Media Trend Outlook
E-Books on the Rise

The white paper "E-Books on the Rise" provides an overview of current developments and future prospects of the e-book market in Germany, Belgium and the Netherlands.

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Media Trend Outlook

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Introduction

It has taken quite some time, but now e-readers are rapidly becoming part of everyday life in continental Europe. The share of e-books in the total revenue of the book market is small, but all signs point toward growth: publishers, especially the bigger ones, now also offer a large part of their new releases and backlisted titles in digital form and are creating an attractive range of product offerings around digital books. E-readers now offer good technical quality at consumer-friendly prices and as a result of increasing tablet sales, more casual readers have access to books in electronic form. Simpler purchase and use of e-books also fuel demand.

In the course of the consumer survey we conducted for this study, we discovered that Germans, Belgians and the Dutch are now not only well aware of e-books, but for the most part also receptive to the new technology. In Germany, more than half of respondents read e-books either occasionally or regularly; and 53% stated that even though they will continue to read printed books, they will also give electronic books a try. On the other hand, less than 33% of the Belgians are familiar with digital books. Nevertheless, 60% of them would attempt to read an e-book in the future. In the Netherlands, about 60% of consumers have never purchased an e-book– nearly the same portion of respondents wants to try digital book versions.

E-books are finding increasing acceptance among European consumers. In the past year, turnover generated by electronic fiction books in Germany has nearly tripled, fully offsetting losses in the print segment. While for the Netherlands and Belgium turnover increased over 50% and 55% respectively. Examples from the US and UK show how this market may develop over the long-term – in these markets more than 20% and 15%, respectively, of turnover in the book market in 2012 was generated through e-book sales. In Germany, as well as in the Netherlands and Belgium, the digital transition in the book market is proceeding at a much slower pace, with e-book market shares still below 10%. Nevertheless, we expect that the share of overall turnover generated by e-books in consumer book segments will consistently rise and by 2017 will reach around 16% in Germany, 15% in the Netherlands and 22% in Belgium.

In addition to an analysis of the current market environment, this white paper contains the results of our consumer survey and presents our forecasts of how the e-book-market will develop through 2017.

Special thanks go to Rita Bollig, director of Bastei Entertainment at Bastei Lübbe, Geert Decock, e-publishing manager at Lannoo, and the International Publishers Association ("IPA") for presenting their perception of the market and its prospects in their guest pieces.

I wish you an enjoyable and informative read.

Werner Ballhaus
Head of Technology,
Media and Telecommunications
Germany

E-books: a market overview

E-readers are becoming better and cheaper, and the selection of e-books is growing. But is it possible for the market to offer even more?

In 2012, the consumer book market in Germany posted turnover of €4.8 billion and was thus the fourth-largest market worldwide. The Dutch consumer book market had a volume of €560 million and consumers in Belgium spent about €220 million on consumer books. However, the share of total turnover generated by digital book sales is still small: in Germany for example, a mere 3% of turnover in the fiction segment was generated from e-book sales in 2012. Nevertheless, in all three countries, after an initially slow start, the e-book market is gaining momentum.

In Germany the conditions for solid growth in electronic book sales have been established over the past several years. Offerings of e-books in the German language have multiplied, and the selection of reading devices in the German market has expanded on a continuous basis. On the other hand, the limited offer of e-books in Dutch and Flemish remains one of the most important market blocking factors in Belgium and the Netherlands.

There are the large internet retailers who initially got the ball rolling: Amazon introduced the first e-reader to gain great public awareness, the Amazon Kindle, in the US in 2007. The Kindle also has had a decisive impact on the e-reader in market in Europe. It was introduced in the German and French markets in 2011, followed by the Dutch and Belgian markets in 2013.

In Belgium, we see an uptake of the sale of e-books in 2013 although the market is not as evolved in comparison to the UK or US. In comparison to 2012, the number of people who read e-books in Flanders doubled in 2013.

During the past two years, e-readers have become increasingly differentiated in terms of functionality and price. Whereas prices for e-readers were still well in the low to average three-figure range in 2010, popular models now are available for as little as €59.

