



Beyond the Book

A podcast series on the business of writing and publishing

E-MAGINATION: What's Now and What's Next in E-Reading

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Featuring

- Mark Coker, Founder and CEO, Smashwords
- Ami Greko, Senior Vendor Relations, Kobo
- James Howitt, Director of Publishing Services, RR Bowker
 - Ron Hogan, Electric Literature

Moderated by
Christopher Kenneally, Copyright Clearance Center

KENNEALLY: Thank you everyone. It's a pleasure to join you again. We first did an E-magination program last year. It's interesting to take stock of the passage of time, just 12 months and what has changed. I also want to note with some pleasure this notion of E-magination. I'm put in mind of a quote from Albert Einstein. He said that imagination is more important than knowledge. That was a man who was a scientist, after all – science, simply another word for knowledge. He understood the importance of research, understood the importance of learning and so I think that's why we come to Publishing University. Although, when I think about why I came to college many years ago, it was for other reasons of course. But last year, devices was the subject at hand and that was for good reason. At that point we were only one month into the iPad era and in the time since then, we've seen more than 15 million of that famous tablet sold. Something that seemed to really be the tipping point in bringing the e-book revolution to pass. But I'd like to point out that if 15 million iPads are sold, that's 5% of the American public with such a device. 95% remain without it. So why all the rush?

Last time we had a revolution of this kind, was the emergence of the printing press in the end of the 15th century. It took 150 years for anything like a publishing business to emerge. So while it's possible to invent a technology, inventing a business takes a good deal more work. But of course, the reason we are here is because of what's happening. This is not the Middle Ages after all and we don't have centuries to work these things out. These things happen at lightning speed because of the technologies. The AAP has just released some numbers regarding book sales for January and February of 2010, the most recent numbers available.



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What they found was what they called triple digit percentage growth. There's a lot behind that phrase, triple digit percentage growth, but what you should know is since February 2009 to February 2010, e-book sales rose 202%.

E-books today are the number one format among all categories of trade publishing, according to AAP. And this was in February – this may flatten out some, but in February – this is an interesting phrase, an interesting thought – all those e-book sales were attributed to something they called loading, which is the fact that lots of people around holiday time got a tablet of some kind, a Kindle, a NOOK, or an iPad and they had to put something into it, but the dollar figures are also important to cite. Year to date sales – so for January and February of e-books, were \$164 million. For all those other trade categories, \$441 million, and that figure in the trade print side was down 25%. So we're here today to understand about e-reading. How is the e-reading experience? How are e-reading purchasing patterns going to affect everyone in this room over the next 12 months?

So we have a great panel to chat with and I'd like to get started first with James Howitt. James, welcome. James is Director of Publishing Services at RR Bowker and he oversees the client relationship of a host of Bowker business intelligence services, including PubTrack, the consumer research panel that reaches annually over 40,000 E & P book consumers. He's been involved in quite a lot of research in that work and so comes here with what I think we all need, which is some sobering numbers, some real facts behind the hype. So James, let's start by asking what does your research tell us who the e-book buyer is and what kind of preferences they have?

HOWITT: Before we get to that question, I just want to give you a reason why I'm actually here and how I got into the business intelligence sector for Bowker. I used to work for Nielsen – sorry.

KENNEALLY: Sorry.

HOWITT: I used to work for Nielsen BookScan and I used to know everything about point of sale and why point of sale numbers were very much important for publishers to understand their market. You only have to go back five, six years ago where it was relatively easier for you guys to publish a book, find a store, place that book in the store and then watch the sales. Nowadays, a consumer can pick up a book right now, download it, buy it anywhere they are, anywhere in the world and unfortunately, no true industry is reporting those sales to collect exactly how your e-books are selling. So the only way that we can understand what's going on in the mind of a consumer is by asking the consumer. Now, in the business that I look after, we track two markets – the higher education market and the Christian book market from a point of sale perspective.



