The Impact of Digitization on the Book Industry

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PUBLISHERS

A Report Prepared for the Association of Canadian Publishers

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EXECUTIVE SUMMARY

The objective of this report is to examine the impact of digitization on all aspects of the Canadian book publishing industry and to suggest ways that the Association of Canadian Publishers and its individual members can best meet the challenge of dealing with that impact. Specifically the recommendations are focussed on helping publishers to get up to speed on and to keep on top of rapid change and evolving best business practices through a variety of professional development opportunities. The report also addresses possible funding initiatives that the ACP might undertake to help accomplish this.

First things first. The impact of digitization on the industry is profound and all encompassing – and it is still in the early stages! Although clear best practices are emerging in some areas, other areas are still at an evolutionary stage.

From ownership of rights, through digitization of internal workflow processes, to sales and marketing of both physical and electronic content, the digital world is changing the traditional way that book publishers do business. The opportunities and challenges this reality presents are discussed throughout this report.

The Canadian publishing industry is made up, in large part, of resource-strapped, small and mid-sized companies. Without additional resources, most will find it difficult to ramp up their skills and their corporate capacity to adapt to a rapidly changing environment and new ways of doing business.

The following recommendations are made to help the industry move forward as rapidly as possible so it is ready and able to take advantage of opportunities as they emerge.

Recommendations:

1) The ACP should encourage and help enable members to adopt the following best practices where they are compatible with members own business models:

- Wherever possible, publishers should acquire digital rights to content to exploit on behalf of themselves and their creators.

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- Publishers should digitize and own their own digital files for both front and backlist in order to maintain the fullest degree of control and to ensure that the digitization is of high quality.

- Publishers should work toward streamlining and digitizing their internal workflow processes in order to position themselves to be able to effectively manage, market and exploit their digital assets.

2) The ACP should develop a series of professional development sessions that explore the following issues:

- Rights ownership, contracts, dealing with creators
- Best practices in producing high quality, widely usable PDFs, including streamlining the digital interface with printers
- Digitization services -- seminars with panels of suppliers, focus on costs, streamlining the process, also partner with BookNet and Access to communicate the outcome of their existing or on-going research to members
- Digital asset distributors/aggregators – who they are, what they do, publisher examples of what works/what doesn't; special attention to Google and copyright issues
- Digital asset management – internal and external solutions
- eMarketing – using the technology to get directly to your target market (blogs, e-mail, web, mobile, etc), latest developments (e.g. widgets)
- General business skills/best business practices – this might be a more formal program, possibly developed in partnership with the Organization of Book Publishers of Ontario and an academic institution like Humber

In that the digital world is evolving and changing constantly, many of these seminars should be offered on an on-going basis.

3) The ACP should develop a core of mentors in the areas outlined above, as a special focus of its existing mentorship program. This specialized group should include lawyers, technical experts, emarketing experts, etc. In some cases, the mentorship might be through a team approach with more than one expert participating and, in those cases, might run longer than the current one-day maximum.

4) The ACP should pursue further research in the following areas:
- Digital rights management (in partnership with others – see Recommendation 5) – internal systems and external services (options/costs), case studies of companies who are doing their own

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- Impact of digitization – update of this study in two years

5) The ACP should seek support for this agenda through:
   a) Partnerships with other organizations:
   Work with all appropriate partners on developing and delivering professional development opportunities to members. Specifically explore partnering with the following groups on the programs described:
   - Access Copyright –
       i. seminar that explores the impact of the changing marketplace on publishers and creators, to include representatives from music, film/tv, and gaming industries
       ii. seminar on the outcome of its pilot digitization project with Irwin Law and Vanwell
   - Access Copyright/BookNet – develop training opportunities for members on digitization and digital management
   - OBPO and BC digitization projects – work with these pilot projects to present results to members
   - OBPO, with an academic partner (e.g. Humber) – explore the possibility of developing a formal program aimed at improving the business skills of working professionals with the aim of increasing their capacity to deal with the changing environment
   - Magazines Canada – direct marketing seminar (traditional and emarketing), include Harlequin, Harper Collins, Random House, etc.
   - Member publishers implementing Klopotec/Acumen/etc – seminar that presents results
   - Printers – explore possibility of working with key printers like Freisens to co-present seminar on production flow, best practices in producing PDF's.
   - Other sectors (through their associations) – focussed workshops/panels that feature speakers from other cultural sectors and concentrate on topics relevant to book publishers (e.g. ownership, exploitation models, digital asset management, emarketing, etc.)

   b) Federal Funding – The ACP should lobby for the creation of a fund, modelled on the Supply Chain fund, that would be designed to support the industry, over a finite period of time, in adapting to these major technological changes.

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OBJECTIVE OF THE PROJECT

To explore the question of how Canadian book publishers can acquire, retain, manage and exploit ownership/control of the digital rights to the content contained in their titles. While it is understood that definitive answers may not be fully available at this point, the Consultant shall provide a sense of emerging directions.

METHODOLOGY

The consultant will:

1. Conduct an overview environmental scan that will look at what others in the field are doing, both in Canada and internationally. This will concentrate on looking at initiatives that the ACP might partner with, imitate or use as a resource (e.g. Library and Archives). The research will be guided in part by the areas of inquiry brought forth by the ACP Task Force at their May 10/06 meeting and subsequent discussions at the ACP 2006 AGM.

2. Conduct 8 to 10 interviews with Canadian and multinational publishers and others working in the field to find out what is working, emerging and not working.

3. In the course of the research, explore the possible effectiveness of designing a number of pilot professional development educational seminars that would give publishers a fast backgrounder on the current environment, emerging business models and evolving best practices.

4. In the course of the research, explore the possible effectiveness of a follow-up mentoring program that would allow individual companies to access expert help at a subsidized cost.

5. Maintain regular communication with the consulting firm retained to undertake the French-language portion of the project.

