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Beyond the Book®



Book Industry Study Group with Michael Healy & Albert Greco
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KENNEALLY: Welcome again to another edition of *Beyond the Book*, brought to you by Copyright Clearance Center. My name is Chris Kenneally. I'm the Director of Author Relations for Copyright Clearance Center, and the host of *Beyond the Book* and its programs, both the podcast at www.beyondthebook.com, and appearing at various conferences around the country, including most recently at Book Expo America in Los Angeles. We have a pretty important program today for anybody in the publishing industry, I think, and with information that's going to hopefully have some real impact on you and your place in the book publishing business. Coinciding with the publication today of *Book Industry Trends 2008*, we will be welcoming Michael Healy, the Executive Director of the Book Industry Study Group. Welcome Michael.

HEALY: Thank you very much. It's great to be here, Chris.

KENNEALLY: And Professor Albert N. Greco of Fordham University and the Institute for Publishing Research. Welcome, Professor Greco.

GRECO: Thank you for inviting us.

KENNEALLY: It's a pleasure to have you both here, and it's I think going to prove to be a very interesting and informative program, because you both have had a chance to really delve into the numbers for the publishing industry and come back to the surface with some interesting data to report. Professor Greco, we can give people some notion of your background and the experience you have had in doing such work. You are the author of *The Book Publishing Industry*, as well as for numerous articles on publishing, and the co-editor of *Media Economics: Theory and Practice*. You're a frequent lecturer about the book publishing industry, and have spoken to

the World Bank, the Library of Congress, the Academy of Marketing Science, and many other leading institutions. And I should note for those who want to pursue the subject further that just last year, you and your Fordham colleagues, Professor Robert Wharton and Professor Clara Rodriguez, were co-authors of a book, *The Culture and Commerce of Publishing in the 21st Century*, which received the Alpha Sigma Nu award for the best professional business book published in the last three years. And that award is given by the Honor Society of Jesuit Colleges and Universities. And when it cited the book, the award presenters noted that *The Culture and Commerce of Publishing* industry is the definitive social and economic analysis of the current state and future trends of the industry. It examines the substantive issues, challenges, and problems confronting the publishing industry, which is referred to as in many ways fragile. An interesting phrase, and I might ask you to tell us how you respond to that. So certainly very well-qualified to tell us about the industry.

Michael Healy, as I mentioned earlier, is currently Executive Director of The Book Industry Study Group, which was formed 30 years ago with a mission to help develop a more informed, empowered, and efficient book industry supply chain. They are online at www.bisg.org. As Michael Healy has been involved for many years in the development and management of standards for the book industry. Before his current role at BISG, he was for seven years, Editorial Director of Nielsen Book Services, one of the world's leading providers of information, transaction, and market measurement services to the book trade.

So clearly two gentlemen who really have an inside view of what's going on out there. And we're here to mark the publication of *Book Industry Trends 2008*. So I suppose the very obvious question is what's up? What's down? What's hot? What's not? Professor Greco, can you tell us about that, please?

GRECO: Well, basically when you look at the entire book industry, and we do, you really look at eight distinct book categories, and standardized tests, which is closer related to the elementary and high school textbook supplement business. Essentially one way to look at this is a series of pool balls on a table, racked up, being hit by the cue ball, and all the different balls, in this case all the different book categories are moving in different directions at different speeds. The sectors that are clearly up in 2007 and should remain strong through 2012 are, one, standardized tests. These are tests that are in many cases required by No Child Left Behind or the type of state testing that takes place in Texas and Florida and New Jersey, and in many other states. And they would test, perhaps, all third graders in the state. Standardized testing is a growth sector. We're looking at unbelievably strong annual increases in terms of dollars, in basically the 8% range. So that's quite strong.

KENNEALLY: Professor, who are the major players in the publishing of such tests? Can you just quickly (inaudible)?