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So we know what's going in those markets, but in order to really understand beyond the numbers, you'd have to go back to the consumer and ask them why they're doing what they're doing, where are they shopping and why, how did they become aware of your products, etc., etc. So we do that on a regular basis. In fact, this year we're tracking 6,000 unique book consumers every month. We teamed up with BISG to look at the e-book buyer and really focus in on who they are, what they're doing, and why they're doing it. So right now, in March we have a e-book market share of about 15%. Now, when we say 15%, we say 15% for the entire market. So that's new, used books. That's college books. That's academic. That's fiction, nonfiction, children's, religion, and through any channel because we can ask a consumer where they've purchased their books and they can tell us Barnes & Noble, street vendor, book club – wherever they purchased that book. So right now in March, to answer your question, the e-book buyer right now is predominantly female. I think over the age of 45, middle to high income and it's growing substantially.

KENNEALLY: Well, you mentioned the challenge of tracking all these numbers. Let's dive a little bit deeper into some of the numbers and I'm curious, too because you also follow the market in the UK. Are there any interesting comparison points there that you'd like share with us?

HOWITT: I think in the UK, the UK is slightly behind the e-book curve, in the sense that in U.S. free is – 50% of e-books are purchased as free. In the UK, it's actually slightly higher than that. It's almost up to 70% of the books are free. So slightly behind the curve.

KENNEALLY: So I hope everybody heard that. So over 50% of e-books purchased are free. You have some other interesting numbers regarding pricing and particularly the comparison with other book forms, if you will, formats. I think the hardcover was \$16?

HOWITT: That's right.

KENNEALLY And the e-book goes down to –

HOWITT: It's about \$6.

KENNEALLY: \$6. Right and you also found out that there is some lifestyle issues that are occurring here, I believe. You said that you were also tracking the hours that are spent and how people relate to other mediums in this way.

HOWITT: That's right. I don't have those figures with me, Chris, but we do do that on a regular basis and again, it's all about understanding the consumer. I challenge all of my client base – publishers, authors, retailers, if you had 1000 e-book buyers in



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front of you, what questions would you be asking? And that's the key of consumer research for the publishing trade right now.

KENNEALLY: Right and with regard to the number around women, that they are the predominant share of the market – 60/40 roughly. What you have found – and that may be expected because up to now, the e-book marketplace has been dominated by genre fiction and they are very much fans of certain types of genre fiction, but this is now moving beyond fiction.

HOWITT: That's right. Some of the nonfiction categories – business, self-help, all have 15 to 20% market share, in terms of units and again, the key is – it's identifying that segment that's buying that format within that genre.

KENNEALLY: Right and give us a sense of how quickly this is happening. As I mentioned, this isn't the Middle Ages. We don't have all time in the world. In May of 2009 – so roughly two Publishing Universities ago, the share of e-books was about 3%. So where are we today then?

HOWITT: (overlapping conversation; inaudible)

KENNEALLY: I think you said 15%.

HOWITT: 15% right now.

KENNEALLY: Right, but it was 4% only last year. So this is really a very –

HOWITT: Accelerating.

KENNEALLY: – accelerating curve.

HOWITT: Yeah.

KENNEALLY: As you continue to track this, what are some kinds of questions that you're going to be wanting to really get the answers to and dig into over the next year?

HOWITT: I think it's all about awareness. One of the things that we have to realize right now is that bookstores hold in excess of 50, 60,000 titles to browse through. Today's e-book buyer is going online and probably seeing – I don't know, 50, 60 titles in front of them. There's not that browsing, discovery capability just yet and I think we've got to try and understand what's going on in that market and again, I'll keep saying it, but not everyone is buying an e-book. There are still major areas like – let's say, graphic novels where 70% of the books purchased are trade



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paperback. So it's about understanding each one of those customers and why they do what they do.

KENNEALLY: And I think that's heartening news. I mean, we are often attending these kinds of conferences that are called something about the future of publishing and I've begun to think that the future of publishing is conferences about the future of publishing, but we hear at those conferences that the book is dead, that – well, we had we a debate just a few moments ago that said publishers are irrelevant, but it doesn't sound at all like you're going along with that yet.

HOWITT: No, definitely not.

