generated on sales. Google eBooks is currently only available in the US.

¹¹ An interview with a publisher has yet to be conducted.

¹² The Wall Street Journal:

<http://online.wsj.com/article/SB10001424052748704461304576216923562033348.html>



Currently Google is not considered a major player in the book industry in Europe or in the US, compared to Apple and Amazon. However, it is recognized by the interviewees that Google is likely to enhance its position on the market in the future, with Google eBooks being a first step towards becoming a major online player in the book industry. Since Google is a global player with a positive consumer brand, it will most probably become an important competitor for booksellers, similar to Amazon and Apple.



5. Annex: Case study 5: Mixed business models in newspaper publishing

The case investigates how and why traditional Danish news providers do business in both the print and the digital market, whether the mixed business model is sustainable and how it is expected to develop in the future. The mixed business model consists of a news publisher offering both print and digital newspapers. Digital products include a digital version of the printed paper (PDF or tablet/app version), free website and paid-for website. Over the years, most traditional publishers have developed a digital offer, and the mixed model is currently a dominant one.

Many examples of mixed newspaper publishers can be mentioned, e.g. Sanoma (Finland), Der Spiegel (Germany), The Stampen Group (Sweden), GMG Guardian Media Group and many more. This particular case study has taken three Danish newspapers as a starting point; Berlingske, Børsen and Jyllandsposten.

The PDF or tablet versions of the newspaper typically have the same contents as the printed newspaper. A few additional functions are available, e.g. search functions, archives and links to advertisers' homepage, and it is available earlier in the day for the reader than the print version. This kind of digital product has been available since the 1990s. The tablet version has only been available in more recent years since the smart phone and tablets penetrated the market.

Publishers' website contents are to some extent free of charge and to an increasing degree protected by a pay wall. The protected (paid-for) website contents are premium as the content differs from both the free website and the print or digital (PDF or tablet) versions of the newspaper. Content is exclusive, goes more in-depth, and includes more media content to support the written news. Also it is updated many times a day. Premium content is a fairly new digital product for most publishers.

Content is available to consumers in many different formats. Two of the publishers interviewed as part of this case study use a range of subscriptions and single copy sales: print only, digital only, print and digital bundled together. A third publisher interviewed offer a bundled subscription only. Premium website content is offered as a stand-alone subscription and/or bundled with other products.

The motivation behind the dominant mixed business model is mainly to service existing readers and adapt to new ways of consuming news. Digital products have become a necessity so to speak. At the core of the mixed business model is the opinion that the news is the main product and should be provided in the preferred format of the readers. Readers currently prefer the printed format over the digital, which is reflected in the shares of print and digital subscriptions of the interviewees. Paid-for digital products seem to be the next step after free digital contents. Evolving demand is reflected in the increasing availability of news on multiple platforms to accommodate the reader and also in the applied business model, where the digital products so far have been to a large extent a free add-on to the print subscription.

It should be noted that the motivation behind the mixed business model is to attract new digital subscribers. Subscription numbers have increased more rapidly in recent years, reflecting growing demand for news in the digital format.

Direct revenues on digital products are currently limited, as digital subscriptions only constitute a small part of the subscription base and much digital content is still free of



charge (increasingly less so however). In addition, digital advertising revenues are very limited, due to strong competition and a pricing model based on traffic rather than image.

There are additional costs of publishing the digital products. These include content management systems, hosting and updating the website, converting to the right format, producing news which are suitable for the digital format, marketing etc. Costs also include on-going organizational adjustment to be able to cope with the changing business model. Two of the interviewees explain that they started with separate divisions for digital and print and as the products have become increasingly intertwined so has the publishers' organization. In this regard, pure online players have an advantage of not having to cope with an established and rigid organization.

Interviewees differ in their statements on the profitability of digital products. Whereas one points to low marginal costs of production which is likely to cover investment costs when the market takes off fully, another states that the cost savings compared to the print format roughly covers the lower advertising revenues.

