BOOK PUBLISHERS ASSOCIATION OF NEW ZEALAND

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Submission to the Digital Strategy 2.0

23 May 2008

Prepared by Martin Taylor

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Submissions close on 12 May 2008 at 5:00pm.

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Background

The Book Publishers Association of New Zealand Inc

The Book Publishers Association of New Zealand Inc (BPANZ) is an industry body representing book publishers and related industry suppliers. It was formed 30 years ago and has a long history of spearheading co-operative industry initiatives, both within New Zealand and in export markets. Its initiatives have benefited both the commercial and cultural sectors.

Book Market Characteristics in New Zealand

It's worth briefly looking at the current book market before considering the potential impact and opportunities likely to follow from digitisation.

The following snapshot of the New Zealand book industry is taken from the 2007 New Zealand Book Industry Survey conducted annually on behalf of BPANZ by Colmar Brunton. Its respondents are mostly BPANZ member companies and it represents the majority of New Zealand's book industry turnover. Among its key findings:

- Book publishing, importing and exporting is a $245 million market employing 885 staff.
- $127 million (52%) of this industry revenue is from New Zealand publishing. The other 48% is from imported titles.
- Two thirds of the 2400 New Zealand titles published in the prior year were in the education / professional / technical sectors
- The industry is characterised by predominantly small businesses. Only 21% of firms (27 organisations) employ more than 7 staff and these are most likely to be overseas owned. These firms account for 90% of industry turnover.
- More than half of publishing companies employ just one person or fewer.

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Books in New Zealand Culture

The New Zealand Household Expenditure survey for the year ended June 2007 indicated that households' annual spending on books was $269 million, slightly more than their combined spending on newspapers and magazines.

In fact, New Zealanders' favourite cultural activities are buying books and going to the library (2002 Cultural Experiences Survey). These are more than twice as popular as any other cultural activity, including buying music, visiting museums, going to concerts or movies.

Therefore, the move to digitised books and the content within these books has the potential to massively impact on New Zealand culture and identity for better or worse.

Book Exports

In terms of the printed or spoken word, books represent by far the most significant export success in New Zealand. Export earnings accounted for more than $37 million in the year ended 31 March 2007, representing16% of book publishing industry revenue.

Almost 80% of this export income was from markets in North America (45%), the UK (11%) and Australia (21%). The largest year-on-year growth in export revenue was from Asia, up 80%.

Export revenue came from the sale of physical books and from rights. The 2003 survey commissioned from Dialogue Consulting by Ministry of Culture and Heritage found that Educational exports were 66% of all book exports.

Digitisation of the Book

Books are both the oldest print medium and the last to see the impact of digitisation but this is changing quickly.

A common term used to describe a digital form for books is "eBook". At this early stage, eBooks are typically little more than digital facsimile of their standard paper counterpart (often referred to as "p-books" in this context).

But it is important to keep in mind that evolving technologies and new business models mean that the eBook will not be confined to this limited approach. There is a lot of potential for today's fixed, unitary book to become more interactive as a result of network connectivity; to incorporate other media; and for alternative business models such as subscription-based sales to evolve.

Publishers are looking for innovative ways to use their content in the digital world and when we refer to eBooks in this document, it's important to keep this in mind.

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Digital Book Developments Internationally

Reliable data is scarce in this sector but indications are that revenue from eBooks is well under 1% of total book revenue. For instance, major US publishers' eBook revenue last year was about US$30M (source: International Digital Publishing Forum www.idpf.org) in an industry with revenues of more than US$35 billion (source: Book Industry Study Group www.bisg.org).

It's natural to be sceptical about growth prospects in an industry that has been characterised by earlier false starts. The early years of this decade saw a lot of activity fuelled by projections such as Anderson Consulting's claim that the eBook market would be worth US$2 billion by 2005. But there are good reasons to believe that we are on the cusp of the widespread digitisation of books.

Key technology drivers of this market are maturing

After several years of development, we are now seeing mature screen technologies that replicate the paper reading experience ('electronic paper' systems such as E-Ink) and specialised eBook readers that build that experience into paperback sized portable devices.