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OVERVIEW

The consultant has done extensive research, conducted interviews with industry professionals and attended several professional development seminars featuring presentations relevant to the project.

From this research there is emerging a sense of how the industry is shaping itself in response to the impact of digitization. There are few definitive answers but rather evolving standards and, of course, lots of questions. What is certain is that the impact is profound and that it affects all aspects of the publishing continuum.

A very general observation is that members of the industry are far more engaged than they were even a few years ago in examining what is happening, what are the opportunities and challenges and what to do to prepare for an increasingly electronic future.

For the sake of providing structure and order to this report, I have grouped the areas of inquiry into broad categories, which are similar to those in the ACP's Joint Task Force May 30 notes. Where possible I have tried to directly answer the questions posed by the Task Force or at least provide guidelines to emerging best practices.

The Task Force specifically wanted to consider:
- Ownership
- Exploitation
- Warehousing and Sales
- Technical Considerations and Standards
- Google
- Business Models
- Duplication (meaning - are there others who would be logical partners)
- Funding

I have modified, reordered and expanded on these as follows:
- **Ownership** – from acquisition to exploitation
- **Workflow Management** – how is digitization impacting internal day to day operations from editorial/production processes to financial management through marketing and sales. Includes discussion of technical considerations and standards relevant to these processes. Also includes POD.
- **Digital Asset Management** – internal and external options

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- **Exploitation** **–** what are the new opportunities, who are the players and how can publishers best exploit the distribution of books in digital form either directly or through evolving sales channels. Includes examination of Digital Asset Distributors (Google, NetLibrary, Canadian Electronic Library, etc.) Includes discussion of sales and marketing opportunities, relevant technical considerations and standards. Includes a separate discussion of Google.
- **Business Models** – some examples of what larger publishers are doing, evolving marketing opportunities
- **Possible Partners**
- **Funding**

The Task Force also asked specific questions within their category groupings. I have introduced some of these at relevant points throughout the report and attempted to provide answers or, at least, emerging direction or best practices.

I have also included throughout the report initial suggestions on ongoing professional development/educational opportunities designed to help keep ACP members on top of this ever-evolving field.

OWNERSHIP

In this section I will explore the ownership of rights, from acquisition to exploitation, and the ownership of the actual digitized version of the book.

Rights:

The emerging wisdom is for publishers to acquire and retain electronic rights wherever possible from the moment of acquisition, by means of the publisher/creator contract, right through to the sale or licensing of the electronic rights to a completed work.

As with all negotiations, the publishers' ability to prevail is related to the power balance between buyer and seller and to how much each party wants to make a deal.

Several publishers interviewed stated that, with decreases in retail sales and shrinking margins, they must have all rights possible in order to make a project financially viable. Thus, unwillingness on the part of a creator or agent to include electronic rights can be a deal breaker.

Others, particularly when dealing with an author with an established reputation and a known sales record, realize that they must compromise or

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even just settle for limited rights with some latitude for electronic promotion. It really is, like all other negotiations, the art of the possible.

Acquisition (Publisher/Creator Contracts):
The traditional contract is evolving and most publishers include language addressing electronic rights. This language is becoming more standardized as the areas addressed become clearer in concept and practice. (Two experts in the industry, Marilyn Biderman and Grace Westcott, have prepared a guideline for ACP publishers who are looking for help in this area. A copy is attached as Appendix A.)

Most publishers interviewed are treating electronic rights both as primary rights (ones which the publishers will exploit directly) and as subsidiary or secondary rights (ones passed along through sale or license to a third party to exploit).

When asked about the response from authors with whom they deal, the publishers interviewed felt was that creators have a growing understanding of the changing marketplace and a more realistic appreciation about what the financial opportunities are and what they aren't and how they can best be exploited and by whom.

That said, this remains a controversial area and many author/creator advice sites urge their community to retain electronic rights where possible.

An example of a particular area of concern is the reversion of rights. With the emergence of Print on Demand technology (POD), the creator concern has been that publishers would hold on to rights in perpetuity with very little in the way of return to the author. This concern has been addressed by some publishers by instituting a minimum payment per royalty period for as long as the publisher wishes to retain the rights. This appears to be emerging as a best practice and may become a standard way of doing business.

Many publishers want to make sure they have electronic rights that will allow them to promote the book, e.g. right to put a first or selected chapter on-line. One of the senior rights people interviewed cautioned that this should be done judiciously as it can kill first serial rights. However, another said that the sales of first serial rights were rare and really only applied to known fiction authors or topical, high profile non-fiction.

Standards will continue to evolve in this area as publishers, creators and agents feel their way and as the opportunities and pitfalls become more

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apparent. It was evident, during a professional development day hosted by the ACP, that publishers very much want to do the right thing for their creators but also realize that they need to be able to exploit new sources of revenue in order to survive in an industry where margins have declined.

PROFESSIONAL DEVELOPMENT OPTIONS:

- Once a year contract review seminar.
- Seminar, possible in partnership with Access, that explores the evolving electronic marketplace with speakers representing creators, publishers and other industries.
- Add 'contract mentors' to the mentorship program. This would allow publishers to access a lawyer specializing in the industry for an individual review of their creator contracts.

NB: The consultant recently talked to a lawyer working in the field, who suggested the following. The ACP could commission the development of a pro forma 'template' contract that could be posted on the ACP website for input by the community at large. This concept, coupled with the mentorship program, would provide publishers with the best of collective industry and company specific advice.

Ownership of Digital Copies:

Task Force Q: *Should Canadian publishers own digital copies of their complete lists?*

The short answer is yes, whenever possible. The general 'best business practice' that is emerging for publishers is to digitize and own their own backlist digital files in order to maintain the fullest degree of control over subsequent sale or licensing of rights, and to ensure that the digitized content is of high quality.