The introduction of Apple's iPad represented another milestone in the market for digital books. Tablet computers offer significantly more functions than e-readers and are thus a good option for casual readers – resulting in a significant expansion in the potential audience for e-books in all three countries.

Players in the traditional book market have reacted as well: bookstore chains are offering e-books on site, online or via app, operate their own distribution platforms, and market their own devices; a large share of German publishers have likewise made the investments necessary to be able to supply all relevant distribution channels with e-books. Several bookstore chains joined efforts with Deutsche Telekom in 2013 and introduced the Tolino Shine to the market in association with a sales platform by the same name. In Belgium, bookstore chains mostly do not offer e-books directly through their own website, but prefer to use third party distributors as Bol.com and Proxisazur.be. An exception is Standaard Boekhandel, who has its own website. Furthermore, the Flemish government, in collaboration with Boek.be and Bibnet, is currently developing its own digital platform, which will be called VEP or Flemish e-book platform.

Most e-books are offered in the open format EPUB, Apple's iBook format or Amazon formats MOBI, AZW and Kindle Format 8. PDFs and text formats such as DOC, TXT and RTF are of almost no relevance to today's reading devices. EPUB3 has been placed on hold for some time and is now enjoying greater distribution; this format permits the realisation of enhanced e-books that include additional material such as graphics or animation.

The primary sales model for books continues to be retail sales even in the digital environment. Files that have been purchased are downloaded to the user's hard drive or added to the purchaser's virtual bookshelf, from where they can be transmitted to a reading device.

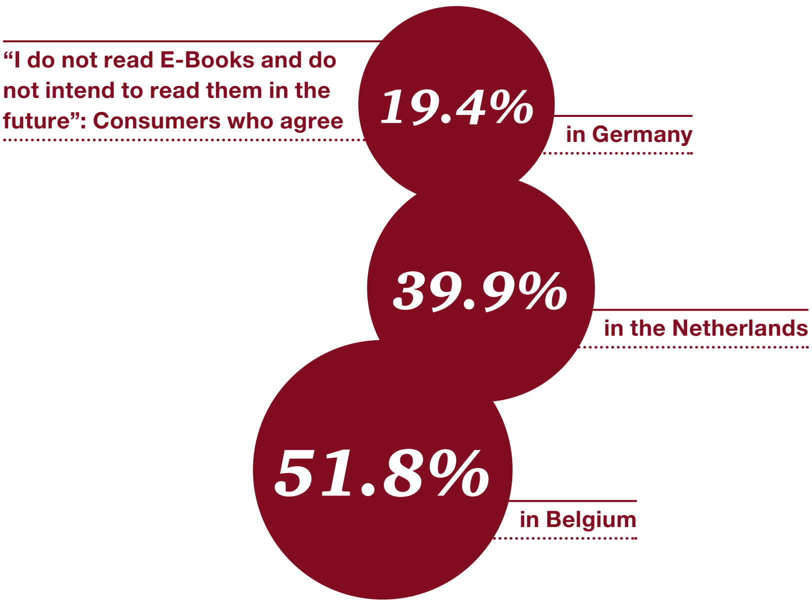
However, other business models based on flat rates or rentals have also evolved. Amazon provides its paying Prime members a lending library system. In Germany Skoobe, a platform maintained by publishing houses, offers unlimited access to its online e-book library based on a tiered subscription rate, which includes various additional options based on the subscription plan. Libreka!, the e-book marketplace operated by the German Publishers and Booksellers Association, has also supplemented its product range with its own lending systems. Divibib, a collaboration between German digital libraries, offers members a virtual borrowing system for e-books via libraries participating in the "Onleihe" system. In this model, the publishers receive revenue generated by the sale of licenses. In February 2014, a new service named Readfy started in Germany offering a free, advertising funded e-book flat rate for 15,000 titles. Although this platform does not yet have any books from the biggest publishers, the surge of consumers on their website on the launch day far exceeded the power of their servers and clearly illustrates the interest for such kind of services. In Belgium, the currently being developed VEP will also allow the possibility to lend e-books. In the Netherlands, Yindo launched their library subscription platform in 2011 which will soon be followed by the Dutch publishing group WPG Uitgevers in partnership with the Flemish publisher Lannoo.