Their usefulness is not confined to books. Some newspapers are experimenting with eBook readers as a way to deal with digitisation in their markets. Use of eBook readers to display technical manuals is another promising application that will help to spread their use.

Finally, the phenomenal success of Apple Computer with its iPod and iPhone portable devices has the media community eyeing these increasingly sophisticated and ubiquitous devices as viable publishing platforms.

On the software front, there are signs that the so-called 'Tower of eBabel'—the plethora of competing but incompatible eBook formats that frustrate consumers and slow down adoption—is being broken down as publishers begin to converge around standards for viewing, purchasing and archiving electronic content.

Entry of major players into the market

Google, Sony and Amazon have been especially active in driving current eBook developments, the latter pair with their combination of eBook reader hardware and online eBook sales. The entry of Amazon into the market in October 2007 with its Kindle eBook reader and related online store is viewed widely as a likely watershed event.

Commitment by large international publishers

Several major publishers have announced moves from later this year to simultaneously publish e-books with most of their paper equivalents ('p-books'). Among them are divisions of Harper Collins, Penguin, Macmillan and Hachette. This will lead to a dramatic rise in available eBook content to feed into these other market developments.

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Successful implementation of digital publishing in key sectors

While the consumer take-up of digital books is just beginning, international publishers are already benefiting from a surging appetite for digital content in the educational, professional, and reference markets. This has taken a number of forms – from publisher collections of digital content (Oxford Scholarship Online etc.), to aggregated content on particular subjects (Safari Books Online for IT professionals), to large collections of electronic books aimed at libraries (OCLCNetlibrary, Ebrary, etc).

Digital book developments in New Zealand

There is little known commercial eBook publishing activity in New Zealand. EBook developments are almost exclusively taking place overseas, especially in the US.

This creates challenges for New Zealand publishers looking to position themselves in the digital content market.

- Most NZ publishers are too small to invest in early stage technology-based markets
- Many key early products, such as Amazon's and Sony's eBook readers and their associated online eBookstores, are not available to New Zealand consumers at all, delaying development of a consumer demand-driven market locally.
- Technology transfer opportunities are limited as most big companies are foreign-owned and are typically centralise their eBook expertise in their overseas operations

While commercial activity is limited, there is a growing amount of activity in the digitisation of book content for free consumption by the public, for example, New Zealand Electronic Translation Centre (www.nzetc.org) and the National Library contribution of New Zealand books to the International Children's Digital Library.

This creates challenges for New Zealand publishers seeking a commercial business model for publishing its content in online.

This BPANZ submission to the Digital Strategy 2.0 is focused on the commercial opportunities and issues. It aims to address these challenges so that the New Zealand publishing sector can be an early and successful participant, and New Zealanders continue to enjoy the cultural benefits of a strong local book publishing community even as digitisation exerts a major influence on the sector.

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Challenges and Opportunities for New Zealand Publishers

There are many opportunities for New Zealand publishers to participate in the rapidly emerging digital market for books. Chief among them are:

- Books are one of the most 'exportable' forms of content and eBooks will overcome some disadvantages of distance and scale that have affected traditional paper books.
- The elimination of printing and other costs associated with physical distribution, along with new business models, may improve the economics for smaller volume books, adding to diversity with significant cultural benefits in a small population base like New Zealand's.

Many of the challenges centre on the need to avoid being a late entrant (or missing the boat completely). For New Zealand, the challenges include:

- Economic factors caused by the small size of the domestic publishing market and the small scale of firms
- Dominance of digital distribution channels by international players may mean New Zealand-focused digital content is given little prominence compared to international content from international publishers.
- Without assistance, firms will not develop the digital skills early and risk being out-manoeuvred by foreigners who will have easy access to the New Zealand market. The process of digitisation often leads to consolidation or dominance favouring large global players who then enjoy an advantage as they expand into local markets.
- This same dominance may mean New Zealand consumers are low down on list for full access to digital content. For instance, New Zealand consumers only gained access to Apple's iTunes—the largest distribution channel for paid digital music—five years after its initial launch in the US market. Key players in the eBook market are similarly ignoring New Zealand at this stage.
- Substantial export opportunities may be lost if New Zealand digital publishers enter markets late due to the late development of their domestic market and skills base
- As markets grow and mature, the 'price of entry' increases in terms of sophistication and size of investment to create products. (Compare the investment and sophistication required of early films or video games to those required now). New Zealand firms, small by global standards, should be encouraged to learn their skills and develop their first products when market expectations (hence investment requirements) are lower.
- Dominance of 'free' access to New Zealand cultural or educational material makes it difficult for publishers to come in with late-entry user pays business models that will be acceptable to the New Zealand public.

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Submissions on the Draft Digital Strategy 2.0

BPANZ would like to comment on the following aspects of the Draft Digital Strategy 2.0.

New Zealand's Digital Framework (Section 5.1) and Accessing and Discovering Content and Promoting Our Unique Cultural Identity (7.3)

New Zealand risks being left out of effective early distribution of commercial eBooks due to decisions driven from offshore by major players (see comments above). Those companies—most of the large enterprises in the sector—are likely to centralise key resources outside of New Zealand. They will have little incentive to invest in New Zealand infrastructure that could also be accessed by local firms. Some smart, targeted collective actions early in this market's emergence can help to overcome the disadvantages our small indigenous firms face.

Proposed Action: Establish the New Zealand Digital Book Centre

Collaboration will be essential to the formation of a globally competitive digital book industry from our small New Zealand base. To kick start this process, we propose establishment of the New Zealand Digital Book Centre to draw the relatively small, widely dispersed firms together and build industry capability.

At the heart of the proposed Centre will be a 'digital warehouse' focused on *commercial* New Zealand digital content. A digital warehouse is a repository for digital books that provides the capabilities to create, store, preview, protect and distribute eBooks. By providing such a facility here, we can concentrate New Zealand content, increasing its prominence, instead of it being buried within a vast sea of international content. And we can use the focus the Centre will bring to build collaboration.

The proposed Centre will:

Provide necessary technical infrastructure

> A digital warehouse, like a physical warehouse in the book world, is essential to the development of a commercial digital book industry.

Create an early focal point for the various constituencies key to developing the market

> The Centre will act as a catalyst to help communities of interest and firms to network and cooperate. Markets expand more quickly when early adopters have an efficient channel for information, connections and access to specialised products and services.
>
> The Centre won't be a talkfest or an abstraction. It will achieve this community and market-building by providing a vital commercial function.

Encourage skills and technology transfer

> Smaller firms have limited opportunities to benefit from technology transfer and skills sharing. The Centre will actively share technical skills, best practice and knowledge of successful strategies.

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Present a strong 'brand' that will assist broad access to New Zealand digital content, suppliers and customers, and joint promotion to domestic and export markets.

BPANZ has shown the effectiveness of joint action in its success helping New Zealand publishers achieve export success through joint action. We strongly believe that this co-operative model can be adapted and will work just as well in developing digital markets, both domestic and export.

Success should be marked by the winding up of the Centre

The establishment of the New Zealand Digital Book Centre should include a clear statement that its lifespan be finite and its commercial functions devolve to commercial operators. We envisage a five year lifespan.

While the proposed Centre will create real cultural benefits long term, it's important that it be focused on the commercial imperatives of building a strong domestic digital publishing industry. Cultural gains are vital and will come as a by-product of a globally competitive sector which will provide greater diversity and access to content that speaks to New Zealand's unique identity.

Proposed Action: Develop initiatives to seed key markets with digital content and speed digital content adoption

There are many government-led opportunities that could encourage the purchase and use of digital content from New Zealand sources in the course of their normal operations. For instance:

Education

The education sector internationally is looking at digitised teaching resources as a key direction. We believe an investigation of opportunities within New Zealand's schools and tertiary learning establishments could uncover opportunities within existing programmes to help seed the commercial digital content market in this key sector.