GRECO: OK. In the standardized test business, you're looking at a cluster of companies that are very well-known, that are active in elementary and high school textbooks and supplementals and standardized testing. That would be Pearson PLC, often called Prentice Hall in the United States. The second – that's the largest company in the United States in terms of total K-12 revenues and market share. In second place is a newly-created company called the Educational Media and Publishing Group, sometimes called EMAP, E-M-A-P, and that was created through the merger of Houghton Mifflin and Harcourt, two very well-known companies. In third place, in terms of, again, dollar revenues and market share, you have McGraw-Hill. Again, and a very well-known company. In fourth place you have Scholastic, better known perhaps as a trade publisher, but clearly active in the non-K-12 basal textbook sectors. They're not textbook publishers. The others are all textbook publishers. Another company that's very active in supplementals, which has a tie in with standardized testing is a company called School Specialty. It's a very large company, and it's almost a pure play in terms of supplementals and active in testing. And then you have a series of other companies that are very well-known in the field, but maybe not very well-known outside the field. That would be the triumph operation of Haigs Cross (sp?), People's Publishing, and then some other companies that are just specializing in supplementals, but those are the major companies active in supplementals and testing.

And the reason that supplementals and testing go hand-in-hand is standardized testing has three phases, the basic test, the assessment, and the intervention. And in the intervention process, they use supplementals. In addition, supplementals are often used to supplement classroom instruction in maybe third grade geography. Well, those are the major players, and they're quite large.

KENNEALLY: Right. And it seems to me that certainly the strength in that particular field is probably helping the support growth for those top companies, McGraw-Hill, and Scholastic, Prentice Hall, across the board. They are also, as you say, trade publishers, but they get a special boost, kind of an oomph out of being part of that particular piece of the industry.

GRECO: Well, both Pearson and Prentice Hall and McGraw-Hill are college publishers. They also have very active professional publishing operations. These are really diversified companies that are in many sectors at once.

KENNEALLY: Right. Right. Well, what else is particularly strong at the moment, besides the tests?

GRECO: Well, believe it or not, college textbooks. Even though the used textbook business continues to grow, college textbooks will have a pretty steady 3.5% growth rate out through 2012, and that's because of the basic market drivers, and the largest is the enrollment situation. Enrollment is projected to increase annually through 2012. We know what the major fields of study are and the textbooks that are growing in those fields. So that's in pretty good shape.

Elementary and high school textbooks should be having a banner year in 2008 and 2009, and they won't because of the impact of a decline in state tax revenues. That decline will run through the – at least the last half of 2009. We hope it's corrected by 2010. And then it'll grow from in the middle 3% range to basically about 6% once you hit 2010 or 2011. Those are strong growth fields.

Professional, when you look at the numbers, in terms of dollars, it looks OK. When you look at the units, it doesn't look all that OK. But those numbers are masking a major trend, and that is, as I'm sure many of the listeners know, a migration from a pure print platform to a print and digital platform, and they are moving the most rapidly into a digital and print platform. Which means they will be selling a book, a chapter in a book, or chapters in a book as a digital sale, or, and/or a site license. And that is a growth sector down the line that will really be unbelievably interesting, and that sector is dominated by large global companies, Elsevier, Wolters Kluwer, Sage, The Blackwell, John Wiley, combination the inform operation which is Taylor & Francis and Routledge, and Springer and others. These are individual firms that figured out a few years ago how they could sell digital downloads, or site licensing of journals, and they're now trying to do the exact same thing and they are succeeding in the book field. That's the sector moving most rapidly in the United States toward digital platforms.

KENNEALLY: And as you mentioned the growth in e-book sales, even though still negligible is having an impact in that area because it's flattening out any potential for growth on the print side. Do I have that right?

GRECO: Well, basically, the downloads, or the site licensing in professional – and we're looking at really business, law, medical, scientific, technical, and humanities and social sciences – most of that is being done directly on to either desktop computers or laptops. Not much on the handheld electronic reader, mainly because the one that's received the most publicity recently is a black and white only unit. And an awful lot of the professional publications on the book side use color charts, color graphs. It's pretty impossible to go through something like chemistry and not have color, or biology, or micro biology. So it's really a PC or Apple universe rather than a handheld device universe. The handheld device, whether it's the Sony or the Kindle is essentially a trade book platform. Adult, juvenile, mass market, religion, not that much juvenile, maybe adult mass market, some religion. It is small. The estimates, when you look at the dollar amount would be about 0.18% of total dollar revenues in 2007. That's less than two-tenths of one percent. However, the most recent study that came out just this week indicated that the growth potential there is that it could double in revenue in 2008, and it could. And ultimately the handheld device, whether it's the current models, or more sophisticated models, or new companies that end up in the business, eventually that will be the way a significant number of consumers buy and read books.