The users' perspective: consumer survey

Why are more and more readers across Europe becoming interested in e-books? What reasons keep others from reading books on electronic devices? Will e-books replace printed books for regular readers? And are there any differences between e-book-usage in Germany, Belgium and the Netherlands? We have taken up these points.

Consumers in Germany, Belgium and the Netherlands are familiar with e-books, and many have already experienced reading from electronic devices. In expectation of continued growth in demand, publishers are digitalising their title portfolios and publishing many new releases directly as e-books. But who actually reads e-books, and how often? From the consumers' perspective, which arguments speak in favour of the use of e-books, and which arguments speak against their use? And are there business models other than retail sales of electronic books that resonate with consumers?

In order to find answers to these questions, we surveyed more than 1,000 online users in Germany, as well as more than 500 online users in both the Netherlands and Belgium. The survey was conducted among users between the ages of 18 and 65 and referred to their use of e-books and their experiences with e-reading devices during the winter of 2013/2014.



Consumers in Germany are more familiar with e-books than Dutch and Belgian users

More than 56% of the online users surveyed in Germany have already read an e-book; in the Netherlands there are 10% less e-book readers (percentage wise), but still nearly half of online users, who have experienced e-book reading. In Belgium, only one third of the consumers surveyed indicated they have read an e-book at all. In all countries we see that younger users are significantly more familiar with e-books compared to users above the age of 45. This discrepancy between the countries is also backed up by the statement that 52% of consumers in Belgium do not read e-books and do not intend to do so in the future – on the other hand only 19% of Germans surveyed agree with that statement.

Fiction e-books are bought more frequently than professional or educational ones

Print books continue to be sold in significantly higher numbers than their electronic counterparts in all three countries. In general we see that German customers are more active book readers and buyers – both for printed and electronic books. Of the consumers surveyed, 38% buy five or more printed fiction books per year. Around 14% of consumers placed five e-books or more into their virtual shopping carts, and an additional 19% bought between one and four e-books in the past 12 months. In the Netherlands, nearly one in five consumers have bought fiction e-books and 15% paid for non-fiction electronic reading.

Most e-book buyers are in the 18-30-year-old age group: among these younger consumers in Germany, 30% purchased at least one fiction e-book in the past 12 months; this percentage is 22% in the Netherlands and 18% in Belgium. An interesting tendency can be observed among female consumers both in Germany and the Netherlands. Women seem to follow the new e-book trend to a lesser degree compared to male consumers: whereas women are more active buyers of fiction printed books than men, this is not reflected in the purchase of e-books.

Tablets are used more frequently for e-book reading than dedicated e-readers

Surprisingly at the first glance, we see the PC as the most frequently used device for e-book reading – a finding that is particularly true for Belgium, where more than 36% of consumers read e-books on their PC. A possible explanation could be that occasional e-book readers – for example people who read an e-book once or twice a year for professional or educational purposes – tend not to buy an extra-device to that end and just read it on a PC screen. Consumers in the Netherlands are using their tablets particularly often as e-reading devices – one in five consumers uses a tablet at least once a week for e-book reading. As opposed to this, avid German e-book readers prefer to reach for their e-reader devices than their tablets.

The more e-books are accepted among a population, the more specialized devices are used to read e-books. We see this pattern in more active usage of e-readers in Germany (28%) versus Belgium (12%). We assume that many heavy readers of e-books switch from other devices to an e-reader after a certain period of time. One quarter of the respondents in Germany, as well as 21% in Belgium and 15% in the Netherlands, plan to purchase an e-reader in the near future.

