

# **The Impact of the Internet and New Technologies on the Book Retail and Publishing Industries in the United States**

Jim Overman, Internet/Technical Coordinator  
Consortium Book Sales & Distribution  
St. Paul, Minnesota, USA

## ***Size of the Book Market in the United States***

In the year 2000, the size of the book market in the United States was approximately \$25.5 thousand million. Of that figure, internet sales represented approximately 5%.

## ***Two Models of Internet Book Retailing***

Since the beginning of the retail of books on the internet in the early 1990s, two primary business models have emerged: the strictly virtual bookstore and the “clicks and mortar” combination of virtual and physical stores. These models are also found in other retail ecommerce.

### **Strictly Virtual Model**

The strictly virtual bookstore is a store that only exists on the internet. The best known of these stores is Amazon.com, which began selling books on the internet in 1995.

The advantages of an entirely virtual bookstore include:

- 1) The ability to offer a wider selection of books. Large bookstore in the United States, including the chains, will often carry between 35,00-100,000. Amazon, however, carries nearly all books in print (available), approximately 2 million.
- 2) The ability to sell books in any location and 24 hours per day.
- 3) Lower operating cost. A virtual bookstore does not have to build or rent store space. Also virtual bookstore do not require as many employees. However, some of these cost savings are offset by the cost of servers and internet programming.
- 4) “Just on Time” inventory management. Virtual bookstores use just on time management to fulfill orders. As most of the 2 million or so titles do not have great demand, a virtual bookstore will not warehouse these titles. Rather, when a virtual bookstore receives an order for a non-warehoused title, it contacts the publisher, wholesaler or distributor to deliver the book. In some cases, a distributor or wholesaler will package and send the book directly to the consumer labeled as a sale from the virtual bookstore. This allows the virtual bookstore to save on inventory and warehousing cost while still offering a wide selection of titles.

Disadvantages of a virtual bookstore include:

- 1) The consumer base is limited to those with access to the internet. However, the number of internet users is steadily increasing and internet users tend to have a larger disposable income and spend more books.
- 2) Virtual bookstore need to create name recognition, in particular their URL or web address. This requires a coordinated marketing campaign utilizing advertising and various web promotions.

- 3) Many consumers do not have confidence in the security of internet transactions. This distrust is diminishing, however.
- 4) In some cases, employees of virtual bookstores lack of experience in the book market.

Amazon.com, the largest and best known of the strictly internet bookstores has yet to show a profit and is under considerable pressure by the stock market to do so. In response, Amazon.com announced a layoff of 10% of their workforce (about 1,500 employees). However, one reason Amazon.com has not shown a profit is because the company has made significant investments in other virtual stores such as Music, Videos and DVDs, Pharmaceuticals, and Hardware. Amazon.com is intending to create a “virtual shopping mall”.

### “Clicks and Mortar” Model

The “clicks and mortar” model, also know as “clicks and bricks” is the combination of a virtual store (clicks) and a physical store (mortar or bricks). The best known bookstore of this model is barnesandnoble.com, the virtual bookstore of the US’s largest bookstore chain, Barnes & Noble.

The “clicks and mortar” model has existed since the early days of the internet, however, it has gained a lot of recognition lately as many major national retail chains have launched their retail web sites over the last two years. This model is considered something of a second wave.

A “clicks and mortar” store has certain advantages over a strictly virtual store:

- 1) Support from an established, and often well-known company.
- 2) Opportunities to mutually promote the physical and virtual bookstores. Often if a physical store is out of, or does not stock, a title, the sale can still be made by referring the customer to the internet. Also, many customers will “browse” online and bring a printout to the physical sale to make the purchase.

However, the “clicks and mortar” stores are also under pressure to show a profit. Nonetheless, this model is considered to have the most promise.

## ***Controversies Resulting from Internet Sales***

### Sales Taxes

In the United States, sales taxes are the jurisdiction of state and municipal governments. Sales taxes as not assessed on sales made and delivered to residents of other states. Thus when most Americans purchase a book on amazon.com or barnesandnoble.com, they do not pay sales taxes. Owners of physical stores claim this is an unfair discount internet retailers can offer their customers.

Taxation of internet sales is not likely to begin in the near future. The Clinton administration supported legislation prohibiting taxation of internet sales for at least 5 years as a means of promoting ecommerce. The Bush administration is unlikely to change this policy.

## Rights

Virtual bookstore can potentially sell books anywhere in the world. This can create problems regarding publisher rights. For example, if a Spanish citizen purchases a book on a US virtual bookstore, he or she may be purchasing a book for which the right of sale in Spain belongs to a UK publisher.

## Censorship and Other Restrictions

The ability to sell books anywhere in the world may create conflicts when a citizen of a country attempts to purchase a title from a US internet bookstore which is banned in his or her country of residence. The most famous case of this is the German restriction on the sale and importation of *Mein Kampf* by Adolf Hitler.

## ***Publishing Houses and the Internet***

US publishers have made active use of the internet to sell and market their books. Many have attempted to sell their books online. These efforts have had only mixed success at best. Emphasis is shifting from consumer retail sales to business to business (B2B) sales.

Online marketing has been a much more active area for publishers. The internet offers numerous opportunities to present titles to selected audience. Marketing tools used to promote titles include: banner ads and the extensive posting of sample chapters and cover images on both their own sites and the sites of internet book retailers.