The question that the publishers have, and obviously this is of great interest to the retailers and the – the book retailers and the book distributors, is when will that happen? And in light of the fact that the average American spends \$101 buying trade books – and we've got data back to 1984 – and we also know the media usage of reading trade books has not increased in the last two or three years, but it's down significantly from the mid 1980s. I think the handheld device has to go down in price. I think a \$299, or a \$359 price point is interesting for early adopters, but for a mass market, it's probably a little on the expensive side. I would assume if it could get down below \$50, it would revolutionize reading and retailing. Book retailing and book reading. But right now it's small, but it's growing. And it grows annually, and it will have a tremendous impact in trade. Digital downloads, sales or site licensing, is taking place now in professional, el-high, college, standardized tests. Those are the four sectors that will move most rapidly, and I think trade will lag behind.

University presses are in an interesting situation. We know that there are about 95 of them – 95 to about 102 in the United States. Not a large number. We know that two of those presses dominate the entire business in terms of revenues. This is a critically important sector involved in the transmission of knowledge. And the vast majority of these presses would love to sell their content digitally, and are trying to sell it digitally. The BiblioVault that's run out of the University of Chicago distribution warehouse in south Chicago's a great example of that. They're basically putting about 57 or so publishers of product – recent product – out digitally. But it's been very slow in that sector, much slower than in the trade sector. So even though university presses continue to grow in terms of dollars, they suffer the fate of several of the other categories, and that is we're not looking at great unit sales. What we're seeing is the annual increases in the suggested retail price generate increases in revenues, but not increases in unit sales.

Religion remains strong. Not as strong as it was let's say two or three years ago. But it's still very strong overall. And we always like to point out that when we look at the religious sector, we'll looking at all religious publishers, all religious books, not just one religious denomination. And when you look at some of the categories in that sector, you're looking at some decent annual growth rates, some are doing a little better than others. But in that field you also have major trade publishers. Random House, Penguin, Simon & Schuster, HarperCollins, Hachette, and others that are also active in that field. And it's a very broadly defined field, and it's holding up pretty well.

Juvenile in '07 was great. In '08 it won't be as great, only because it's an impossible and almost unfair comparison because of the 13.1 million units of *Potter* that were sold last year in hardcover for the number seven edition. We're not going to see anything like that this year. We'll see some nice growth, but not great growth on the paper back side. And that's mainly driven by two things. Young adult novels and graphic novels. So juvenile will be just OK for a couple of years, then it should pick up again.

Mass market paperbacks, really tough year in '07. It's looking at a tough year in '08, all the way to 2011, 2012. And that's because of various factors that are having a negative impact on sales in what should be a strong growth area. It just had a tough year in '07, and it's going to be bleak in '08.

Adult trade up modestly. Again, books purchased with discretionary dollars. We don't see great growth rates there. In 2008, overall, it's probably bounce back in '09, but it's going to stay pretty flat all the way out to about 2012.

KENNEALLY: Well, altogether, total publisher net revenues, I believe you're going to report, are at about \$37.3 billion, which is up 4.5% more or less over the previous year. Looking out to the end of 2012, what kind of growth are we going to see total dollars and total units?

GRECO: OK, that's \$37.3 billion, rounding everything off, that was for 2007. For 2008 we're basically looking at about a \$38.3 billion market, with nets about a 2.8%. What we're looking at is basically constant flat growth in '08, '09, about 2.8. We expect once the economy picks up, once there are more discretionary dollars in the marketplace to buy books, we're expecting a low to mid 3% increase out to 2012.

KENNEALLY: Well, thank you, Professor Greco. Michael Healy, I want to draw you in, because that total number there, the \$37.3 billion in net revenues for 2007, is a figure that includes an important part of the publishing business that you follow yourself particularly well, and which up to very recently hadn't been part of the picture, which is the independent, the small publisher. Briefly tell us where the place of that sector is in this report, and what we can discern from the numbers there.