Fig. 1 Number of books bought in last 12 months

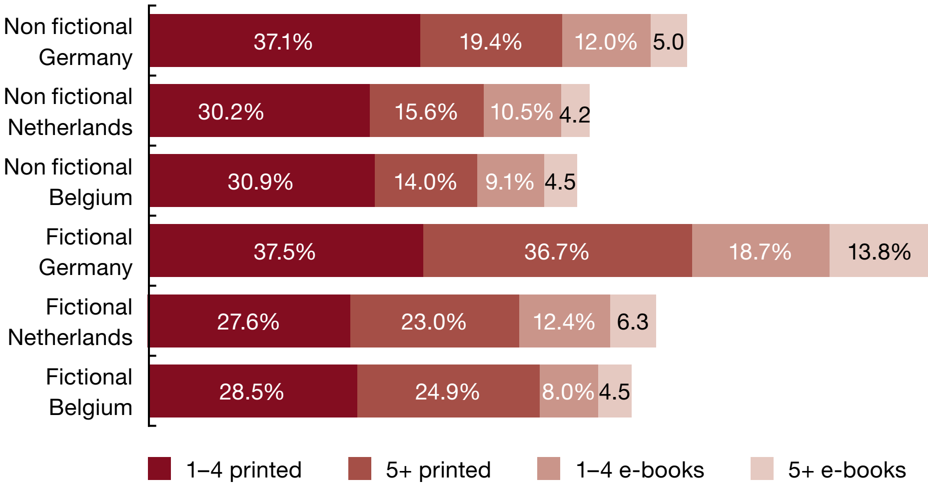
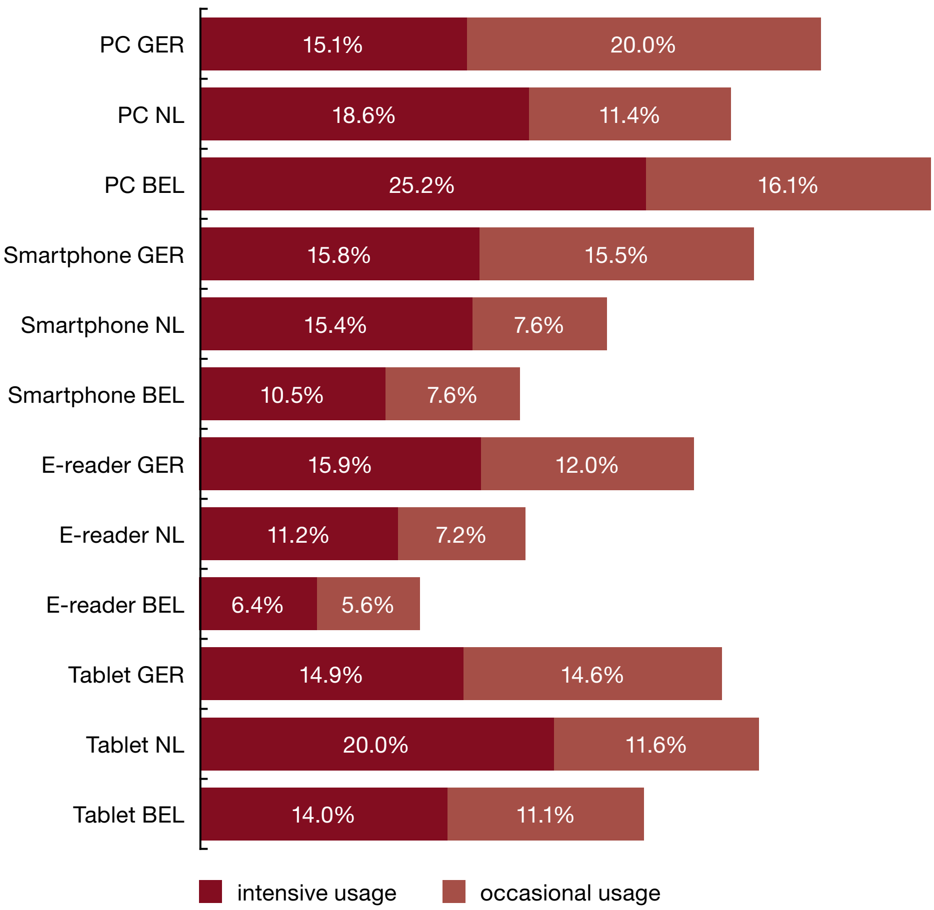


