



International Web Journal  
*Revue internationale*  
[www.sens-public.org](http://www.sens-public.org)

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Original version in French:

*Pratiques de l'édition numérique*, chapitre 6, Presses de l'Université de Montréal, 2014.  
<http://www.parcoursnumeriques-pum.ca/les-modeles-economiques-de-l-edition-numerique>

# Economic Models of Digital Publishing

Gérard Wormser

The works of Philippe Aigrain in Europe and Lawrence Lessig in the United States establish that in many areas of our intellectual activities, we do not primarily indulge into acts of market-related services even though we gain access to the valuable objects for which we spend a great deal of our time. The non-market goods have multiplied with the development of the media. "Amateur" photography is a prime example, but it is the nature of the "société du spectacle" to unfold in a single gesture of a market-related service and of a 'personal development' project.

When it comes to publishing, the story is nothing new. Few authors were able to make a living from their works. For almost 150 years, in the industrialized European and American countries, it looked as if a network of booksellers appealed to an adequately educated public to compensate the whole "book chain". The rise of the distribution of music and video recorded on compact and inexpensive media was accompanied by considerable investments in promotional networks and distance selling, the television programs showing music, films and interviews, multiple business transactions of large retailers and the growing use of mobile devices for sound and image diffusion reduced the hold of publishers in the world of culture and refrained them from commercially sharing the digital files instead of printing books. With this transformation comes a revolution in the form of books, of which few become multimedia files full of hyperlinks and of interaction opportunities. The classic book is no longer.

However, classic publishing has developed certain key aspects of the distribution of cultural goods. Their user pays only the right to access because he does not destroy the goods by using them, and once the printing and distribution costs are covered, they remain available for any other payment. The second-hand market contributes to perpetuating the reputation of publishers and authors and engaging readers to participate in the establishment of a rating of books. The economy of publishing is also based on the sharing with a wide audience that does not pay each work in particular. Libraries allow circulation at a lower cost which increases the sharing of books and ideas while ensuring predictable income for publishers. Are these traits kept for transforming the works into digital files? Digital publishing sufficiently encompasses diverse areas in order to come out with multiple models. We present those models in the following pages without being able to predict their future.

## From paper publishing to digital publishing

Paper publishing lives on a set of factors determining its capacity. The distinguished brand was the catalogue whose reputation grew by an editorial line and granted the “long tail” publisher. A book, without ever having been successful, over a long period of time can amortize its costs by small sales. Publishing is rarely a speculative business, but its past activities have lasting effects. This hope is best realized when the publisher controls the diffusion and distribution channels. Formerly, many publishers were also booksellers, and if some of the publishers distributed their publication and that of other publishers, this resulted in increased turnover and a constant balance. Obviously, these activities are capital-intensive and approach the mass market publishing. There is also a long-standing recommendation: the school books replaced the religious texts, few titles sold by subscription, a set of rewards in the form of “literary award” stimulating the sale of some names whose profitability is considerable, and the media coverage further intensifies this effect. Here, the publishing houses are closely intertwined with the media sector: certain editors relate to the show business though they find it the most outrageous. Fame would then result in derived rights (translating, adapting) that increase profit margins of the original publisher. Finally, the grants, public procurement and a variety of tax exemptions contribute to greater sustainability of many difficult and specialized works.

These central aspects of the publishing system are configured in a completely different manner with the digital technology. The new wealth of all kinds of books and new releases weakens the catalogue as the best of those previously published is well integrated into the new publications. Of course, this is less true for fiction than non-fiction books. Controlling the diffusion appears to be a distant memory and the publishers produce using new platforms (Amazon) which admittedly take them back to their core business of creating, but deprives them of the opportunity to invest into the commercial channels. It is becoming increasingly difficult to check the recommendation where word of mouth was replaced by social networks. Therefore, the publishing industry faces an overall adaptation, without taking into account the fact that there being few publishers who can continuously spend whatever it takes to popularize their production in the media channels. The precedents of the music or the press do not bode well for the players of the market sector, at the same time faced with the power of the natively digital corporations and the truly appalling developments in the economy of both social networks and recommendation. What place will publishers have in the development of the digital publishing ? The answer to this question largely lies in the licensing types and diffusion models which will be attracted by the market.

The digital switchover of the publishing methods occurs at the end of the last century. Publishing through digital media would then take note of radical transformations including no return. The most visible objective is to take place in the new commercial channels for goods "dematerialised" whose penetration is substantial. The educated public deserts the bookstores and seeks information in a network. Therefore, the proposals of publishers, until recently capable of making markets in urban centers and campuses, are competing with the requests of readers in the "time budget" highly restricted by quotas. The old cycle counts on a subtle asymmetry: the profits accumulate in a part of the catalogue and the new releases, while the maximum level of losses is covered by the printing and storage costs. A few judicious choices and good sales of some titles are adequate, and the catalogue actually masks an important part of books with uncertain profitability. The economic rule of publishing is to reduce the marginal rate to publish while at the same time targeting expenditure on the small part of the most profitable publications. That still holds good, but with turnovers at risk. A number of publishing jobs are being lost, some systems are put in place with no real organizational hierarchy, whether digitizing the non reprinted titles or making renewed requests to the editors for assigning "digital rights" to the publishers that were not part of the initial contracts. However, it is not easy for new publishers that are digital-only. In the absence of notoriety or catalogue, they have to specialize and act at the heart of the latest trends, as they are running the risk of losing everything, if they ride a bad wave.