HEALY: Indeed what's unique about the work that we do, Professor Greco, and his colleague, and myself, is that unlike many other studies and analyses of the industry, ours takes full account of the trends within the smaller publishing sector, because that sector does tend to fall under the radar as far as other studies are concerned. And we in BISG started this in 2005 when we conducted a separate survey called *Under the Radar*, which attempted to quantify for the first time the contributions that small and independent publishers made to our industry as a whole. And we put the decision, following the success of that independent research effort, to roll into *Book Industry Trends* our findings about small publisher sector.

And it really is a fascinating sector with its own trends and dynamics. And our industry, we estimate, has approximately 100,000 active publishers. Namely publishers who are in business and have at least one in-print title available for purchase. And what's fascinating is that of that 100,000 approximately, nearly 80% of those companies have annual revenues of \$50,000 a year or less. And so the fabled long tail is a real phenomenon in our industry, not just in the number of

titles that are out there, but in the number of publishers that are contributing to this massive title, some 400,000 new titles alone in 2007.

So it's a factor, I think it's fair to say, where in recent years, there's been some significant growth. But that growth took a knock. It went into reverse a little bit in 2007, because what our findings showed was that the independent and small publisher sector – and bear in mind that we define a small publisher as any publishing operation with revenues of \$50 million or less a year – that sector is approximately one-third of the total figure that Al Greco mentioned a moment ago. So in other words, we estimate that in 2007, the publishers who individually have a revenue of less than \$50 million a year, contributed about \$12.22 billion to the sector. But interestingly, after a number of years of growth, that total headline figure represented a reduction of about 2% on the previous year. They had – this sector had recorded sales of about \$12.47 billion in 2006. That is to say it's reduced down to 12.22 in 2007. So there's been something of a drop there in the last year.

KENNEALLY: And to what do you account that drop? Is it perhaps people are moving into a different part of the business? Are the sectors that the smaller publishers are in having less growth or negative growth than others? Is there anything you can tell us about why that might have happened?

HEALY: Well, it's tough to detect a single underlying reason for this reduction. I think the market conditions for all publishers are very challenging right now. And I think if you're a small and independent publisher with access to fewer resources, and if perhaps you're a larger organization, and publishing operations constitute a relatively small proportion of the total work you do, it can be very difficult to get the attention of book sellers, particularly in such a consolidated retail sector as we have here in the United States, of bookselling. And whenever we talk to the independent sector in the context of these surveys, the great challenge facing them is always the same, which is how do we get the larger retailers to stock our titles? And to give them the sort of profile they feel they deserve. And a number of major retailers, notably Barnes & Noble for example, has made enormous strides in representing titles from the small independent sector in their stores. But there's no doubt, as I say, when you talk to the independent publisher, getting appropriate space within the store is a great challenge that they all face. And maybe that challenge is getting more difficult, and maybe it's being reflected in these slight declines revenues that I reported.

KENNEALLY: Right. Well, given that BISG was the first to begin to really track this closely, we'll expect more information on that from you in the future. We're with Michael Healy from the Book Industry Study Group, and Professor Al Greco of Fordham University. They are the co-authors of the latest *Book Industry Trends*, published by BISG, and available online from them directly at BISG.org. My name's Chris Kenneally.

And I guess what I'd like to do in the few minutes left to us now is to understand better what all these numbers are telling us about peoples' reading habits, book buying habits, and in a sense of health for the industry. Professor Greco, you mentioned that we expect to see certain segments grow more than others. Tell us about your own thoughts on where we're headed with all of this as an industry. People wonder about the future of the book. The book itself as a format, or what do they call it? A form factor. Any thoughts for us that could help people if they're planning which kinds of titles to publish or which areas to stock their shelves or anything like that?

GRECO: Well, Michael raised an interesting point, and it's not just the difficulty in getting published titles for small publishers, independent publishers, into the book stores, that's a challenge. It's even more of a challenge to get them into the mass merchants, the Wal-Marts, the K-Marts, the Targets.