Google and other electronic aggregators/distributors, who offer to digitize publishers' lists for free, generally do not provide the publishers with a copy of the electronic file. Additionally, companies that are doing mass digitization of collections are often producing low quality digital copies.

However, with limited time and people resources, many publishers find the whole process intimidating and not a current priority.

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Possible solutions may be to act collectively or to partner with existing organizations. This will be discussed in greater detail later in the report.

> Task Force Q: *How will publishers contact authors or estates of authors of pre-digital books in order to purchase or clarify electronic rights? Should Access Copyright and Copibec assist in this process or should publishers do this work themselves?*

Several publishers interviewed have addressed this issue. The publisher of a major university press has been successful in getting sign-on by all but a small fraction of a large backlist. He works with many of the electronic asset distributors (from NetLibrary to Google) and needed consent to enable him to do so. The press sent mailings to backlist authors, with consent forms. There were only a few queries or rejections. He cites the example of one professor/author who was wary of having his work on NetLibrary for fear of piracy but, after the publisher urged him to try the system himself, he came back satisfied that his rights were protected and signed up.

In another example a children's publisher wanted to test a prototype, on-line, promotional project which offered site visitors the opportunity to download selected pages, organized by theme and age level, from various books. The goal was to encourage sales by allowing customers to sample small portions of books that were no longer heavily promoted elsewhere.

The publisher sent creators a detailed letter outlining what they were doing and what they hoped to achieve. To their surprise there was no negative feedback and, in fact, several authors wondered why their works hadn't been chosen.

Using these examples as a template, the recommended process would be to handle the acquisition of electronic rights for pre-digital books by developing a clear, concise information piece that explains what you are doing and why, with the emphasis on the potential benefits to the creators (exposure, promotion, sales of hard copies, % of new revenues, etc.). Send it, with a permission/addendum to contract form, to backlist creators. Be prepared to deal personally with inquiries, comments, refusals, etc. Obviously, it would be best if possible to have personal conversations with backlist authors with whom you are working currently.

In instances where a publisher feels that the usage is covered in existing contracts (e.g. promotional use) it may be sufficient to advise creators of what you intend and why.

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This is, once again, a time-consuming process for resource-strapped companies that are generally struggling to get through the immediate work at hand. This might also be a good area in which to use internships. Also it may be worth reminding publishers that Access Copyright may be able to help locate authors that publishers have trouble finding.

> Task Force Q: *Will publishers have to give up ownership of their works in order to maximize its use? How much will they have to give up? To whom?*

The world of electronic rights is evolving to be as complicated as all the other rights that publishers deal with. Thus, the answers to the above questions will depend on the specific situation --- and we don't yet have a full understanding of all that technology will offer.

Currently, most of those dealing in distributing electronic content are doing so on a non-exclusive basis, with the originating publishers retaining ownership. Thus, a company can place its digital content on-line with Google, Amazon, NetLibrary, Ebrary, etc. or it can allow its ebook content to be sold through eBooks.com, eReader.com, etc.

However, the fluidity and openness of the market at this point may be a function of the extreme competition (Google, Amazon, Yahoo and many others) that is going on as large and small players jockey for position. There is some fear that if any one of the majors (e.g. a Google) becomes too powerful, it will begin dictating terms in the same way that Apple iTunes did in the music field.

WORKFLOW

There is a lot of focus on the possibility of enhancing revenues through the exploitation of digital content, but less on electronically streamlining and automating the publishing processes that will be fundamental to positioning companies to take advantage of all future opportunities in the digital world.

At the recent BookNet Technology Forum, the Adobe representative, Bill McCoy, said that, in his opinion, this was the most important area on which to spend time and resources. Essentially his message was 'get your house in order now so you can increase efficiency and be prepared to take advantage of new digital opportunities in the future'. This report seconds that recommendation.

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Most publishers have done some of the work, generally in the interface between creator/editor/designer/production/printer. There has also been a lot of work done, both by individual publishers and by BookNet, on the supply chain function, from the creation and refinement of standardized bibliographic data, through the order processing interface between retailers and publisher, to the tracking and reporting of sales data.

Several ACP members are working on implementing full or partial service packages with software solutions companies like Acumen (e.g. Kids Can, Anansi, Heritage House), Klopotek (e.g. Lorimer, UofT, UBC) and Anko (Dundurn). Others have developed their own proprietary systems (e.g. UofA) or are working with larger companies who have a track record in the area (e.g. M&S with Random House).

Large, multinationals have an edge in that they have the money and people resources. Their experience can help inform the smaller and mid-sized companies.

Technical Standards:
Following is an examination of some of the standards that are emerging across the industry:

> *Editorial/Production*
> Creators/Editors: Front end dominated by Word (de facto standard)

> *Design*
> Quark is the current standard but may be being overtaken by Adobe InDesign which has been more responsive to customer service and affordable/flexible pricing. However, when a publisher has most of its backlist files in Quark there may not be much of an incentive to change over, particularly as it is not yet a seamless process to migrate Quark into InDesign.

> Moreover, when a publisher is selling international rights and supplying digital files to the buyer, the international standard still seems to be Quark and, in fact, often older versions of Quark. One of the children's publishers interviewed regularly delivers both a Quark file and a PDF as part of any international sale of rights.

> This is an area where time will tell and, of course, newer technologies may emerge that renders older ones obsolete.

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Mark-up
XML is the 'glue', the mark-up language that is used to 'translate' one software program to another (e.g. Quark to PDF).

Production
PDF's are the defacto standard and most printers are requiring that final files be delivered in PDF. If the file is delivered in Quark or InDesign there is often a supplementary charge to convert that file to PDF. Or alternatively, there is a discount if the PDF file meets the printer's requirements.

Some printers offer technical and training support to help publishers prepare their files in the best way. For example, Freisens, a well-respected Canadian printer, offers SmartPrep®, a prepress workflow package that automates the creation of PDF files, ensuring that all files meet Friesens' specifications. They also offer on-line guidelines for preparing electronic files (see http://www.friesens.com/Bookplant/EPP/PEF.asp).