KENNEALLY: All right. Well, I think it's a good place to turn now to Amy Greko. Amy, welcome.

GREKO: Hi.

KENNEALLY: Amy, is Senior Manager of Vendor Relations in the U.S. for Kobo E-books. She's also a founder of Book Camp NYC, an unconference for publishing types and readers. That would be something worth checking out, I'm sure and Amy comes to us to tell us about the point that James was making about how the consumer is getting their book and I guess we should start, first of all, by letting you give us the Kobo pitch very briefly. What is it that Kobo does here in the U.S.?

GREKO: Yeah. Certainly, a very top-level pitch for us is that we are a global e-book retailer and an e-reading platform. So we sell e-books in every country in the globe – over the – around the globe. Excuse me. I'm on a lot of allergy medicine, so if I start talking in Klingon, just give me a hand up. (laughter) We're also an e-reading platform, which means that we have our own e-ink reader, the Kobo Reader. We also have applications for a number of tablet devices and smartphones – so, Android, Blackberry, IOS, of course. So the idea is e-reading anytime, anywhere. Wherever you want to read you e-books, we want to have an app for that. We want to enable you to be able to read them there.

KENNEALLY: All right and so with that technology, of course, comes the capacity to track all this, as James was starting tell us. Share with us some numbers. Perhaps, comparisons between the e-ink readers and the tablet readers and just otherwise, what are some things you've learned by being able to get inside the readers' habits?

GREKO: Absolutely. Kobo is a very young company. We're about a year – we're over a year old. We were a year in December and we are very beholden to our analytics. Literally, when you go into the Kobo offices, there are giant television screens above each department, tracking sales today, how they did compared to yesterday, how they did compared to the month before, how our marketing promotions are



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tracking. We have daily meetings to look at the numbers and say, we're down in Android. What did we do? Do we need to do a marketing campaign there? So we really believe in looking at where the sales are happening and turning up the volume as necessary to keep those sales happening. We obviously look at our consumers, as well. So we spend a lot of time looking at what happens when someone purchases primarily on an iPad versus somebody who purchases primarily on an e-reader and of course, we've noticed that the e-reader, the e-ink reader is really just a reading machine. It generally skews more female for us. Buys about seven books a month. We separate our buyers into cohorts. So have gold, silver, bronze – e-ink readers are all firmly in the gold cohort, which means they spend more money than anybody else at our company.

When you look at iPad readers, it changes a little bit. That tends to skew a little bit more male. They're still great customers for us. We love to have them, but they (laughter) – believe me, but they sink into our silver cohort. What's interesting is that while e-ink readers tend to be more genre, as we were talking about earlier. They read a lot of romance. They read a lot of thriller. They read a lot of erotica. What we see on the iPad is actually, a little bit of extension into those nonfiction markets. So I think as we talk about what people are buying, we need to talk to about the devices that they have to purchase them on. In 2009, you just didn't have this kind of – this reader to be able to look at a chart effectively, to be able to resize your images and all of those kinds of things.

KENNEALLY: Right and you've done some work with sharing of content, which is to some publishers, perhaps, a kind of a danger zone, but you found a way to begin to share content through Facebook and that has yielded some interesting results. Tell us about that.

GREKO: Yeah. So I think discoverability is number one on everyone's mind in the e-book space. It's true that a lot of people still find out about the new Stephen King novel by walking into Barnes & Noble and seeing it on the front counter or walking into their indie – so I think everybody is sort of thinking, how can we do this online and is there a way to do it even better online, when we can track what people are doing and how they're talking. So one of the initiatives that Kobo launched earlier this year is called Reading Life. It's a way for users to be rewarded when they read during certain times of day. We also enable sharing to Facebook. So a user can share, when they start a new book. They can share when they finish a book. They're able to share very, very short passages no longer than 140 characters to Facebook. We wanted to create a way for people to be able to communicate with their friends about their reading. What we found – we launched in December. Since that time, people who have enabled Facebook sharing on the app, spend a total of 33% more time in app, which is enormous and they spend that time reading. They're reading more because they like to talk about what they're reading and



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they're getting positive feedback from their friends on Facebook, we assume. So we're going to keep pushing this. We think this is a good space.

