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Have We Already Reached "Peak E-book"?

-The dangers of running the E-book business like a commodity market –
By Andy Richardson, CEO of Influential Software

Recently we've been exploring how the war for readers currently raging between e-reading platforms such as Kindle, Sony, Nook & Kobo might have unintended and damaging consequences for the publishing industry. By slashing e-book prices by as much as 97%, launching their own self-publishing imprints or launching often half thought-out e-lending schemes, e-reading platforms are at risk of killing the book business in the process of chasing ever larger markets.

It's an easy trap into which to fall. After all, replace a cumbersome physical product such as a printed book with a virtual, infinitely scalable product like an e-book, and the temptation is to believe that demand is as infinite as supply. And by concentrating their businesses on achieving scale, e-reading platforms have created the idea that publishing is suddenly a commodity business. Except books aren't a commodity. Commodities are defined by their fungibility, a term that economists use to describe goods like coal, wheat or steel which are capable of mutual substitution. It doesn't really matter whether you get your crude oil from Libya, Venezuela or the North Sea: you just need oil. Books, however, are the opposite of fungible: each book, from Emma Bovary right through to Fifty Shades of Grey is unique, and substituting one for the other would very probably result in an angry or confused reader.

By eliding the scalability of the wrapper (the e-book) with the scalability of content (the book itself), e-reading platforms are hoping that the electronic publishing market will behave in a fundamentally different way to its print equivalent. But what happens if it doesn't?

Earlier this month we may have seen the first indication that books and e-books have more in common than digital purists suggest. Statistics published by the Association of American Publishers (AAP) and the Book Industry Study Group (BISG) indicate that the era of double digit e-book market growth may already be over. Its report, which was unveiled at the Frankfurt Book Fair reports a steep decline in the rate at which e-books are growing their share of the overall book market in the US.

This data is at odds with the predictions of many industry watchers, who had expected e-books to account for 50% of all books sold in the US before the end of 2012. A number of factors have been identified as possible causes:

1. The demise of in-app purchasing: Apple's decision to take a 30% cut of all purchases that take place within iOS apps has led to many e-reading platforms removing the ability to buy new books within their smartphone apps, leading to fewer sales opportunities.

2. The market's all about tablets now not e-readers: The growth in sales of tablets, which offer a far wider range of media consumption opportunities than just reading, has encouraged users to play games, watch videos and browse the web instead of read.

3. A wider base of e-book buyers: As the number of e-book readers grows, the rate at which the overall market grows naturally slows.

4. The absence of self-published titles: Both AAP and BISG's data excludes self-published titles. These titles account for a great deal of the "growth" in published works coming to market as e-books over the past few years.

There could also be another explanation, that the gradual flattening out of digital sales growth is a sign that e-books are beginning to acquire the low-growth behavior of their print equivalents.

Under this argument the meteoric rise of e-book sales over recent years can be explained away as the inevitable outcome of heavy or habitual readers transitioning from a print-only reading diet to one that is wholly or partly constituted of e-books. E-book buyers are not new consumers, they are only new to e-books as a category of product. Once this market is saturated, the book business will return to the low-growth trajectory it had prior to 2008, as publishers and booksellers face the reality of selling their products to a finite number of consumers.

This argument does depend on a number of assumptions. Not least it assumes that we've already reached, or are close to reaching, the e-reading saturation point, which is impossible to tell given that the major e-reading platforms don't disclose sales or user numbers. Publishers also have no way of telling whether the e-books they're selling at 99p today are being sold to the same people who would have paid £7.99 for a physical book three years ago, or whether these consumers represent a whole new market.

Without this data it's not possible to say anything definitive, but if the e-reading platform wars do turn out to be a land grab for a mature, low growth market, publishers will find themselves at a major disadvantage as businesses. We have established that books are not a commodity, but publishers have allowed e-reading platforms to treat them as such as they slug it out among themselves for consumers' credit card details. So what will happen if it turns out that the e-book revolution has not significantly grown the book market but transferred it to another format while shrinking the unit price to below the cost of production? Publishers will find their business devalued, their margins slashed and, most importantly, they will have lost the fiscal breathing space they need to nurture new books.

It's a stark vision of the future of the publishing industry, but without clear and comprehensive data from the e-reading platforms as to who's using them, what they're buying and whether they're adding to or cannibalising the overall book market, I think it pays to be sceptical.