Transcontinental Printing offers what they call The Digital Workshop (http://www.transcontinental-printing.com/en/services/default.aspx?idmenu=214). This is a set of online collaborative tools that allow the publisher to conceive, build, manage and monitor print books from concept to distribution.

Taskforce Q: Should publishers be concerned with making backlist works available in Print-On-Demand form? In downloadable e-book form? Both?

Distribution of Digital Files
The PDF format is also the basic format for subsequent distribution into the various digital channels from ebooks to Google as well as for Print on Demand. However, various companies have variations on the theme necessitating an added step to convert the basic PDF to whatever the end user (e.g. Amazon, ebooks, POD, etc) needs. Many of the companies working in the field (e.g. Gibson, Lightning Source, etc.) include this conversion/adaptation service in their package of services offered to publishers. Larger publishers with sophisticated internal systems may also have the ability to do so.

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PROFESSIONAL DEVELOPMENT OPTIONS

- Short, practical traveling seminar that shows best practices in getting from the creators ms. to the most universally acceptable PDF that can be adapted to other formats. Common problems, solutions, case studies. (NB This could be offered with a follow-up, consultation option that would allow publishers to access experts for a one or two-day session to work with their team in-house.)
- It may be possible to do in partnership with printers. Freisens seem particularly devoted to training its own staff (in cooperation with Red Deer College) and also offers in-plant training opportunity to others. It may be worth approaching them to see it they might partner on a training opportunity.

Print on Demand (POD)

Print on demand technology continues to improve and to offer more formats and better quality. It does offer options for short runs but is generally still too expensive on a per unit basis or too limited in the formats offered to work in any substantive way for most trade publishers. Academic presses in particular use POD for reprinting expensive texts that continue to be used for courses but not in great numbers. The technology can also be very appropriate for short run genres like poetry.

BookNet researched the possibilities of ganging up printing from various publishers to achieve better economies of scale. However, the very nature of Print on Demand is to respond quickly to fulfill a specific need rather than to wait until a critical mass of titles accumulates. This coupled with the fact that trade publishers use a wide variety of formats and trim sizes, makes it unlikely that a POD consortium would make sense, other than to take the burden of administration off the shoulders of individual publishers.

However, this is an area where I think future technological advance may ultimately provide huge economic benefits for the industry. If and when short run printing can achieve acceptable unit costs and greater flexibility it can substantively change the economics of the industry, eliminating the waste of over runs and perhaps even putting an end to the entire system of returns.

Automating Internal Operational/Administrative Workflow

The operation of a publishing house requires the development and maintenance of many, overlapping systems and functions, from scheduling the book production process through paying royalties to reviewing and analysing sales results.

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This basic operational management is an unglamourous side of the business but the side that can make or break a company, regardless of the brilliance of its publishing program.

There have been several major collective initiatives in this broad area, including BookNet's Supply Chain project and the work done around the investigation and adoption of software solutions like Klopotek and Acumen by a number of publishers.

Discussions with publishers who are implementing these systems indicate that it is a huge investment of time and money at the front end with the pay-off to come with increased efficiencies and capacity at the back end.

These 'pioneer' publishers are working with suppliers to refine and adapt the systems to meet the specific needs of the Canadian market and later adopters will reap the benefits of this work. It will be very interesting to hear the results from users once these systems are fully implemented and in use.

PROFESSIONAL DEVELOPMENT OPTION:
- Next AGM have a presentation by publishers who are now implementing the new systems. The upside and downside. Include others who have proprietary systems.

However, many publishers did not adopt any of the programs researched, some because of the cost in both time and money, some because they have their own proprietary systems, some because they don't perceive a need, some because they work with distributors who they feel provide the service.

The issue of cost is a very real concern. Many smaller and even mid-sized publishers simply don't have the resources to deal with the implementation and the on-going fees required to license commercial software solutions.

The focus of many such publishers is on creating and producing their books and they depend on their distributors for much of the operational workflow. Thus they tend to rely on those distributors to set the lead in establishing business standards that they then adopt.

Regardless of how individual publishers are dealing with their internal workflow processes, it is very apparent that there is more and more pressure across the industry to adopt better basic business practices to deal with both

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traditional and emerging business models. With eroding margins and changing markets, Canadian publishers need every possible advantage to survive and prosper.

PROFESSIONAL DEVELOPMENT OPTIONS:
- Develop and offer, possibly working in partnership with other industry groups (e.g. OBPO) and academic partners (e.g. Humber), a training program focussed on improving the business skills of working professionals
- Have an expanded mentorship/consultant program that offers publishers the services of selected consultants for a period of time to help them implement best business practices within their financial and people resources.

Digitization of Backlist
Let's for a moment look specifically at digitization of backlist.

> *Task Force Q: What infrastructure will be needed to digitize publishers' backlists? Who will scan the backlists? Who will own the scans? Who will pay to scan the backlist and how much will it cost?*

As we have seen, some publishers, particularly the larger ones, are investing in digitizing their backlist themselves, sometimes investing in internal equipment and sometimes working with outside suppliers.

There are several collaborative initiatives underway to help publishers deal with the digitization and exploitation of their backlists. These initiatives are working toward the best practice of giving publishers ownership and control over the digital versions of their titles.

Specifically there is a consortium of ACP publishers (Insomniac and ECW with Dundurn and M&S) who have received a Partnership Fund grant for an initiative described as: "*Digitalizing Books for a New Market of Readers: a project to digitalize books and help the companies involved deliver books in electronic formats, transitioning these companies into a new arena of publishing to become an "on-screen" industry.*"

And in B.C. another group of Canadian publishers (Douglas and McIntyre, Heritage House, Raincoast, Oolichan, Theytus and Hedgerow) have banded together to build a package of digital non-fiction titles to sell to libraries in B.C

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and across the country. In addition to generating sales revenue, the process of preparing and converting their files is intended to help the participating companies better understand the process.