KENNEALLY: Well, that point about keeping people reading, it's about that elusive, immersive experience that everyone speaks about. When we were together here at Publishing University just last year, there was a lot of talk about so-called enhanced books and discussion ensued about when is a book not a book. You have some early results on just the popularity or not of the enhanced book experience.

GREKO: Yeah. So again, we're very beholden to our customers. We are a company of about 180 people, which is very small when you compare it to the 30,000 at Apple and at Amazon. So we need to be very strategic in what we decide to do. So we listen to our customers and we want to hear what they have to say. I think to date, we have not yet had a request for video in a book. (laughter) We have not yet had a request for audio in a book. What we do get requests for a lot are proper formatting in the e-book, good division of chapters for better pricing in e-books. So this is what we're seeing customers care about. This is what we're hearing from our customers.

So we're sort of taking a wait-and-see approach to what people are calling enhanced content. That's not to say that somebody won't come out with a phenomenal version of enhanced content. I always worry about the concept of jamming these sort of things into books. Right? And there's obviously people who are very talented editors, who can do it really beautifully. I think Ron will probably talk about what electric literature is doing, which I think is very smart, but I do – you don't want this additional stuff to turn into that paper clip that used to be in Microsoft. Right? Remember that? Like, looks you're writing a letter. Looks like you're reading an e-book. (laughter)

KENNEALLY: Can I help you with that?

GREKO: Yeah. (laughter) You really want it to be seamless and you want it to be, I think, an enhancement to the reading experience, as opposed to something that takes away from it and to me, I think it's very important that it all be incredibly author-driven. I hate the idea of a poor author going into a publisher and having them say, well, this is great, but we're going to need you to record seven videos for it and just having that experience feel very disjointed and I call them Franken-novels – everything just sewn together. So that's a lot of personal opinion. (laughter) Certainly, people at Kobo feel differently. (laughter)

KENNEALLY: I'm going to guess it's probably shared by a few people here and what Kobo does also allow for is for publishers to experiment, which I think is critical. I was talking about Einstein before and this notion of if I knew what I was I doing, I wouldn't call it research. Right now, we are still in very much the research mode.



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We haven't come to any conclusions. If we were in a laboratory, we would still be pouring things into test tubes. What are some ways that publishers have used the Kobo platform to do that kind of experimentation?

GREKO. Yeah. I think where we're seeing the experimentation and the most data is in the area of pricing. My boss is fond of saying, that we're ending the first era of e-book selling and we're moving into the second. We have solid years of data to look at right now and we have solid ways to track what people are buying and how they're buying. So I think what's really interesting is talking about free e-books and saying that percentage is going down in U.S. I think when this first started, we saw a lot of people experimenting with free. They wanted to put it out there for free. Let's just get people reading. What I love and what we try to encourage at Kobo is let's do cheap instead of free. Let's do \$0.99. Let's do \$1.99. Let's train the customer to put his or her credit card into the machine and let's train them to pay for content.

So I think we're seeing a real sweet spot right now around \$2.99 to \$0.99 and another interesting thing that we've been noticing is that occasionally, an author with a fan base who is maybe self-publishing or putting stuff out there less expensively – we're actually see sales spikes around \$4.99 and the theory on that right now is that customers are getting used to these inexpensive e-books and they're starting to realize that a price point a little bit higher means things like maybe an editor has looked at the work or maybe (laughter) – I know, right? (laughter) Or maybe some time has spent on the formatting, making it look great. So experimenting with pricing, I think is a really great way to get to know your customer better and a really great way to figure out where you can hit that sweet spot.

KENNEALLY: Right and Amy, finally, it's not just around pricing that the experimentation is possible. This is fascinating to me. You can start to play with things like covers and titles in a way that simply weren't possible in the physical world.