A sustainable business model is yet to be found. The challenge for publishers is to provide a digital product that brings value to the reader and for which readers are willing to pay. This would enable publishers to become less dependent on (or independent of) advertising revenues as these are declining in the print market and are very small in the digital market. Most interviewees point to higher VAT on digital products as a challenge for market development as this makes the product more expensive compared to print in the eyes of the readers. One also remarks on the compliance costs of applying two different kinds of VAT on mixed products. Also, there is no consensus on how a reduction of VAT would be used, as at least one interviewee mentioned that rather than decreasing prices on digital products, a publisher may want to improve the digital products and their availability.

Quality paid-for contents available on multiple formats (i.e. tablets, browsers) are very likely to be the core of the mixed business model in the future; however the interviewees cannot confirm this for sure. In this sense publishers are moving from having one paper in two formats (print and digital) to having a range of formats. However the interviewees still view the overall product as the same – namely the news.



6. Annex: Case study 6: Impact of online news aggregators on traditional news publishers¹³

The case study investigates the view of traditional news providers on digital news aggregators and the impact the aggregators have on the market and industry. Digital news aggregators are news providers who do not create news but aggregate and display content from news publishers' websites, typically in the form of a headline and a short description to provide an overview of the particular article. For more information, readers must enter the actual publishers' webpage.

Publishers generally see online news aggregators as disloyal competitors, who reuse the news products elsewhere to generate revenues from advertising without generating any value for the readers. In this sense aggregators are impacting on competition for advertising revenues which are very low in the digital market. Also, publishers consider aggregators' practices to be detrimental to the overall quality of the news that can be found on the internet. This contributes to lowering consumer preferences and willingness to pay for quality journalism. In that respect, the strategy of the news aggregators is likely to affect the competitive environment in the digital industry. Competition is already thought to be stronger on the digital market due to competition from other digital media (e.g. TV channels), not only nationally but also internationally. The industry is therefore facing increased competition and decreasing revenues.

The majority of the interviewed news publishers do not allow aggregators to aggregate their news, but usually aggregators do not ask permission. One of the interviewees pointed out that they actually spend significant amounts of time and effort checking aggregators' websites and demand the removal of their news where it has been reused by aggregators.

It is acknowledged that news aggregators bring some traffic to the news publishers' websites as the aggregators, which include Google News, Yahoo News, MSN news and also players like Facebook, Twitter and LinkedIn, are successful in catering to readers. Although increased traffic positively affects the traditional news publishers' revenues generated on advertising, most publishers remain reluctant to let their news be aggregated. According to one interviewee, this can be explained by the fact that publishers want to build close reader relationships which are not possible with the aggregator as a middleman. One of the interviewees reported receiving the vast majority of website traffic directly and not through other websites, whether aggregators or search engines, and the interviewee would like to see it stay that way.

Another perspective on this issue is that most publishers' strategy is to develop a payment business model, which is likely a more profitable and sustainable business model than an advertising supported model for the digital products. Publishers don't consider that the revenue generated by increased website traffic does not compensate for the fact that aggregators "educate" consumers to free news over the long term. It is however acknowledged that while a strategy of increasing revenues on internet

¹³ Two interviews with newspaper publishers' associations have yet to be conducted.



advertising is not viable for the larger newspapers, smaller newspapers might benefit from letting aggregators use their news as this increases visibility and traffic.

One interviewee has a somewhat different view on aggregators and sees them as a means of "advertising" the news of the publisher. Aggregators direct traffic to the website of the publisher and thus provide the publishers with the possibility of gaining new subscribers if the publishers are ready to seize the opportunity.

Impacts of digital news aggregators are likely to differ depending on whether the services of the aggregators are commonly used by readers. In both Finland and Sweden this is not the case despite high digital readership. According to the interviewees this is due to strong national brands in Finland and Sweden, national preferences for the native tongue and the current low importance of the digital aggregators on the market. However in these countries the impact of the aggregators on the competitive environment is still felt.