The experience gained by both these projects will help in developing valuable information on best practices for all Canadian publishers on how to manage the process.

PROFESSIONAL DEVELOPMENT OPTIONS:

- A follow-up workshop based on the both groups experience. Include suppliers of electronic services. Possibly with hand-outs that give a checklist of best practices.

It may be possible to work with an existing organization or organizations (e.g. Access, BookNet, Library and Archives) who would function both as providers of the digitization service (probably working with an outside supplier) and as a central warehouse for digital data and a clearing house for digital rights on an non-exclusive basis (see more under Digital Asset Management).

Some of the larger organizations, particularly academic institutions, libraries and government, are purchasing equipment and doing their own internal digitization.

In addition, there are external suppliers (e.g. Lightening Source) and/or organizations (e.g. Access) that can help publishers. The simplest solution is to pay a supplier to digitize content. A standard cost that is thrown about in the industry is $90 per title to scan a hard copy and receive a digital file. However, not all titles are equal and not all digitization is equal. It is in the best interest of publishers to get high standard digital files (PDF's) that meet as many needs as possible.

BookNet, who has done research in this area, has concluded that this in not an area where Canadian publishers operating together as a collective would be likely to achieve significant economies of scale. BookNet also found that it can be difficult to get 'apples to apples' competitive quotes from suppliers as there is not yet an industry wide standard set of specifications.

However, as mentioned above, there are a number of organizations who could be partners in the process to take the burden of management off the publishers.

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DIGITAL ASSET MANAGEMENT

> *Task Force Q: Who will store and distribute digital copies of our works? Should one company or organization do this, or should many? Should digital warehouses be involved in the sales and marketing of digital books? Or are they simply infrastructure? If rights agencies or retailers become clearinghouses for the sale of works in digital form, will the role of the publisher be reduced?*

Physical books need to be warehoused and distributed with all the processing that goes along with order fulfillment. Digital assets need the electronic equivalent.

Some larger companies (e.g. HarperCollins, Harlequin) have or are developing their own internal digital asset warehousing and distribution solutions.

There are a number of companies (e.g. North Plains, Canto, Artesia) that specialize in selling or licensing software solutions specifically for the book industry. The advantages of these sophisticated, comprehensive programs are that they give user publishers the ability to manage and manipulate their assets themselves. However, like Klopotek or Acumen, they are relatively expensive and require significant people resources to implement.

There are also non-profit organizations, like Access Copyright, who are active in the field.

And, as discussed in the Digital Asset Distribution section, there are companies that specialize in managing and selling publishers' aggregated digital assets, on a non-exclusive basis, to end users like libraries and universities in return for shared revenues or fees.

I don't think at this stage there is any one right answer as to who is best positioned to provide this service. For publishers who are financially able, in-house control provides the greatest flexibility and the fewest intermediaries, thus enabling publishers the maximum ability to generate future revenues from their content.

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EXPLOITATION

> *Task Force Q: Who is best positioned to exploit the distribution of books in digital forms? Can a co-operative organization help publishers maximize the digital use of their titles? Should a new organization be created to do this, or should existing organization be utilized/ Should different aspects of this process be allocated to different organizations (such as the ACP and ANEL, BookNet Canada, Access Copyright, Copibec, etc.)*

Ideally, the best people to exploit digital assets are publishers themselves. That said, the degree of internal vs external management and control will depend on the individual company's size, resources and own sense of its business model. In the same way that publishers find various ways to market and distribute their physical books, they are and will continue to find ways to market and distribute their digital content.

As outlined below, there are a number of companies and organizations who currently offer a variety of digital asset distribution and marketing services and there will be more. In addition there are several pilot projects run by publishers operating collectively that will be very interesting to watch over the near future.

Following is a brief examination of some of what is going on in the market place and some possible options.

Digital Asset Distributors

> *Task Force Q: What digital rights or licences should publishers be ready to sell? To whom?*

There are many emerging players in the digital distribution arena, from monolithic entities like Google who have very broad market reach to niche distributors like Canadian Electronic Library (Gibson Publishing Connections) who target specific customers like libraries. Most are for-profit but there are some (e.g. NetLibrary) that are non-profit organizations.

They use a variety of business models as follows:
- enterprises that sell physical books (e.g. Amazon, Indigo.ca, etc.) as well as other products
- enterprises that sell downloadable ebook content (eBooks.com, etc.) readable on a variety of platforms

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- enterprises that sell or license access to searchable, aggregated book content to target markets for the purposes of research or education and generally offer some sort of proprietary software platform that serves the specific needs of that market (e.g. NetLibrary, Canadian Electronic Library, etc.)
- enterprises that are search engine based and offer free access to aggregated book content to everyone on-line. Revenue is generated by selling ads that are automatically positioned adjacent to content by key word searches (e.g. Google, Microsoft, etc.)

Many of these companies provide services much like those of traditional distributors and/or wholesalers but in a digital context.

For example, Gibson Publishing Connections is a full service distributor and sales agency serving the Canadian library market. Gibson's represents client publisher's digital content and has established relationships with Canadian libraries, providing selection and acquisition services for electronic resources.

Many libraries prefer to buy in groups or consortia which aren't equipped to deal with individual publishers. Companies like Gibson serve as an intermediary between buyer and seller. They also offer specialized services that meet library needs.

Gibson has created a Canadian collection called the *Canadian Electronic Library: Monographs from Canadian publishers, organized for the digital library*. The Canadian Electronic Library (CEL) provides sophisticated full text search capabilities for all the content included in its catalogue

To be part of the collection, publishers must sign a three-year, non-exclusive contract and submit titles of their choice in a PDF format. There is no cost, other than that of the digital file. Publishers may withdraw titles as they wish.