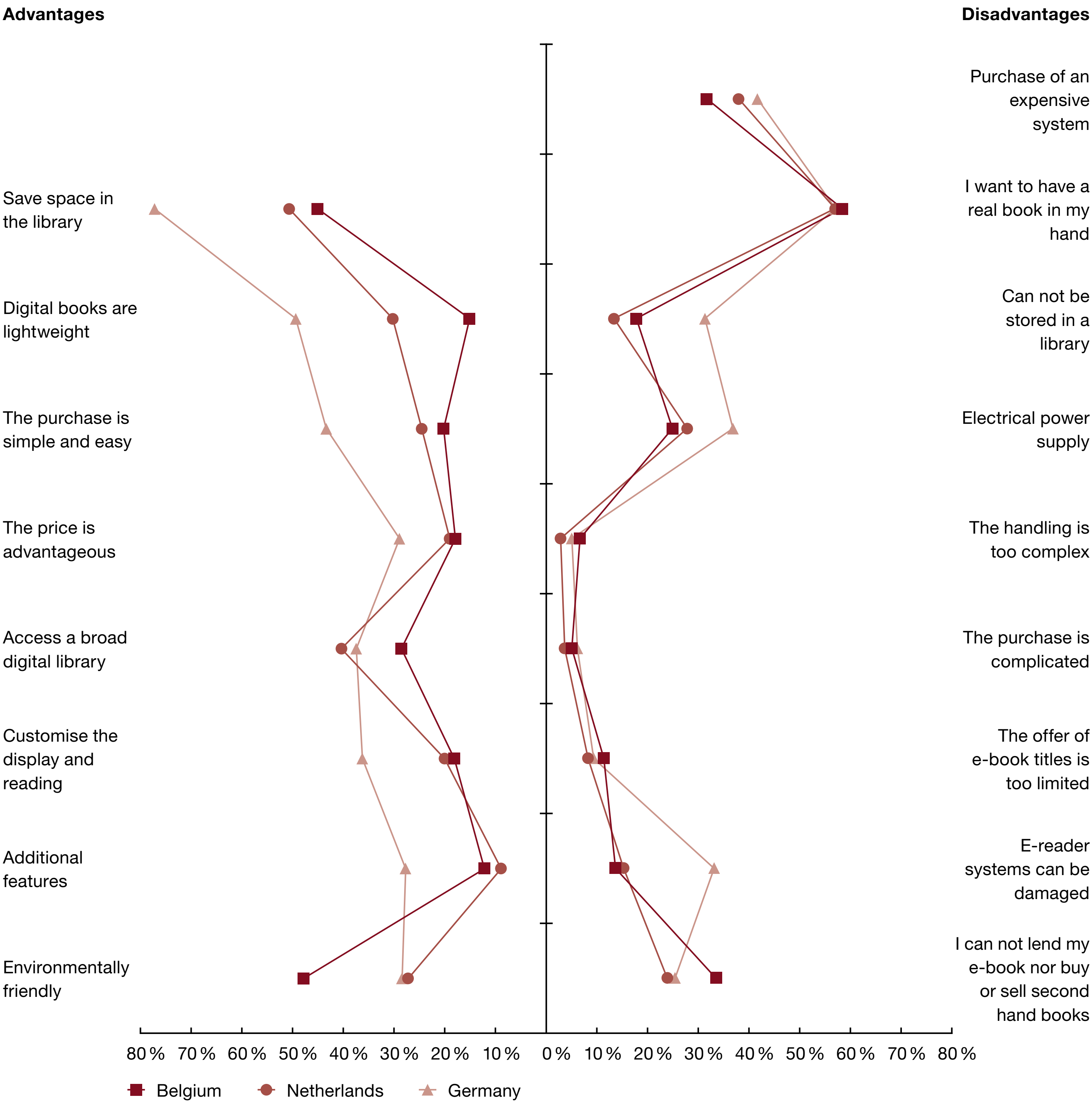
Fig. 2 What devices do you use for e-book reading?