Government information

Making some government information available in recognised eBook formats and available through the proposed New Zealand Digital Book Centre, would be an excellent way to seed the business sector as an early user of eBooks. Information such as industry health and safety manuals or tax manuals in eBook formats could encourage businesses to invest in eBook readers and help develop digital reading habits. A similar investigation to that proposed for the education market would uncover numerous valuable opportunities that could help grow the digital book market with little or no extra expense and in many cases with savings opportunities or greater functionality.

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Digital initiatives in the public arena

Organisations such as the New Zealand Electronic Text Centre (www.nzetc.org) and the National Digital Forum (ndf.natlib.govt.nz)—working in the public, archival and heritage areas—should be encouraged to find ways to help the commercial publishing sector build capacity. Indeed, the objective of the latter organisation—to facilitate a cross-sector approach to avoid duplication of resources, to share information and develop expertise nationally and regionally—could be seen as a mirror of BPANZ's goal for the commercial publishing sector. But the interaction with the commercial sector should be based on actively assisting its development rather than targeting it as a source of additional funding or 'free' content.

Digital Culture Actions (Section 5.3)

The National Library's *Delivering Digital New Zealand* project needs to involve New Zealand's commercial publishing sector.

As a first step, BPANZ believes it should consult formally with the commercial publishing sector to ensure that decisions about digitising content take account of emerging commercial technology directions, copyright matters, business and skills/training/technology transfer issues.

We recognise that the needs of a public collection and historical/cultural preservation do not mesh directly with the needs of commercial publishers. We don't, therefore, propose that the National Library's goals with the *Delivering Digital New Zealand* project should be compromised.

But there should be a formal process to look at how publishers, authors and illustrators are paid for the use of their copyright material, to look for opportunities – such as skills development and transfer, or letting some digitisation contracts to New Zealand publishers – where this project can benefit the commercial sector's development as well as meeting its public good objectives.

Digital Business Actions: Government Engagement with Industry (Section 5.5)

BPANZ has a long history and experience facilitating industry export initiatives. It has the connections, experience and willingness to engage with government to ensure that New Zealand is a winner from the emerging eBook industry.

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Proposed Action: Review international digital publishing market and best practice to develop recommendations for New Zealand to follow.

BPANZ can achieve this in conjunction with agencies such as NZTE and is well-placed to work on both the review and the implementation. The book industry is known already as a collegial group with well-established cooperative networks. This provides fertile ground for positive government engagement.

Business Collaboration (Section 6.3)

BPANZ has been effective in encouraging co-operation within the book industry.

It also recognises the need for, and benefits of, collaboration across industry sectors to take advantage of digital opportunities.

Proposed Action: Establish Digital Publishing Action Group to lead collaboration

BPANZ will form a Digital Publishing Action Group within its executive specifically to spearhead collaboration initiatives across industry and government groups. We recognise that collaboration is a two-way process and will commit both to importing new skills and opportunities for our membership, and transferring to other industries BPANZ members' valuable skills and connections in the creation and commercialisation of written content.

Innovative Digital Exports (Section 7.2)

The eBook market is tiny hence books as a digital medium haven't got onto the radar outside a very small group. Yet the future size of this global market, the huge cultural impact of books, and the fact that books are probably our most 'exportable' form of written content or spoken means it will become a very significant market opportunity when digitisation inevitably (and imminently) takes off.

Proposed initiatives described here, including the establishment of the New Zealand Digital Book Centre, will create an environment where innovative digital content exports can thrive.

New Zealand already has a solid export base of traditional paper books to build on, unlike other written- or spoken-word content industries. This includes well-established networks built up over years of consistent personal contact that will serve publishers well in establishing digital export channels.

The small size of firms and their fragmentation – combined with multinational control of large players—will work against New Zealand's taking advantage of this unless there is a conscious move to collaborate, up skill and build collective capability.

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If this industry infrastructure can be built early in the eBook market's development, small-scale New Zealand firms can thrive internationally. This is, after all, an industry where one person's talent can have a big economic impact. And some small firms can grow into big firms as they ride the global market expansion.

The same early capacity-building that can grow a substantial export industry will help to prevent New Zealand's local culture and identity being "[lost] in an ocean of international digital content."

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