The standard pricing model is through a subscription agreement under which an institution buys annual access to the complete collection for a price based on the size and number of users in the institution.

Publishers earn revenue based on a formula which takes into account actual usage of each title as well as the number of titles submitted by a publisher as a ratio of the total collection.

It is important to note that library associations in several provinces have secured government funding for the acquisition of electronic resources, including books. Ontario for example has earmarked $15 million over the next

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3 years for 'digital content'. Thus there is a real market ready and waiting for appropriate material.

Following is a sampling of some of the most prominent companies and organizations active in the field (most are American). Google will be dealt with separately.

Gibson Publishing Connections: (see above)
Ebrary: (markets to libraries and other on-line channels, offers a variety of ownership and subscription models);
MyiLibrary: (specializes in the academic and professional markets);
NetLibrary: (provides econtent to academic, public, corporate and special libraries, offers an 'easy-to-use information and retrieval system for accessing the full text of reference, scholarly and professional books)
Questia: (describes itself as an 'on-line library' targeting the student market and specializing in the humanities and social sciences)
eBooks.com: (downloadable consumer ebooks for use on PC, PDA or mobile phones)
Mobipocket: (similar to eBooks.com)
eReader.com: (similar to eBooks.com)
Safari: (specializes in reference and text books, particularly for business and IT professionals and college students)

Some of these companies also offer publishers the option of licensing their software for internal use to manage their own digital assets.

The standard business relationship with publishers is non-exclusive. Typically publisher receives an agreed upon share of the distributors revenues.

The fundamental revenue models are:
- Direct sales to consumers
- Sales or licensing of search services to aggregated content (generally to specialized customers like libraries, academic institutions, professional clients like lawyers, etc.)
- Ad sales

Google
> *Task Force Q: Should Canadian publishers attempt to develop a joint position on Google's publishing programs? How can Canadian publisher's best access the opportunities offered by Google while retaining control over their intellectual property.*

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Google's corporate philosophy -- "to organize the world's information and make it universally accessible and useful" – is a compelling one from a consumer point of view.

Google presents the industry with both an opportunity and a huge challenge.

On the one hand Google Book Search offers a Publisher Partnership Program that publishers can join on a non-exclusive basis. Member publishers can choose which titles and how much of any title to include. Once Google receives a title, it is indexed. Then, whenever someone uses words and phrases appearing in that book in a Google Book Search, it shows up in the search results. Publishers get a link to their own website, positioned adjacent to their titles. A short list of large, on-line book retailers also comes up adjacent to the title under a Buy this Book heading.

There is no cost to join and no fee is paid by Google. The business model is ad based. Google gives publishers a share of revenue from contextual ads, placed next to the book pages, that are actually clicked on.

Then there is the challenging aspect. Google Book Library Project is working with some major libraries (e.g. New York Public Library, universities of Michigan, California, Virginia, etc.) to digitize their entire collections, including the works of publishers whose books are in the collections but have not given their consent. A group of American publishers, as well as the Author's Guild, has launched a lawsuit against Google based on infringement of copyright. Google claims that it is covered under 'fair usage' in as much as it only allows 'snippet' vs full text views. It is anticipated that the court case will take some time to resolve.

In the meantime, many of the same publishers who are part of the lawsuit continue to include their books in the Partnership Program.

It is difficult for publishers to determine what the 'right' approach to the Google fact is – as it is for other sectors.

The reality is that, like their American counterparts, Canadian publishers, particularly those with larger lists (e.g. university presses), are joining the Partners Program and are receiving regular, although not substantial, monthly cheques for monies generated by the ads positioned adjacent to their books. Apparently the reports generated by Google, which include maps of where orders come from, are also useful in helping understand the marketplace.

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In a time in the industry where every possible penny counts, I think it would be appropriate to continue to advise and educate publishers as to the situation but to leave it to them to determine whether to participate or not.

As previously stated, educational efforts should emphasize that publishers are best served if they own their own digital files, that Google does not give publishers a copy of any file that they digitize and that the Google file is not of superior quality. They should also be told that they may provide lists of copyrighted material they do not want included in the library program.

Also see Appendix B.

PROFESSIONAL DEVELOPMENT OPTION:
- Include regular Google update panels/seminars that monitor and explore what is working and not working with Google.
- Offer regular seminars/workshops that feature other digital asset distributors and publishers who are using their services. Specifically focus on the business deals, what's working best for publishers, what isn't.

In addition, perhaps the ACP could perhaps develop a 'statement of support' for the American lawsuit rather than launching an action of its own, which would obviously be very costly.

BUSINESS MODELS

Publisher Exploitation
> *Task Force Q: How will publishers market books in digital form? Should this be done collectively or should publishers carry out this work themselves?*

In addition to selling through third party companies as outlined above, publishers have the option of selling their own product (analog and digital) on-on-line directly to consumers (e.g. Harlequin, HarperCollins, Wiley – see further details below).

Traditionally most trade publishers have not aggressively marketed directly to customers for a variety of reasons: the difficulty of finding their target market, the cost of direct mail marketing to broadly based consumer groups and the fear of alienating retail accounts.

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The digital revolution coupled with eroded margins and reduced retail sales has changed the landscape. Most publishers are offering consumers the opportunity to buy on-line, especially backlist. However, in general, this is passive marketing involving minimal efforts to actively seek out customers and pursue a proactive, on-going direct marketing campaign.

The on-line environment offers the opportunity to vastly reduce the cost of accessing potential customers (email blasts, e-newsletters, etc. all supported by a website). However it can require considerable expertise and significant marketing dollars to get people to a visit a site and to collect and manage customer data.

There are however many inexpensive ways to promote books on-line using blogs, links, cross-promotions, contests, etc. Most publishers are at least getting their feet wet by experimenting with on-line marketing and may be prepared to share successes and failures.

