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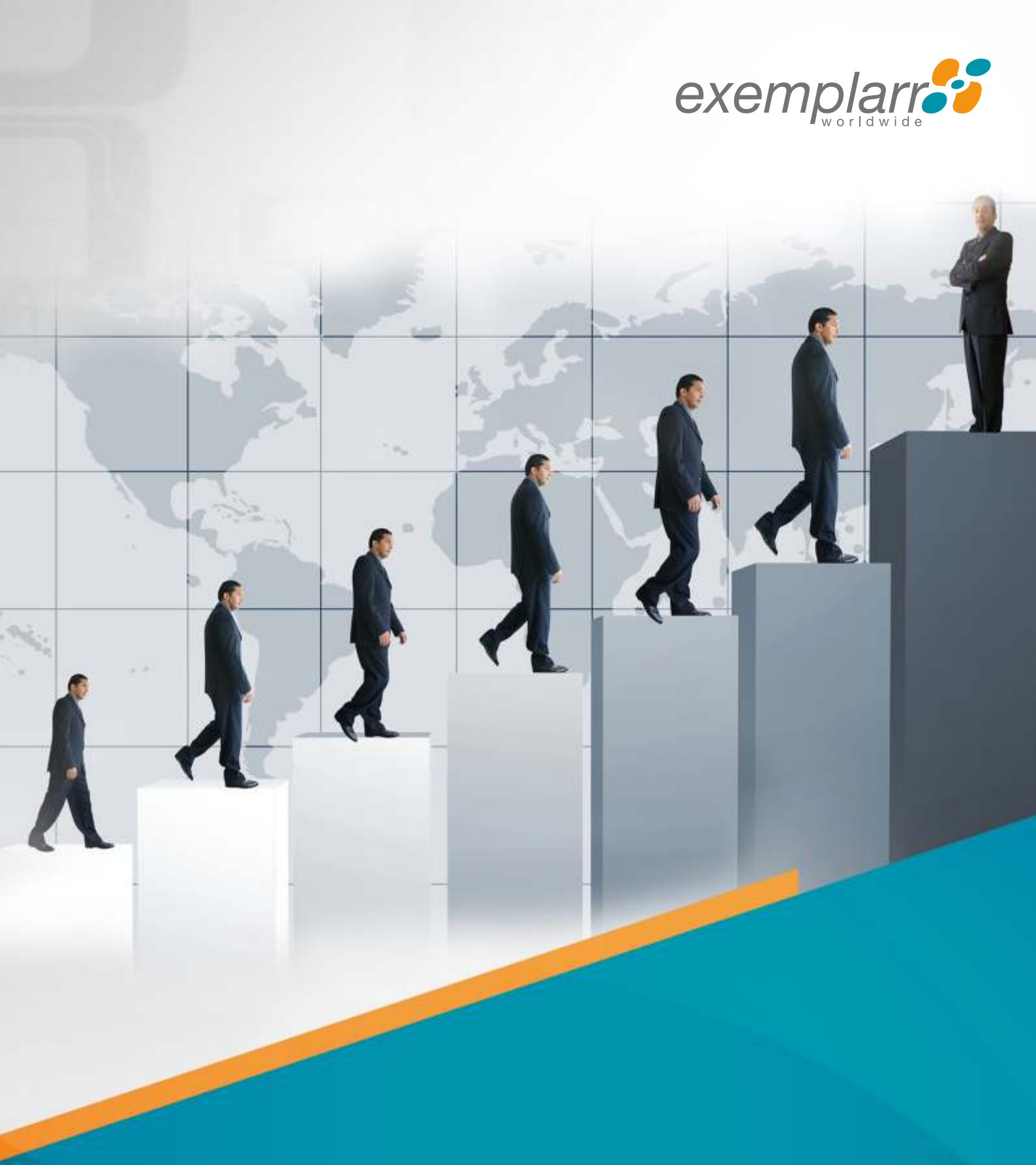

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# WHITE PAPERR SERIES - II

## EVOLVING EBOOK PRICING MODELS

# Table of contents

# 2.The shift from wholesale pricing to agency pricing


Control of pricing started shifting in the last few months from the retailer, who could charge whatever they wanted in the wholesale scenario, to the publisher who required the same price across all consumer touch points under the agency scenario. But in practice it was even more complex than it was in theory. Shift of pricing control meant shift of responsibility at the point of sale and that meant publishers were now responsible for sales taxes, not the retailer.

Under agency pricing, the retailer works as an agent for the publisher, who sets the price of the product. Instead of buying the books as in the traditional model, and then being able to price them how they wish, the retailer in this case a website such as Amazon acts as an agent who takes a commission.