KENNEALLY: They're more important than ever, right?

GRECO: And the price clubs, Costco, Sam's Clubs, BJ's, and other retail establishments. Yes, they have grown significantly. The mass merchants, and the price clubs, other retail establishments, have grown – it's pretty clear that they've taken market share and business away from traditional booksellers, independents and even the superstore chains, along with the Internet. Now, the Internet is a wonderful platform for small independent publishers, because there's no limit to what they can stock. Whereas when you look at a typical Costco, they basically stock, on average, about 250 unique titles. And when you look at the big blockbusters that they sell, hardcover, and then of course the big paperback reprints, and the reference books, and some religious books, there's not a lot of room left on those tables for independent and small publishers. The Internet obviously is a different environment. And the same thing is true in the mass merchants. A limited number of real estate space allocated to publishers, period. And getting in there is a real challenge. And that's why one of the downsides of 2008, and possibly '09 is the sectors that will probably suffer the most are overall in the small independent publishing universe, in the sense that with discretionary dollars being at a premium, it's probably more likely, based on a lot of statistical data, that the average consumer will buy books written by the major authors or books that come out of nowhere. These things that just pop up and turn out to be unbelievably successful and no one anticipated them. So it's going to be a challenging year. Michael's right, '08, and probably '09 will also be challenging.

In terms of the categories that seem to be doing best even in a challenged economy, young adult, those novels written for young girls, mainly let's say nine, ten years old to about 15, 16, that's a growth sector. Health and beauty oriented titles, cookbooks – these are not necessarily things that being published by professional publishers, or university presses, that I can assure you, but those are sectors that tend to hold up. Movie tie-in titles, especially in the juvenile book sector. *Potter* six the movie comes out at Thanksgiving. Obviously you're going to see a barrage

of publicity for *Potter* six, the paperback. *Potter* seven, the movie has been green-lighted by Warner Brothers. They were turn *Potter* seven the novel into two movies. That will have an impact. And then last week the number one selling movie in the United States in terms of box office was *Kung Fu Panda*, and you can go today to a bookstore and you'll probably see all sorts of *Kung Fu Panda* book tie-ins. The juvenile book publishers are really very good at that. They tie-in early, they got the books out early, usually several weeks before the movie comes out.

Business books have been sagging the last couple years in terms of what had been really strong growth. However, it is likely that in the latter part of '08, probably '09, 2010, there will be a number of books about the sub-prime mortgage situation, the problems on Wall Street, etc. Real estate books are having a – even though this is a down economy for real estate – real estate books are actually starting to pick up in sales, especially books dealing with how to cope with the sub-prime mortgage situation or foreclosures.

The biggest category this year, could well be, aside from the big fiction books that always do well, the biggest category could well be political books.

KENNEALLY: Well, it's interesting you say that, of course, but I wanted to make a point that I learned a few years ago in talking with another industry analyst at a point when the economy was having a bit of trouble as well. When people get laid off or see their jobs under threat, they will often go to school for some continuing education, and that will drive some growth in the textbook field.

GRECO: Absolutely true. We know that there will be an increase in enrollment in the fall of 2008, and in 2009 in graduate and professional schools because of a slowdown in the economy. Graduate enrollment is often counter-cyclical. Individuals, and we expect, and it's unfortunate to say, that up to 40,000 people on Wall Street are going to be laid off between the latter part of '07 and into 2009. A lot of those people will then go back and get a graduate degree, whether it's an MBA or a JD or an MS degree. Some will go back and do continuing education coursework, to prep let's say for the Series 7 exams. We know that teachers looking at a tough economy often are encouraged to do graduate work, and in fact, I was a high school principal at one time, we had a step system. So if you went back and earned 15 graduate credits, you would get more money.

So we expect not only an increase in enrollment, but the impact on the sale of college textbooks. That's why even though the used book business in the college textbook sector accounts for about one out every three dollars that students spend – and it's growing at \$50 to \$100 million a year, used books. In spite of that, we expect a 3.5% growth rate because of an increase in enrollment, and an increase in enrollment in key fields. The largest area of enrollment in graduates, which means the largest college textbook field, is business administration/accounting/economics. That's the number one category. It's been the number one category, and textbooks in those fields generally do very well.