Space-saving is the most important argument in favour of e-books – missing the real-book feeling is the main reason against it

For many consumers in all three countries, space-saving is the key argument in favour of the purchase and use of e-books. Three quarters of respondents from Germany and around one-half of Belgian and Dutch respondents mention this advantage of e-books. In Germany, 50% of consumers praise the light weight of e-books, while in Belgium this factor does not seem to be as important as for example environmental friendliness (an argument in favour of e-books for 48% of Belgian respondents). Ease and speed of purchase, as well as the ability to access extensive libraries via an e-reader, also speak in favour of e-books. The latter is particularly important for Dutch users. The ability to adjust the display, for example in terms of font size and additional features, is highlighted by consumers from Germany in particular, as they may have more experience with e-books and their functional benefits.

Fig. 3 In your opinion, which of the following arguments speak in favour of/against the use of e-books?



The desire to browse through the pages of a "real" book continues to be the strongest argument against the use of e-books. The required purchase of an expensive reading device and the inevitable dependency on battery life scare away users as well. One-third of consumers in Belgium (and around a quarter in Germany and the Netherlands) are bothered by the fact that e-books cannot be re-sold or passed along. By contrast, a limited selection of titles, cumbersome operation and a complicated buying process play only a secondary role in the perception of consumers.

Even though 'low price' is a clear argument in favour of buying e-books for only a minority of users (29% in Germany, 19% in the Netherlands and 18% in Belgium), most consumers expect e-books to be offered at prices (considerably) lower than those of the least expensive print edition of the same book. While German consumers overall seem to be most price-sensitive, only 20% of them are not willing to pay for an e-book at all. In Belgium and the Netherlands the general willingness to pay is lower, as respondents not wanting to pay for e-books at all amounts to 35% and 29% respectively.

One striking finding concerning the source of e-book downloads is that of those consumers who have actually bought e-books, 56% of consumers in the Netherlands and as much as 68% in Belgium have downloaded e-books at no charge. In Germany most respondents buy their e-books from "a leading online dealer" (60% of e-book buyers), followed by free download (32%) and an online presence of a traditional bookselling store (30%). One out of five e-book buyers from Germany purchase e-books from app stores, compared to 18% of Dutch and 13% of Belgian respondents.

The majority of the consumers say "I am reading a book" and doesn't differentiate whether printed or electronic

Most people who read e-books become familiar with e-book reading and they do not see it as a special occupation. The majority of them describe e-book reading as "I am reading a book" with percentages of 67%, 62% and 58% in Belgium, the Netherlands and Germany respectively. These figures confirm that for the largest majority of the customers a book, whether printed or electronically, remains a book. In other words, the product itself is important for the customer and not the type of distribution. This is especially true for young consumers.

Whereas many users surveyed are (still) unlikely to want to read e-books in the future, a majority of the respondents agree with the statement that although they will primarily read print books in the future, they want to give e-books a try as well. In the Netherlands, Germany and Belgium, around 38%, 31% and 23% of consumers respectively, expect that they will read more e-books than print books in the future. Only a minority agrees with the statement that since they bought their e-reader they read fewer printed books – but in Germany half of the respondents stated they read more books in total since purchasing an e-reading device. Although a large part of the group that was interviewed seems to be engaged in e-reading, they also concede that the complicated and restrictive mechanisms of copy protection can deter people from using them.