## New commercial channels

The challenge for publishing thus lies in the changing practices of information, education and leisure. The dissemination of digital files, in fact, forces publishing to rethink all its practices, while the book "content" considered their materiality, which also determined their economic model. A substantial part of the recurring profits disappear with the development of portal sites, search engines and online communities. How to sell general information, practical guides or topical debates when various blogs abundantly contain their elements and are updated by the user communities? The *Encyclopedia Britannica* has stopped printing books and dictionaries, maps are now integrated into the free online services which everyone can access. Google attracts its users and collects a wide range of information enhancing its pages by providing everyone with an almost universal personal toolbox. And Facebook competes with the whole range of online services by releasing "Home", its software to integrate the functions of smartphones under Android with the Facebook experience. How can the creators of information compete with those companies without whom they disappear altogether from screens?

Let us look at the general information. Wikipedia provides to the public the knowledge that has become public after having been disseminated. It could even be said that a large part of general works of publishers are rendered obsolete by this encyclopedia and the various sites freely accessible on any matter. The commercial chain is weakened because the turnover of general bookstore networks (Barnes & Noble) were widely made of such books. Barnes & Noble responded by creating a large-scale online bookstore and by developing its electronic book, the "Nook", launched in 2009. William Lynch, the manager responsible for these projects, became the CEO of this company in 2010. His predecessor, Leonard Riggio, who became president, holds 30 % of the shares and retains control over the bookstores and the site. In May 2013, the Nook revived by opening of the GooglePlay applications and Google services. It was said that Microsoft was preparing to buy the Nook for a billion dollars, where the Wall Street was up 30 %. But the sales were not there against Amazon Kindle, and in September, the company announced the end of the Nook and the departure of William Lynch.

In teaching and research, the institutions producing knowledge are strongly encouraged to provide most of their knowledge free of charge. The competition has indeed become international between the leading universities inclining them to compete with talented students by attracting them through digital production systems of their teaching. And investors ask their research centers or public documentation to disseminate their data and content. This institutional diffusion is a way to justify the funds raised by these institutions and to lower the production costs of developed countries by increasing the provision of information. It remains a privileged sector, much of the works accompanying training of high-level technical executives: whether lawyers or doctors, engineers or managers, quality syntheses, leading-edge works ensuring reliable provision of the best information falling under long-term investments in the "human resources", which are a critical part of the competitive edge sought out by the companies and the institutions. This professional documentation remains a good market in whatever form it may be: it is still possible to print, and its digital formats are subject to a lucrative limitation, especially if it reaches an international audience.

Finally, for leisure publishing, the time available for readers has gone to the mass media even before publishing began its digital transformation (television, music, magazines, online conversations, video games). As a result, a number of publications today would have lower return if not disseminated digitally: best-selling comics from the commercial channels controlled by the publishers are reduced with the effect of minimizing statutes of limitation (bookstores and public libraries cease to be the key indicators for publishers). The way is clear for the leading digital players.

## New models

In this context, where it is fighting to survive, the publishing sector seeks to secure its revenues to concentrate its efforts on creativity in the interest of new contents. These should naturally include various elements not readily available for free download. Therefore, the standard models that require to share publishing into three sectors.

The first model refers to the press. This sector is currently under debate between the inexorable fall of the readership as well as the advertising revenues on paper and the low profitability of digital media. The dilemma is between the free access funded by advertising or the closure of the bulk of the pages, reserved for subscribers. In both cases, the loyalty is focused on continuous renewal of content and its instantaneous rotation, in exchange for a dematerialization of the medium which significantly reduces the initial costs. In France, the journal *Médiapart* has achieved a balance without publicity by charging its content. But the compensation is the specialization of its readership on domestic policy and a model focused on "professional" readers who have a specific use of the information they seek. This "B to B" model recalls the model of the old reading rooms, in the face of a model "B to C" where free access has become a norm if it is accompanied by advertising. Book publishers try to charge the content which they publish in digital format. But studies show that customers expect a reduction in rates of around 1/3 compared to printed books. The conditions for the emergence of this model seem to come true with the rise of online booksellers, Amazon or Fnac: they may at any time substitute digital files to paper copies and play the role of universal intermediaries. To this end, they are careful not to encroach on the purely publishing activities (aside from self-publication on the Amazon platform) so as not to dry up the source of their income as they struggle to impose their online services.

Under these circumstances, publishers can accept to sell digital books protected by DRM (*Digital Rights Management*). The files must not be allowed to circulate freely from one computer to another. E-books purchased at Barnes and Noble can only be used by a card reader whose buyer card is valid. A limited number of private copies may be authorised, or a license for public use may be considered in an institutional framework, a library or a school, for example. In other cases, including cultural journals that have never really been a commercial sector, these filtering devices are severely punitive: so far, these journals have not found a way to change their model based on institutional subscriptions. Independent or related to press groups and publishing to which they yield nothing, they can't take action on their own and have been neglected. The debate of ideas loses a considerable part of its audience.

