



Beyond the Book[®]



- Q: We're in New York, attending Digital Book World today, which raises the question – digital books? How are we going to make any money at that? Or will we ever? Joining me to discuss that is Brian O'Leary, who is the founder and principal of Magellan Media and someone who's been doing quite a lot of research about book piracy and also the impact of making ebooks for free online. Brian, welcome to Beyond the Book.
- A: Thank you, and it's good to see you again, Chris.
- Q: It's great to have you back. We had you on the program back at Book Expo and you came out with some interesting data then. You're a man who's a data driven researcher, which is somebody I appreciate very much indeed. You're going to be telling us about some data you'll be presenting tomorrow at Digital Book World, but for just the beginning of this, let's ask the question about the potential for 2010 to prove a tipping point in ebook adoption and ebook readership. What's your sense out there? Are we really coming to a point where ebooks begin to matter in the book industry?
- A: Well, it certainly seems so, Chris. I mean if you look at the rate of sales for ebooks, it's been tripling year over year and that seems to be continuing in 2010, at least for the first month where we have data. I think that it's the kind of thing that we're all monitoring really closely. It's one of the reasons why that data driven researcher – I am a data geek, but that data driven researcher you referred to a minute ago, was so important for us to start.
- Q: There's a lot of enthusiasm and certainly the media is very enthusiastic and I'm curious about whether your data tells you how enthusiastic about all of this the consumer actually is.
- A: We haven't tracked in great detail individual consumers. We're really looking at sales. Generally the kinds of things that I've seen in terms of formal studies suggest that there's not been a massive movement toward ereading as a general practice and that's true even sometimes among the most common readers. I do have some household experience, but I try not to use my wife's Kindle as the best example of where digital reading is going.
- Q: Well, your concern as a data person is to really drill down and get into the micro level, not the macro level, avoid all of that anecdotal evidence. Tell us about how you do your research and how you do get down to that point.
- A: Well, the most common approach that we take is to look at the sales of ebooks, for example. The sales of ebooks before and after a period of promotion and with respect to piracy, we look at the sales of paid content, whether it's ebook or print or physical content, before and after piracy first occurs. We typically look four weeks before and four weeks



after. That's a model that's pretty common when you're measuring the effectiveness of say cooperative marketing efforts, like in store displays and the like. And so we've applied it to see whether or not there's an uplift, for example, in promoting ebooks with free content or is there an impact of pirated content on paid sales.

Q: Let's talk about piracy first because that's the thing that gets everybody so worked up. Something seems to be wrong if you use the word piracy. Free sounds inviting and maybe promising, but piracy gets people's back up. What have you learned to date about piracy and how well people are able to control their content or not once the eform is made available.

A: Well, there have been a fair number of studies that even are broader than the ones that we've done that seem to suggest that if you want to find a pirated and unauthorized digital distribution copy, a pirated copy of a book, it's possible to do that for most books, at least most of the books that are in print. You'll find them somewhere. In some cases, they've been scanned from paper and then uploaded. In other cases, they are ebooks and in some cases, they are even original manuscripts and word files and the like. So it's pretty common to find it. The real question for us is what's the impact of this unauthorized distribution on paid sales. Is it helping? Is it hurting? Is it just part of the overall mix? And that's the kind of thing that we're trying to gather the data to be able to figure out the answer to.

Q: Well, not to force you into too sphinx-like a position, but I'm sure it helps and it hurts and it depends. Talk about that.

A: Well, helps in this regard. We've looked at a very small sample, about two dozen titles published by O'Reilly Frontlist 2008, fall of 2008 and forward and we've studied more titles than that, but we've found about two dozen that have been pirated. In general, in the period following the first instance in which we found a copy of the book files on a bit torrent site, the pirate sites, that sales actually grew almost 100%. They created a second peak in that period and then declined slowly afterwards. So in that regard, we would say it helps. We haven't found instances where it hurts. That's not to say that it doesn't exist, but to this point, what we've found is correlation with an increase, not a decrease in sales.

Q: Well, that's a question I had in some of the presentations this morning here at Digital Book World. The notion that numbers of pirated copies and whatever way we measure piracy online for the book world represent lost sales. Do you buy into that correlation that a pirated book is a lost sale?

A: I don't and let me explain why. It's not because I defend piracy, and sometimes people immediately go there and create a moral argument. The history of the book business is



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built, particularly in the 20th century, the history of the book business is built around giving away free content to promote paid content. If you think about advanced reading copies, galleys, BLADs, any sort of samples of books, public reading aloud, author tours. They're all giving away all or portions of a content, in many cases, the booksellers and to intermediaries, to help promote paid content. We're familiar with that and we're comfortable with it. I think piracy, in the 21st century, can serve some of that role to effectively promote awareness and trial of content but not necessarily to supplant sales and in other cases, and this is where we don't know, people may be downloading content that they otherwise would never have bought or downloading content and not doing anything with it. That they're doing it for the novelty of the activity rather than actually supplanting a paid sale.

Q: And there's something there about temptation. What did Oscar Wilde say? The only thing I can't resist is temptation. When something's out there free, you take it, whether you do anything with it becomes a question between you and your – how much time you have in your life I suppose.

A: I think that's true. I want to be cautious because we've not studied the behavior of pirates and there have been some efforts recently to qualify both who might be pirating and what motivates them. That's not the focus of our study. We're really looking specifically at when does piracy occur and what effect might it have, at least in a correlated sense, with paid sales.

Q: Well, on that point then, and back to your data, have you got anything you can tell us about timing? When an ebook becomes available. There's been some debate about that right now, whether it should be simultaneous with the print book, whether it should be in a cycle rather like paperbacks in the past. Talk about timing. When is the best time, have you been able to determine, that an ebook should be available?