One of the most recent innovations is the development of 'widgets'. Widgets offer functionality similar to Amazon's 'Search Inside the Book' but, unlike Amazon's Search Inside which is restricted to the Amazon website, they are designed to be used on almost any website, including social networking sites like YouTube and MySpace.

Both HarperCollins ('Browse Inside' – see more below) and Random House ('Browse and Search' – includes a text search feature) have launched their own book widget services.

Both are designed to offer protection against piracy and unauthorized copying; to provide statistics on the number of sites displaying any particular book and to allow access so they can be modified or adjusted at any time. Ultimately, publishers will be able to establish flexible business models around how much of a book can be viewed and at what cost. Some day these book widgets may be the way consumers access digital book content.

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PROFESSIONAL DEVELOPMENT OPTIONS:
- Direct Marketing Seminar perhaps working in partnership with Magazines Canada: Presenters could include representatives from the magazine industry, the direct marketing service industry (e.g. Indas), Harlequin, some of the multi-nationals.
- eMarketing seminars: publishers' successes and failures, blogs, viral marketing, cross-promotions, latest innovations such as 'widgets', etc.
- Offer eMarketing specialists as part of the mentorship program.

> *Task Force Q: What business models are most appropriate for book publisher who are entering the digital marketplace?*

Following are examples of three large international book companies and how they are approaching the digital marketplace.

Harlequin
Harlequin has always been an anomaly in the book business. It is one of the few true 'brand' names in book publishing and its customers are attracted as much to the brand as they are to individual titles. In addition, Harlequin has a long tradition of and expertise in direct marketing that it has taken into the digital world. Harlequin's website is a destination site for fans of the brand which is rare in the publishing world.

Harlequin has entered the ebook world with gusto and regularly tops the ebook bestseller lists. The company has mined its backlist and offers a wide variety of both front and backlist titles on its own website for direct sale to customers. It even offers some content that is only available in electronic format. It also sells through the various ebook distribution sites like eBook.com. Customers who buy directly from Harlequin's site get a discount off the regular or list eprice offered on other sites.

> *Task Force Q: How do on-line retailers of digital content deal with their suppliers?*

The business model for selling through an ebook distributor like Mobipocket is much like selling through a 'bricks and mortar' store: Mobipocket takes 50% of the list eprice set by the publisher and remits 50% to the publisher. In addition, the ebook distributor pays 10% of the list ebook price as an affiliate fee to the publisher for every purchase that is referred from the publisher's website link.

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Harlequin makes it very easy for consumers by offering free downloads of various ereader software and an easy-to-use shopping cart function. It also offers on-line book clubs, enewsletters, contests, etc. designed to engage and entertain its customers.

HarperCollins (HC)
HarperCollins is also aggressively pursuing the electronic market, with the Canadian branch participating fully.

The company has its own internal, globally accessible, digital warehouse and also works with search engines like Google and Yahoo and on-line retailers like Amazon to direct consumers to its own site.

In addition to offering ebooks on its own website, HC offers its products through other digital distributors like the Sony Connect store. It is interesting to note that a recent title, *At the Center of the Storm*, is offered at the same price on both the HarperCollins and the Sony Connect site. Even more interesting is to compare the price of the print book, $27.95, and the discounted ebook, $15.96 (list eprice $19.95).

HC also offers consumers an array of other on-line marketing initiatives including sample pages of select titles and podcasts of author interviews.

Their latest innovation is a 'Browse Inside' widget, which they describe as '… *the digital experience of flipping through the pages of a book to get a sense of it. Ultimately, each book in the HarperCollins catalog will have the Browse Inside link. Until then, this page will present noteworthy books as they become available with Browse Inside digital pages for you*.'

Their widgets are designed to be easily picked up by other sites, thus encouraging viral or word-of-mouth marketing. They allow any website to add 'search inside' functionality to its pages. No special permission is required. Browse Inside doesn't show all content of a book generally just the Table of Contents and front matter, the first three pages of the first few chapters, and front and back covers. It is intended to give readers a sense of the writing and what the book is about, similar to what a customer might sample in a bookstore.

Wiley
Wiley, a leading publisher for the scientific, technical, and medical communities worldwide, is another example of a publisher using the digital environment to market and sell its books. Like Harlequin and HarperCollins, Wiley markets and sells directly to its customers on its website as well as

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through other digital asset distributors like NetLibrary and Google. Leading textbooks are available in Wiley Desktop Editions (downloadable ebooks) at 60% off the print cost.

What can be learned from these example and others is that publishing companies need to get into the marketplace to find out what works and what doesn't for their particular circumstances. It is also apparent that it is not incompatible for a company to control and manage its own digital asset distribution internally while also working with other digital asset distributors.

Other industries

> *Task Force Q: Business models for the distribution and sales of digital works in other industries. Which aspects of these are appropriate for the book publishing industry? Which are inappropriate?*

The book publishing industry is not alone in grappling with the impact of technology.

The music industry ('the canary in the mine shaft') has experienced a complete and massive change in its business and is still evolving and innovating to meet the challenge. It was the first industry to bear the brunt of electronic change, with film/tv/video and print predicted to follow in that order. It is interesting to note that the iTunes store now offers downloadable music, movies, tv episodes, audio books and games.

Following are some of the ways that the music industry has evolved to cope with the market revolution:
- Unbundling of content (consumers can now buy downloads of individual songs vs whole albums)
- Very affordable costs (downloads for iTunes have been at .99 for awhile. Recently there have been some experiments by music companies (e.g. EMI) to get that price up to 1.29 by offering unrestricted downloads that are not protected by anti-piracy/anti-copying technology.)
- Easy, user friendly and appealing legal downloading (e.g. iPod/iTunes)
- Added services/diversification (offering everything from artist management services to custom compilations for commercial use)

Perhaps most importantly, the sound recording industry's experience is a cautionary tale in the perils of ignoring profound change in the marketplace and consumer expectations.