GREKO: And I think that's fascinating, too. We're getting people really thinking, OK, so this looks great on a shelf in your local bookstore, but does it look great on a shelf in your iPad? Does it look great in an e-bookstore? How do we make the font big enough so you can actually read the author's name. If it's got a 1000 little pictures of cakes, maybe you need to just put one big picture of cake on there. So (laughter) it's an interesting way of thinking. Certainly, we have years and years of tradition for building book covers that sell in a physical space and I think we need to start thinking about what will a book cover look like to sell in a digital space? And certainly with e-books you have a lot of chances for experimenting with that.



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KENNEALLY: Well, I think that's a great place to now turn to Ron Hogan. Thank you, Amy. Amy Greko from Kobo and Ron Hogan, welcome. You're here today in place of Andy Hunter from Electric Literature who rather like the book business, had an unexpected sort of change in plans.

HOGAN: He knew it was coming.

KENNEALLY: Right. (laughter)

HOGAN: He had nine months to prepare for it.

(laughter)

KENNEALLY: OK. Well, at the very last minute, though. (laughter) At the very last minute, something came up. So that's why Andy can't be here today, but Ron is actually, I think, obviously, quite qualified to talk to us today. He is the proprietor of Beatrice.com. He's a contributor to Shelf Awareness. He is the former Senior Editor at GalleyCat from Mediabistro, but right now, also doing some work with Electric Literature as a project manager and I think for everyone who's not familiar with that very interesting start-up, which again, I first met Scott and Andy about a little bit more than a year and a half ago. They had made a big splash because they tried to publish a novel on Twitter and it worked not so well.

HOGAN: You know what? Right. They had got in – it was Rick Moody, right?

GREKO: It was Rick Moody.

HOGAN: They had gotten Rick Moody to do a pretty good sized story and the deal was he was going – the Electric Literature Twitter feed was going to publish this Rick Moody story in 140-character bursts, many of which, but not uniformly so, worked effectively as tweets as well as part of a larger context. The problem that led to the backlash reception was that a number of independent bookstores also signed up to co-publish this at the same time and the resulting problem was that individual readers who might be subscribed to both Electric Literature and a local, independent bookstore that was doing this and maybe another independent book store with a national presence. So they were getting these tweets three or four times in their Twitter feeds and a lot of people did – a lot by Internet standards, so (laughter) –

GREKO: Seven.

HOGAN: Seven.

(laughter)



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HOGAN: And so the minute – one of the other things about Internet culture is that the minute there’s seven complaints, the experiment has – everybody gets to say oh, the experiment is failed, when really I don’t think there was necessarily evidence that the experiment had failed. It was just a case of, like you say, you’re in research period and you’re playing around and seeing well, OK, now we have to figure out a way to make sure that people aren’t seeing the story more times than they need to.

KENNEALLY: Well, the experiment got them into *The New York Times*, so as experiments go, that’s a pretty decent result, and in fact, just recently they won an Innovation Award and they’ve been doing quite a lot there with apps and with other ways of presenting e-books and I guess there may some apathy right now in this crowd after a year in, worried about well, my god, I have to publish books and then I have to make them available with various e-book platforms and now I have to do apps, but tell us from the perspective of Electric Literature, what are some bonuses that an e-book can offer that make it worthwhile or I should say, for an app – to make it worthwhile for a publisher to develop?

HOGAN: OK. Well, let me backtrack a bit here, to kind of contextualize this. Ad when the Kindle first starting gaining traction and as the iPad was looming, there was this sentiment within the mainstream publishing industry that these devices were – there was a lot of hope placed on the idea that these devices would “save publishing,” which became as much a mocking term as it did a hope, really, but part of that was that there was sort of this Upper East side fantasy that because the Kindle – I think part of it was that because the Kindle and the iPad were expensive devices, that the types of people who would be buying these devices, would then be buying better books, so that this was going to save literary fiction basically because if you could afford a Kindle, of course you were going to be a more sophisticated reader.

In reality, as we have discussed and Randy pointed out brilliantly in the opening session and as you’ve mentioned in your opening remarks, the e-book platform market pretty much mirrors the book market exactly. There might be a few percentage points in various categories here and there, but the market of Kobo, Kindle, Nook and the iBookstore and these other widespread platform – whether it’s on the device or on a thing like the iPad, where it’s a reading tool, that’s the regular bookstore and so if you’re hoping to gain huge traction there, it’s not necessarily going to happen the way you hope.