Also because of the quality of the college textbooks, we export a significant number of these textbooks abroad into countries where the instruction is in English. In Scandinavia, or in Italy, or the UK, or Australia, Canada, etc. So the two textbooks that have unbelievable global appeal are the famous Kotler-Keller marketing management textbook, and the Manque (sp?) economics textbook, or the McConnell economics textbooks. Those three are the number one selling books in the United States and abroad. So that's a big plus for the college textbook sector which has had some difficult days because of the loss of revenues through used books.

KENNEALLY: Right. Well, we promised people at the beginning of the program that we would give them some information they could actually take back to their next editorial meeting or just right back to their desk and start to work, and use it in their job, and I think we've delivered on that. And I appreciate the information you both have shared with us. Of course it's hard to get at all of it. This is a very thick report, detailed, based upon interviews and drawing on data collected from across the board and a whole variety of sources.

I want to just close if we can, with a little bit of fun here, because Professor Greco, you mentioned movie tie-ins, and a story caught my eye today, I think it tells us something about the changes in the book business that we're hearing about based on this report. And that is that fans of the *Sex and the City* movie, are looking for a book that's featured in one scene, *Love Letters of Great Men*, but that book does not exist. The AP reports that people are going home and searching for the book online. They are not finding *Love Letters of Great Men*, but they are finding the closest text in the real world, as AP said, which is *Love Letters of Great Men and Women from the 18th Century to the Present Day*. And that was a book first published in 1920, or in the 1920s, and was reprinted last year by Kessinger Publishing. Now, remarkably that \$32 paperback, is today at number 114 on the Amazon list. And it just seems to me that apart from making a marvelous anecdote about the real power of the long tail, Chris Anderson's terrific insight into how the Internet is changing business, but this is telling us about the enduring appetite for books, the tremendous power of the Internet to drive book sales, and it's also telling us that books are so much a part of the media culture as to be almost indivisible from it. Michael, what do you think about that story? It's pretty remarkable I think.

HEALY: It is pretty remarkable, and it's not unique. I remember, as perhaps you do, when a movie a few years ago came out called *Four Weddings and a Funeral*, which featured a poem by W.H. Auden, that sales of Auden's poetry spiked considerably as a result. And everybody in publishing is aware of the so-called Oprah phenomenon, what a remarkable effect a referral to a particular title can have from that show. And what it shows to me, Chris, is very much what you said, which is that for all the gloomy talk about the publishing industry that sometimes we hear, the integration of books with more popular cultural forms is a very real

phenomenon. And I think that great anecdote from the *Sex and the City* illustrates that extremely well, and illustrates, as you say, another important phenomenon, which is that fewer and fewer books are going out of print. There is this long tail, and it's being driven by, first and foremost, the technology that allows us to keep everything digitized forever. And the dream of no book ever going out of print again is becoming a reality, and your anecdote – I think – demonstrates that perfectly.

KENNEALLY: Well, it's been terrific chatting with both of you today. I appreciate the insights, the information, we hope to return to the BISG from time to time for some updates on all this. Thank you again Michael Healy, executive director of the Book Industry Study Group. Thank you, Michael.

HEALY: Thank you very much, Chris, for having us.

KENNEALLY: And professor Albert Greco of Fordham University and the Institute for Publishing Research, thank you for joining us today on *Beyond the Book*.

GRECO: Thanks for inviting us, and hopefully the listeners pick up some interesting information.

KENNEALLY: I hope so as well. Again they can purchase the book, learn more about it, at the BISG website, bisg.org. And for more on *Beyond the Book*, and various programs from Copyright Clearance Center, you may go to beyondthebook.com, or to copyright.com. Again, my name is Christ Kenneally, director of author relations, thank you very much for joining us.

M: *Beyond the Book* is an educational presentation of the not-for-profit, Copyright Clearance Center, with conferences and seminars featuring leading authors and editors, publishing analysts, and information technology specialists. *Beyond the Book* is the premiere source for knowledge on the latest business issues facing today's dynamic publishing industry from initial research to final publication and beyond.

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