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Even as it has adapted to the new market realities, the music industry still continues to fight the copyright/ piracy battle. Recently the Recording Industry Association of America sent letters to hundreds of university students threatening to sue for copyright infringement unless they paid a settlement of up to $7.87 per illegal download.

iTunes does claim that it is having a positive impact on piracy, citing recent in-house research that shows 36% of US teens bought music using online stores in 2006, up from 28% in 2005 and 20% in 2004.

PROFESSIONAL DEVELOPMENT OPTIONS:
- Offer focussed workshops/panels that feature speakers from other cultural sectors (e.g. music, film/TV, gaming, etc.) who speak to topics relevant to book publishers (e.g. ownership, exploitation models, automation of internal processes, direct marketing to consumers, etc.). There would need to be some prepatory work done prior to such sessions to ensure that the speakers were briefed and had some understanding of what would be relevant to the audience.

POSSIBLE PARTNERS

Task Force Q: Can existing digitization initiatives, whether homegrown or imported, be accessed to help the Canadian publishing industry move forward?

As discussed throughout this report, there are a number of organizations that are well positioned to partner with the ACP and its member publishers in navigating the complexities of digitization and digital exploitation.

Following is a brief look at some of them.

1) Access Copyright
Access, a collective formed to manage the licensing of photocopying rights on behalf of creator and publisher members, is currently undertaking a major research and planning exercise to examine what it might offer in the way of expanded services in the digital arena. It already offers some digital licensing services to publishers who have signed the relevant contracts. These contracts are non-exclusive and don't prohibit a publisher from exploiting its digital assets directly should it wish to do so.

Depending on the outcome of their research, Access may decide to offer a broad suite of digital services to publishers including digital rights management and possibly even sale representation on behalf of publishers.

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It is currently working on a pilot program with Irwin Law and Vanwell to digitize and distribute those publishers' digital assets to post-secondary institutions. Part of the outcome will be a case study in best practices for digitizing backlist for multiple uses. Access will be happy to share its outcomes once the project is completed.

Access also has some financial resources for professional development and has indicated its willingness talk to the ACP about partnering in developing and delivering relevant professional development seminars.

PROFESSIONAL DEVELOPMENT OPTIONS:
- Partner with Access to deliver a seminar on the outcome of their pilot program to ACP members.

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2) BookNet
BookNet, a not-for-profit agency dedicated to innovation in the Canadian book agency supply chain, works with publishers and booksellers to develop services and standards to make the selling of books easier, faster, and cheaper.

BookNet has conducted research into the possible economies of scale that might result from managing the digitization of publishers backlist and the grouping of publishers POD needs together. Preliminary conclusions are that there would not be significant financial benefits, in terms of reduced unit costs, from a collective initiative.

BookNet developed and hosted a full day seminar on the impact of digitization and is continuing to offer a series of seminars on the topic. BookNet too may well be an excellent partner with whom to work on specific professional development seminars.

3) Organization of Book Publishers of Ontario (OBPO) and other Provincial Associations
The OBPO is interested in exploring training opportunities that would access provincial funding dollars and would be pleased to discuss possibilities with the ACP.

There is one significant funding opportunity through the Ontario Ministry of Training, Colleges and Universities that could help to develop curriculum materials and to pilot a professional skills training program. This consultant has experience with a similar program funded by that Ministry for the film and television industry.

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4) Humber and other academic institutions
A preliminary, very general conversation with the head of the Humber Creative Book Publishing Program, indicates a sincere interest in working with the industry on developing appropriate professional programs -- possibly even ones that could be delivered nationally.

This consultant has also had experience in partnering with several academic institutions on film and television industry training programs and is confident that other educational organizations could also be approached.

5) Other
The ACP is working cooperatively with ANEL. ACP representatives have attended meetings hosted by Library and Archives Canada (LAC). LAC is interested in the development of a national digitization strategy and may provide services and resources to accomplish that.

There are some individual publishers who have developed proprietary systems that they might consider offering to open content alliances for use by all and for on-going adaptation and up-grading.

There are also, as previously described, several cooperative efforts (B.C group, OBPO) underway. The results from these will help inform the industry.

FUNDING

> *Task Force Q: Are public funds to assist with the digitization of pre-digital copyright works available? Are funds to assist with the development of infrastructure for digital sales, marketing, warehousing, and indexing available? Who are the most appropriate funding partners?*

A strong argument can be made that the best model for Canadian publishers is to directly retain, manage, market and sell their own digital assets to the end consumer cutting out middle men whenever appropriate in order to retain as much of the profit margin as possible.

At a minimum, publishers should be enabled to digitize their backlist and, through a combination of on-going professional development and financial assistance, to understand and properly exploit the various opportunities that the digital world offers, whether directly or through third party services.

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To this end, the consultant recommends that the ACP lobby for the creation of a Digitization Fund, similar in concept to the Supply Chain Fund that would enable publishers to master and implement the entire process, from digitization of backlist, through research and possible purchase or license of digital asset management systems, to digital asset marketing and sales.

Some components of the fund might be very specific and short-lived (e.g. one-time component, run over about 3 years that enables Canadian publishers to digitize their backlist) while others would be broader and longer term.

There are also several existing funds that may be accessed, particularly for the educational components recommended. The BPIDP Professional Development component offers up to $100,000, generally capped at 50% of a project's eligible expenses although there may be an argument that this is such a vital need that the cap could be reduced.

In addition there is provincial money, though the Ontario Ministry of Training Colleges and Universities (also see Partners above) available for the development of curriculum and the delivery of pilot training programs and the OMDC Partnership Fund, which has been successfully accessed for a similar training initiative in the film and television sector.

<u>CONCLUSIONS</u>
See the Executive Summary section for final recommendation arising from this report.