What we do at Electric Publisher, which is basically taking Electric Literature’s own app technology, which we created to sort of sell the original Electric Literature literary magazine in an app format, is we’ve now taken that software and made it available to other publishers and said, here is an opportunity for you to create a reading niche for yourself that is essentially direct to consumers. Which as many of you who are independent niche publishers know, direct to consumer is key to



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aggregating that audience around yourself. And we basically say that while it's true that you absolutely need to be out there in the bookstore supply business as Richard put it, making sure that you're visible in that arena, it is also very useful for you to have this sort of private commu – private's maybe the wrong word, but this niche community that you can build up around. And once you have people in, you can communicate directly with them, rather than trying to find them the next time that you have a book, you have them there and you can say, oh hey, you know that author you liked? He's got something new or you're really interested in books about knitting or about politics? We've got something new in that category.

KENNEALLY: Right and what's fascinating about the apps and in the case of Electric Literature, it is a periodical, so they have an excuse for updating, but one can imagine all manner of excuses to update the app and to provide new information, but it really does strengthen that whole notion of what a brand is. In my definition, a brand is the commitment the company makes to the customer and once you've got that app on their phone or on their tablet, wherever it may be, you can start to really strengthen that commitment.

HOGAN: Right and Andy and Scott had found that thousands of people downloaded the Electric Literature issue number one app and then when they published the Electric Literature number two app, they found that they really didn't have a way to tell everybody who had gotten an issue number one about issue number two. So they had to scramble and find all those people again online to notify them. And one of the great features about the Electric Publisher software is that it essentially creates, not so much a single e-book app as a bookshelf app. It is its own proprietary e-reader in a sense, and so that you can continue to funnel new content to it and whether you have an RSS feed or you're using Push Notifications, you can alert readers to that new content as you develop it.

KENNEALLY: Right. It's really great. If you haven't, I suggest you take a look at the website for Electric Literature, electricliterature.com. Great things happening and one of the commitments that Scott and Andy made from the very beginning was that they were going to pay their authors. This was important. So as much as this is from that experimental fringe of things, it's from publishers and authors who have a commitment to monetizing this.

HOGAN: Absolutely.

KENNEALLY: All right. Ron Hogan, thank you very much. And finally, I want to turn to Mark Coker. We've been letting Mark have a rest from the first session, although I expect that even if you are on allergy medicines or just coming off a red-eye or whatever it is, you're going to keep on talking anyway, Mark. Welcome. Mark is CEO of Smashwords –



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COKER: Ambien.

(laughter)

KENNEALLY: Ambien. He's got a lot to say about a lot of different things and I want to cut to something that you didn't talk about in the first session that I think be very important for the audience to hear and that is your own experience to date with the Apple versus Amazon debate. Tell us about that.

COKER: Well, that's a really big question. Where do you want me to start?

KENNEALLY: Well, first of all, iBookstore got kind of swatted away. As much as everybody loves the iPad and loves whatever Steve Jobs does, there's been a sense in the publishing community that the iBookstore can be dismissed easily and you don't.

COKER: OK, yeah. I think the people who dismissing Apple and the iBookstore are smoking opium.

So at Smashwords we are one of currently five authorized aggregators, which is a fancy word for distributor, serving the Apple iBookstore. We had about 2,000 books on the iPad and their bookstore on day one when they first shipped the iPad. We're now distributing close to 40,000 books to Apple. I'm very pleased with the sales of our books through the Apple iBookstore and how it's been trending. We had this huge spike over the holidays and then just in the last couple months, we surpassed that spike, so I like the way the charts going up.