A: Well, this is actually one of the questions that we'll be talking about, the panel that we have tomorrow. We have four folks, an author, a distributor, a publisher, and then sort of a publisher amarus, talking about this content. Fundamentally, I think the industry is very much undecided on this question. It's one of the reasons why it'll be an interesting topic at tomorrow's panel. From my own perspective, I think that limiting the formats that individuals can obtain content, in general decreases the likelihood that they're going to buy that book. If you really want to buy it in ebook form and it's not available, then I think that it's – that truly could be a lost sale. The tricky thing here is that publishers to this point have not been able to control the price charge for a book, an ebook upon release. Amazon in particular has been releasing them for much lower price points and there's a fear that that will cannibalize the hardcover sale. That's a pricing issue that I think really needs to be resolved and there seems to be some movement more recently with Apple's



engagement in the field. So it could be that it'll become simultaneous with comparable pricing.

Q: Stop. We're going to let tape roll and we're just going to close it because there's no way to (laughter) – I asked about a quiet room and there wasn't one, so –

A: That's fine. Do you want to ask for quiet –

Q: It's not going to go on forever. It would be hard to ask. Just give her 30 seconds.

A: How am I doing so far?

Q: So far, so good. You know your presentation tomorrow, I don't. So if there's anything you want to raise.

A: You're doing fine.

Q: I'm doing fine? OK.

A: You asked the core questions.

Q: Right. Maybe I can ask you about that moral question, why looking at this raises – it automatically raises itself to a moral debate, rather than a debate about business practice, OK? I think we're back to some quiet here. Just coming back together and we'll go on three, two, one, and I'll just say we're with Brian O'Leary. And three, two, one. Well, we're chatting with Brian O'Leary right now ahead of his presentation at the Digital Book World and a question, Brian, because I'm sure it draws some fire to be talking about piracy and free at a moment when the book industry is feeling such pressure in so many different ways. Why do you think the discussion goes almost immediately to the moral dimension when it really ought to be focused on the business piece.

A: Well, I think that people naturally have worked very hard to create content. Authors, in particular, have worked often for years to create a published work. A number of other people in the value chain, agents, publishers, are profiting from that, but they're also putting a significant amount of their own time and effort into it. It's hard to see something that you've worked hard for given away. And we're actually of the mind that if it's given away and it costs sales, then that's something that publishers and others need to take active – make active efforts to try and combat. However, we don't know the difference when it occurs and I think that this debate or the rancor or the reaction sometimes is a function of people hearing what we have to say, what I might be saying as I don't worry about piracy when in fact, what I'm saying is I don't worry about piracy that helps sell more books and



I just don't know the difference between the piracy that hurts and the piracy that helps yet until we study it.

Q: Well, piracy that hurts could be promotion of a kind.

A: It could be, but I think that – an example that we heard this morning at Digital Book World was textbooks from McMillan, \$200 textbooks. It would be hard for me to find – I believe if we studied that, and McMillan has not asked us to do so, but if we studied that, I think it would be unequivocal that a \$200 textbook that's sold to a small market, a locally adopted – a college class in a particular university, small universe of students, high price point, very likely that piracy will both occur and hurt the sales of the book overall. I don't think though that the answer is then to preserve the existing business model in that market. It's really to think about new business models that either lower the price point and still make money for the publisher or recognize that you're not going to be able to continue to put out containers, books, and sell them for \$200 profitably, that that model won't work in the long haul.

Q: Well, you've been in the publishing industry in a number of different ways for some time and have seen the business change over that time. The slogan for Digital Book World is it's a bright future. What's your take on the future for the book publishing industry over the next two to five years? How bright or how much threat, how many dark clouds loom ahead and as a weatherman for the industry, what do you think we ought to be doing? Getting our umbrellas out or preparing for an nice day at the beach?

A: Well, I'll have to pick a different weather metaphor. I teach at NYU and I tell the students who are candidates for masters degree in publishing that this is a great time for publishing, but a tough time for publishers and I think that the answer is it's a very bright future for publishing and the question of how bright it is for individual publishers depends upon their willingness to accept, embrace, and adapt to the new business models that are going to be required to be successful in the future. This is – I think it's a scary time when you have a very established and entrenched model and you're not comfortable changing it. That would not be a good environment, but I don't think that that's true of publishing overall, and so therefore, I'm pretty optimistic.

Q: When you say publishing has a bright future, I just want to tease that out a bit. You're saying it's just gotten easier and perhaps more appealing as an endeavor to publish something.

A: Sure. I mean if you think of yourself, I mean you're an author, and you think of the work that's been required in the past to go from the work that you do to create a book, to getting it actually published and distributed, a lot of those steps could now be done on your own if



you choose to. I mean that's a significant endeavor. So those tools do exist and they have been distributed, but I also think that publishing is becoming part of the fabric of our lives, it's not about the big six book publishers or the major five newspapers or the top ten magazine publishers, but really that content is being created in a variety of different ways. Even think of this podcast, Copyright Clearance Center is not in and of itself a publisher and yet here you are creating a tremendous amount of content on a weekly basis. I think it's a positive sign that a lot of good things are occurring and it's just a question of – in the case of profit making companies, how do you take advantage of that?

Q: Well, we know you'll be asking a lot of the really important questions, Brian, and we look forward to be able to hear from you some of your answers, perhaps at Book Expo, coming up in May again here in New York City. In the meantime though, good luck at the conference and thank you very much for joining us at Beyond the Book.

A: It's always a pleasure to talk with you, Chris, and I look forward to the next time we do.

Q: OK, great. We've been chatting with Brian O'Leary, who is the founder and chief partner for Magellan Media Ventures and a professor at New York University. This is Chris Kenneally for Beyond the Book, thank you very much for joining us here at Digital Book World.

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