The second model relies on the prescription, the grant and the public procurement. Scientific journals are the best example of a limited and professional readership. The creation of a niche

oligopolistic market is focused on know-how and market access on a limited number of players: it is customary to mention Reed Elsevier or Springer. These publishers are authoritative in particular because of the legitimacy they confer on the articles they disseminate. In return, they require a significant financial contribution to users. To limit this contribution often perceived as exaggerated, and which involves considerable restrictions on the circulation of such contents outside research centers, several alternatives have emerged: one is to disseminate content for free provided that the information producers finance the publishing houses. This is the case of the Public Library of Science (PLoS) which successfully develops this model over a decade. This inversion of the model is obviously tempting for public authorities that fund research and must then finance journal subscriptions. This explains why funders ask for a free circulation of content which they have helped to finance. This is the significance of the July 2012 recommendation from the European Commission and intended for the Member States. It is enough to set aside a percentage of research funds for the publication to pose a threat to a reduction in funding for scientific publishers: either they change the model and adopt the principle of pre-financing and an opening up for the flow of capital, or their added value must be measurable in terms of expertise, recommendations and selectivity of content.

The third model fits into globalisation. The race of best-sellers and declinable series on various support media, with the support of the distribution channels "general public", has obviously favoured art books and travel guides, whose design has long been presumed for international co-publication to amortize a graphic quality and impeccable documentary. But this model is in turn weakened: La Martinière, in France, recently announced heavy job losses, and other publishing groups are downsizing. Indeed, the iconographic abundance and multimedia accessible via YouTube, Dailymotion, Flickr or Fotolia increases the risk of failure to launch prestigious works which we currently do not know to market digitally. In fact, the paper quality, the status of objects of pleasure and distinction of such books does not accommodate a dissemination through cookies, provided that the latter should be of high quality and that their uncontrolled circulation would impact the various rightsholders (photographers, museums...) who expect revenue. The European recommendation relates to a free-of charge dissemination of subsidized scientific content, but not of documents from cultural and audiovisual heritage that France intends to avoid negotiations towards a bilateral free trade agreement as the United States would like.

Publishing of experimental, traditional, small-scale innovative research then falls under volunteering and the constitution of local solidarity, but its economy remains uncertain, it can hardly conquer markets or turn the prestige into profits. A symbolically significant part of the intellectual creation is gradually being pushed out of the game, while it remained in the circuit of traditional publishing, at the cross roads of the three sectors we have identified. The "avid reader"

was primarily a “professional” capable of amortizing his investments within a framework of social legitimacy: it set the tone. Creative publishing benefited from this first audience, which transformed this production by giving it access to the prescription (schools and universities) and, for a share of these securities, globalization: translations, adaptations, new pocket-format reprints served as guarantees for this sector. Initially recognized by insiders, an author could then aim at a wider audience. These three engines are now seized because the predominant distribution channels are more related to the reader's experience than the issues for thinking. The model of the long tail may well reassure us, but a certain style of debate and writing is no longer alive. With no model of digital delivery adapted to renewal of readership which presented the book as the vector of renewal of ideas, but also because of the truly cultural evolutions: the cultural activities are always very ramified and varied, and the standard of their ownership is no longer a deeper understanding of the issue but the quick review and cross-referencing. Robert Darnton had done a good job in manifesting this evolution.

## New hybrid formats

This leaves managers of publishing houses to consider how to find ways of adapting their achievements to the parameters of the present. The skills of multimedia and hypertext writing remain central among the specific questions concerning digital publishing. It brings up the issue of rights, quotations and borrowings, because this writing is largely referential: it implies different paths of reading and to formalize a few. Consumer digital publishing has every chance to create compilations and anthologies, and to invest in web browsers that will allow readers to move freely within composite and potentially infinite groups. Umberto Eco has long been able to feature the idea of open work, even when the author of the *Name of the Rose* became particularly pessimistic in relation to the cultural transmission. More than ever, at the time of social networks, the creation of digital channels (by shares of “viral” commodification, but also by capillarity within personal networks which build the reputation and recognition) is becoming the rule. The ongoing hybridization is to involve value-added services to freely circulated documents: modules which are payable can add to modules which are free or discounted. This is one way in which publishers can hope to integrate the rapid obsolescence of production and their renewal cycle. But in return, they should also endeavour to identify potential authors and capture them in an open world of dissemination.

In conclusion, publishing has left the era of heritage and transformation of symbolic capital into economic capital to enter into the age of “transactional services” for immediate use. Whether it's pleasure or training, leisure or special skills, it is no longer about “transformation” but

“application”. To quote McLuhan, the medium is the message. Digital publishing essentially becomes a “toolbox” produced by “engineers” and “technicians” for the differentiated and identified, segmented audiences.

*Translated from French by Amudha Lingeswaran*