Some interesting data – Apple operates different iBookstores around the world and they report the sales individually to us. The U.S. is obviously the biggest market, but Canada, UK are big. They're in Germany, France, Australia. We're getting about 50% of our sales outside of the U.S., which to me is really exciting because most of the markets outside of the U.S. are still not at the same place along the market share growth curve that we've had. We've been going exponential here in the U.S. and some of the other countries are following right behind us and so what that tells me, in the next couple years as the rest of the world catches up to where we are today, we're going to see an explosion in revenue opportunity for authors who take a world wide view of the marketplace.

KENNEALLY: Well, I think that's an important point. And the future of reading, the future of e-reading, people are going to find their customers not in this room, not in this state, not in this country, but in India or Africa or places across the globe.



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COKER: Yes, definitely. We're seeing that. So as Apple rolls out more stores, we'll see more revenues and some of these markets are arguably very small, but they're all additive to your bottom line.

KENNEALLY: And the important point is you could never reach those markets with a bookstore, but yet, when someone is holding a smartphone in their hand, they've just about got a bookstore in their hand.

COKER: Yeah. This is really a transformational thing. If you think about it, many U.S. publishers tend to think very U.S.-centric. You produce your book and then you sell off the rights to other geographic regions around the world. You go to London or Frankfurt and you sell off the rights. Well, with e-books, we're working primarily with self-published authors and hundreds of independent presses and when you publish a book at Smashwords, you're giving us non-exclusive worldwide rights. So these books are going worldwide. You're not constrained by the old fashioned geographic limitations of traditional publishers. So it is literally possible to upload and publish a book today in the U.S. and sell it to someone in India. At Smashwords.com, India is our number four source of traffic, which was kind of a surprise, but maybe not really. They've got maybe close to a billion English-speaking people. The growth in literacy is not happening here in the U.S., it's happening elsewhere.

HOGAN: Can I interject there? Just to say that –

KENNEALLY: Go for it.

HOGAN: – just to say that the reverse is also true. That if I were an English-language publisher in India or if I were publisher in Australia, I would seriously look very strongly at retaining global rights and getting rid of the barrier of entry of publishing those books in America. You're dealing with the printing costs and publishing them exclusively – I would totally as an Indian or Australian publisher, work in to the American market that way.

COKER: That's a great point.

KENNEALLY: Well, I think the other thing that I wanted to ask you about – we said it was a debate. We've had one already this morning, Apple versus Amazon. Very briefly, Mark because we want to give some time for some questions, where do you stand right now – Smashwords that is, with Amazon? Any updates on that?

COKER: Yes. We first signed a distribution agreement with Amazon about a year and a half ago and as of today, we're only distributing about 20 books to them. We have about 35,000 that we'd love to send them. After Apple introduced the agency model to the world, it caused a lot of dislocation in the marketplace. We were



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distributing to some retailers on the wholesale model and some under the agency model. It was causing conflict. Some of authors who publish independently at Amazon, were getting penalized when a book at Barnes & Noble or Sony was discounted. Amazon was price matching. So we went to Amazon and said look, we have this agreement with you to distribute our books under the wholesale model, but that doesn't work for us anymore because of what you guys are doing on DTP. We'd like the agency model and Amazon said no. Amazon hates the agency model, despite the fact that all of other retail partners including Kobo and Barnes & Noble and Sony have given us agency terms and Amazon doesn't. So what we're working with them now is to – and we're really just waiting for them to do it –

M: What's the difference (inaudible)?

KENNEALLY: Yeah. Just for everybody in the audience –

COKER: What's the difference –

KENNEALLY: – I guess, it probably takes more than the minute we have left for Mark, but if you could put it on a bumper sticker, Mark, agency versus wholesale?

COKER: On a bumper sticker, at agency the author or publisher sets the price of the book and under wholesale the retailer can discount the book.

F: Could you repeat that please? Closer to the mic?