Publishers prefer this system in order to protect against loss making sales of eBooks that they say damages the perceived value of books. Agency model pricing however is not permitted for physical books.

Control of pricing immediately challenges publishers to get sophisticated, modern, and scientific at how they approach pricing.

# 1. Introduction:

This white paper series dwells upon the different pricing trends prevailing in the market with respect to e-book pricing taking into consideration the perspectives of publishers and the retailers.

Before we begin, here are a few definitions that we need to be familiar with to understand the essence of this white paper;

## Whole sale pricing:

In the wholesale model, the publisher "sells" the "book" to an intermediary (could be a retailer like Amazon or BN or a wholesaler like Ingram) based on the publisher's established retail price and a discount schedule. Then the purchaser can re-sell that eBook at any price they fix.

## Agency pricing:

The "Agency" model is based on the idea that the publisher is selling to the consumer and therefore sets the price and any "agent", who would usually be a retailer, who creates that sale and would get a "commission" from the publisher for doing so.

# 3. Tussle over eBook Pricing

Amazon (AMZN) and book publishers were tussling over the pricing of electronic books. Amazon had originally acquired eBooks using a wholesale pricing model. It paid publishers a fixed price for each eBook it sold, and then decided what retail price to charge customers. Retailers usually sell products at a mark up above the wholesale price that's how they cover their other costs and, if possible, make a profit. Amazon, however, often offered books at promotional prices below its costs. For example, it priced many new eBooks at $9.99 even if it had to pay publishers $13.00 or more for them (often about half of the list price of a new hardback).


Several large publishers were dissatisfied with Amazon's pricing strategy, fearing that it would ultimately reduce the perceived value of their product. They thus pressured Amazon to accept an agency pricing model for eBooks. Under this approach, the publishers would retain ownership of the eBooks and most importantly, would set their retail prices. Amazon would then be compensated as an agent for providing the opportunity for the publishers to sell at retail. Under this approach, Amazon would receive 30% of each sale, and publishers would receive 70%.

# 4. Amazon, Apple ‘s role in fixing e-book prices


After Agency model was adopted, it was found out that eBook prices for several bestsellers offered by Amazon and Apple, as well as competitors Borders Group (BGP) and Barnes & Noble (BKS, Fortune 500), prices were similar across all four companies.

Uniform pricing is becoming more common, however, since Apple and Amazon under intense pressure from publishers adopted the so called "agency model" with several major publishers.

That system allows publishers to set the price for their books and many are pushing for rates higher than Amazon tried for years to make the industry standard for new eBook releases.

But Amazon still typically offers new releases for lower rates than its rivals. For example, it’s one of its bestselling books “Suzanne Collins' Mockingjay” is priced at $8.45 for a Kindle eBook. That eBook is priced at $9.99 on Barnes & Noble's website.

eBook publishing consultant Mike Shatzkin, chief executive of Idea Logical, says the eBook market is extremely "confused," thanks largely to Amazon's long running attempt to dictate terms. Its tight grip on a $9.99 price point one that buyers like but publishers consider unsustainably low has kept pricing from hitting an equilibrium that appeases both retailers and suppliers.

## Therefore to conclude it is evident that:

Under the original system, Amazon paid the publishers $13.00 for each eBook. Under the new system, publishers would receive 70% of the retail price of an eBook. To net $13.00 per book, the publishers would thus have to set a price of about $18.50 per eBook, well above the norm for electronic books.

Publishers presumably believe that the long term benefits of this strategy will more than offset lost profits in the near term. As reported by the Wall Street Journal, the agency pricing model (which is also used by Apple (AAPL)) is limiting competition and thus harming consumers. And the experts say that there are some compelling evidences;

The agency model has generally resulted in higher prices for eBooks, with many new titles priced at $12.99 and $14.99. Further, because the publishers set their own prices, those prices are identical at all websites where the titles are sold. Although Amazon continues to sell many eBooks at $9.99 or less, it has opposed the agency model because it argues that lower prices, as exemplified by its promotion of $9.99 best sellers, has been a key factor in the surging eBook market.

Publishers will likely argue that there is nothing intrinsically anticompetitive about agency pricing, which is used in many other industries. Also, they may claim that their pricing strategy will allow more online retailers to enter the marketplace, thus providing more competition and more choice for consumers.

Publishers prefer the agency pricing model as they are able to control the market prices better. What remains to be seen is how this will impact overall eBook sales in the long run. We need to see whether it will be sustainable for the industry as a whole taking into account the interests of all stakeholders, most importantly consumers.

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- Views from author Donald Maroon

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