## ***Other New Technologies and US Publishers***

### Print on Demand

Print on Demand (POD) is a new technology which is quietly having a major impact on the US book printing. Books can now be printed in small quantities at an affordable unit cost. Using print on demand technologies, books can be printed in approximately one minute with quality almost identical to traditional printing methods.

With a large print run, traditional offset printing is still cheaper per unit (approximately \$2.50 for a 250 page paperback), however the print run needs to be at least 2000 copies to gain sufficient economies of scale. Using Print on Demand, the same title can be printed for approximately \$4.00 per title with no quantity requirements to gain economies of scale.

The advantage to Print on Demand is the ability to either publish or reprint books for which there is demand smaller than the necessary 2,000 required to gain sufficient economies of scale with traditional offset printing. Thus an older title does not have to go out of print (unavailable) and low demand titles can still be published. In fact, many previously out of print titles are coming back into print via Print on Demand technology.

Another advantage is that publishers do not have to commit large sums to print runs which many last for numerous years. They also save on warehousing cost. Another possible savings is reducing shipping cost and time by having print on demand facilities located through out the United States. This is another example of “just in time” inventory management.

One vision for the future of bookselling is a physical store in which the customer's request is printed at the store while the customer waits. In the case of an internet bookstore, a customer could have the option of having the book delivered or could pick it up later that day at a local photocopy shop.

Print on demand also makes personal publishing affordable. Thus, many titles will be published outside of the traditional author-publisher model. While this opens new opportunities to publish books, the "fact-checking" and editorial roles of the publisher is still considered to be important. Web sites that offer personal publishing via print on demand include: [fatbrain.com](http://fatbrain.com) and [iuniverse.com](http://iuniverse.com).

## Electronic Books

While electronic books (ebooks) have existed as long as the personal computer, it is only in the last few years that publishers and internet retailers have begun to embrace the technology. Many large players in software and book retailing have entered the ebook market, including: Microsoft, Adobe (makers of PDF software), [barnesandnoble.com](http://barnesandnoble.com), and [amazon.com](http://amazon.com).

There are currently three main formats for electronic books:

1. Ebooks to be read on a dedicated reader. These ebooks require the customer to purchase a device dedicated to reading an ebook. The major disadvantage of this format is that the market for the book is limited to the small number of owners of the dedicated device. After purchasing the device, consumers can download books from the web either directly to the device or via a personal computer. Amazon.com and [barnesandnoble.com](http://barnesandnoble.com) are the best know retailers of ebooks for these devices. The Gemstar Reader (formerly known as the Rocket-eBook), is the best known device.
2. Ebooks read on a personal computer or hand held device (such as the Palm Pilot or Visor) using special software. Both Microsoft and Adobe have created their own reader software, which can be downloaded for free and used on almost any computer. Once the software is installed, consumers can download books from the web. Amazon.com and [barnesandnoble.com](http://barnesandnoble.com) are the best know retailers of ebooks for these programs.
3. Ebooks to be read on a computer using a web browser. These sites mostly target academic and research audiences. Their primary feature is an extensive search engine which consumers can use to search in their online library to find specific references. Two versions of this model offer sales of "partial" content rather than the entire title. Ebrary.com allow consumers to search read books online for free, however, if they wish to download or print a portion of the title, they have to pay a fee (approximately 25 cents per page). A portion of that fee is paid to publishers. Questia.com requires users to subscribe to the service in order to search and read titles. Publishers are paid a portion of the subscription fees. Both services link to an internet book retailer to purchase a physical copy of the title.

Ebooks offer many advantages of a minimal conversion cost (preparing the necessary electronic file) and low warehousing cost (the titles do need to be installed on a server). These low costs allow titles with relatively low demand to be made available in ebook

format. As is the case with print on demand, books no longer have to go out of print and individuals can easily publish their own titles.

Ebooks have not been very popular with consumers so far. This is largely do to the fact most consumers are not comfortable reading a book on a computer screen. Higher resolution computer screens exist but experts believe it will be at least five years before they become affordable. Nonetheless, a new generation of young, computer savvy consumers are entering the market. Ebooks have a future, but have been slow to catch on.

### ***The Role of XML in Print on Demand and Electronic Books***

The computer language, Extensible Markup Language (XML) plays a key role in both Print on Demand and Electronic Books.

XML is a successor language to Hypertext Mark Up Language (HTML) which is widely used to create web sites. Both languages organize text using “tags”, for example the command `<Title>The Adventures Huckleberry Fin</Title</I>` instructs a web browser how to present the text. However, whereas HTML tags are fixed and organize the appearance of text, XML tags can be defined by the programmer and thus can be used to organize content.

This ability to organize content makes XML ideal for organizing the data of a book (title, author, chapters, appendices, etc.). The XML file of the book can be easily converted to the various Ebook and Print on Demand file formats, which also are based on XML.

### ***The Use of New Technologies in Academic Books***

These new technologies are having an impact on the market for academic text books in the United States.

In the United States professors generally assign texts the students have to buy. In addition, many professors, especially for advanced courses, assign a reading packet consisting of photocopies of chapters of various books. Thus students are purchasing “partial” titles. This practice has been common for a long time and during the 1980’s publishers sued Kinkos, the largest chain of photocopy shop in the United States, to obtain payment for the rights to photocopy portions of their titles.

Print on Demand is ideally suited for these reading packets. Reading packets are starting to be produced using Print on Demand technology. Ebooks have not been adopted as fast.