COKER: Under agency – oh, baby. Under agency the author or the publisher sets the price of the book. So the retailer does not discount it. So the retailer's acting as an agent, selling the book on your behalf at the price that you set. Under the wholesale model, the retailer has the ability to discount the book. So that's the big difference. They're both wonderful models, I'm a supporter of both. The problem is it's difficult for a distributor such as us, or a publisher, to straddle both worlds. You can't straddle both worlds at the same time. So what we did is we worked with our retail partners to transition them all over to agency. So now we're not signing distribution agreements with our partners, unless we get agency or agency-like terms. So we want the same terms with Amazon. The solution that we found is their digital text platform, now called Kindle Direct. So we're waiting for them to create a bulk upload capability, so that we can upload 35,000 books to them all at once and then automate the weekly updates and price changes and additions and removals that we're doing already with all of our other retail partners. So if all goes well by the end of this year we'll be distributing to Amazon. If they delay us and I wouldn't be surprised if they do, then it might be longer.

KENNEALLY: All right. Well, thank you for that update, Mark Coker from Smashwords and again, I want to give an opportunity to the audience here to ask a



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question or two in the couple of minutes we have left. So questions for members of panel? Yes. Here.

F: Mark are you – in your model, are you guys going to incorporate more graphics into your books and is there anyone that does that well and (inaudible)?

KENNEALLY: And in fact, I might ask everybody to try to chime in on that about the whole notion of incorporating graphics into works, moving beyond text. Amy said that probably video – we're not quite ready for primetime there, but we may be moving beyond text. Mark, is there an experience there?

COKER: Well, sure. For those not familiar with the Smashwords platform, the way it works is you upload a Microsoft Word document formatted to the requirements in our Smashwords Style Guide and then we convert that document into nine different e-book formats. So we do support images and graphics in the e-books, but we don't support animation.

KENNEALLY: Amy, how does that work for Kobo these days?

GREKO: Yeah. So within our apps, we support color and graphics, as well and we're looking at how we can expand that. One of the challenges and I think it's sort of an interesting discussion point is, a lot of people who create color content are uncomfortable with it being sent to an e-ink reader, which would take the color out of it. So there are a lot of people who are controlling that very tightly. And I'm actually of two minds about it, personally. On the one hand, I think well, if you're creating a beautiful color comic, like Dark Horse Comics or something like that, I can understand the desire to keep control of that color and to want the reader to be able to experience it that way. And then the retailer side of me says well, someone's purchased this content. Who are you to say where they read it or how they use the content once they've got it in their hands? So it's an interesting conversation that we're having, but we certainly want to move towards color content in children's, in cookbooks. We want to be able to have that in all of our apps.

KENNEALLY: James, some things for you to follow there, I think. He's taking notes I see. We have time for one more question in the back.

HOGAN: I should also add that the Electric Publisher app does support not only color graphics, but also embedded or streaming audio or video. The trick there, as Amy mentioned much earlier, being to integrate it into the content in a way that is holistic rather than intrusive.

GREKO: It's a different kind of editing.



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KENNEALLY: In the back there.

M: (inaudible) basically the publishers can set the price, theoretically to maintain a higher price, but Amy, you were saying that the sweet spot is somewhere in the \$2.99 to \$4.99 range?

GREKO: Oh, I'm sorry. Oh, go ahead.

M: How do you see that price situation (inaudible)

GREKO: Yeah. I should have been more specific. The \$4.99 really specifically for self-pubbed authors and people who are putting their stuff up directly. We also have another sales spike around \$12.99, which is where most of the agency books fall.

KENNEALLY: Which probably accounts, James, for the \$6.30 average there and it's interesting to see where the pressure is going to come over the next 12 months as more self-published authors are able to try to price it wherever they want to go. Mark, perhaps 30 seconds on that.

COKER: Yeah. It's interesting. I think the reason the big publishers like agency is because they can control the price and prevent the discounting. But the reason self-published authors like agency is because they can offer a lower price, but yet earn 60 to 70% of the retail price as the royalty. So the average book at Smashwords is under \$5, even though we're agency.

KENNEALLY: Right. It's an interesting irony of a battle that was really fought for the really big publishers. I really appreciate everyone's attention for this program, our second E-magination session – What's New and What's Next in E-Reading. I want to thank our panelists, Amy Greko from Kobo, Ron Hogan, Electric Literature, Mark Coker from Smashwords and James Howitt from RR Bowker. My name's Chris Kenneally. Thank you very much.

(applause)

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