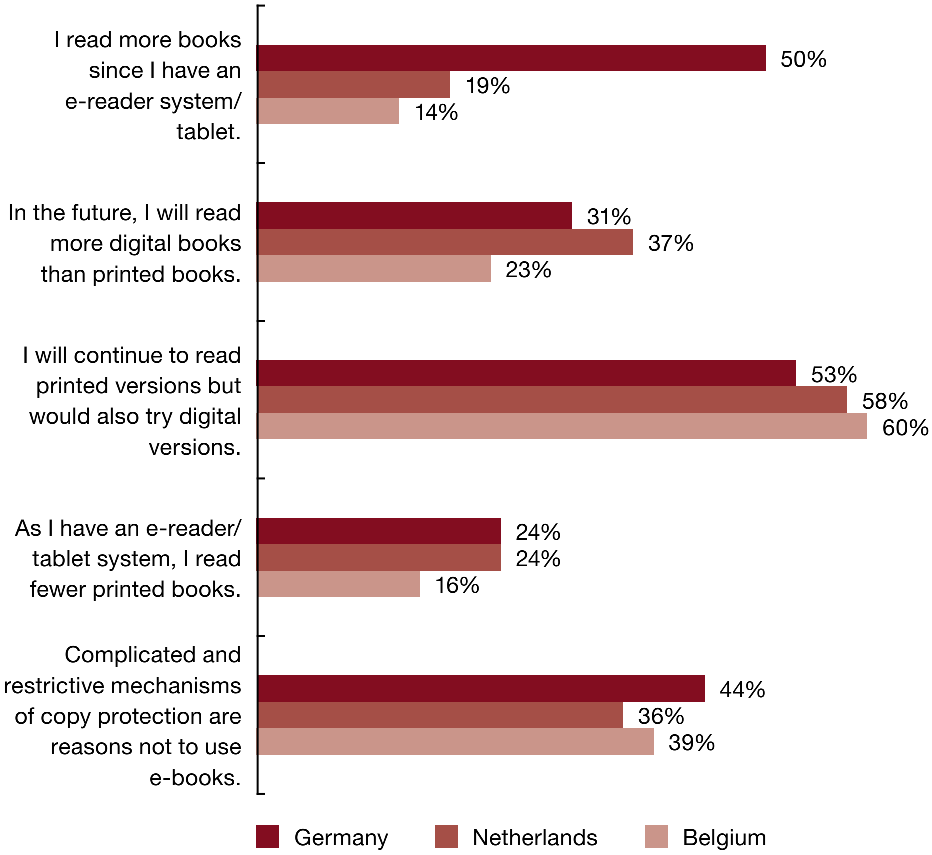
45% of users believe that prices for e-books should be considerably or very much lower than those of the print editions

14% of users believe that an e-book should be somewhat less expensive than the print edition

9% of users believe that an e-book should be the same price as the print edition

Fig. 4 To what extent do the following statements regarding e-books apply to you?

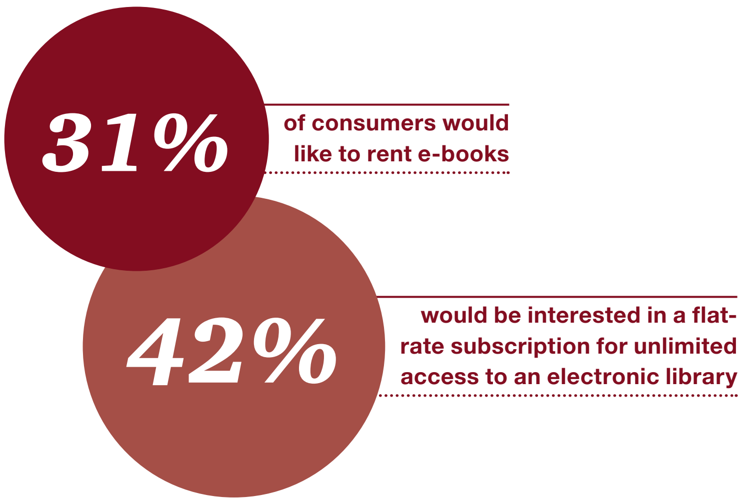
"agree" and "strongly agree"



E-book rental as a promising business model

At present, the vast majority of e-books are bought at (online) retail locations. However, in the view of consumers – especially those who already have experience with e-books – that does not need to remain the case. Around half of the users surveyed in Germany (27% in Belgium and 18% in the Netherlands) would like to rent e-books. A flat-rate option for unlimited access to an electronic library is of interest to four in ten consumers as a whole.

With regard to the price consumers evaluate as fair for buying a monthly e-book subscription, the survey shows divergent results for the three countries. In Belgium, consumers are not willing to pay any price higher than €5. Dutch consumers believe that a price of less than €5 is cheap but when the price increases to €6–€10 the majority replied that they are not willing to buy the subscription anymore. Finally, in Germany a monthly subscription rate below €10 would likely be accepted by a majority. However, in the price range of €11–€15 there is also a large percentage that considers the subscription to be well priced.



The experts' view

What happens after the apocalypse? Or: telling stories in the digital age[1]

By Rita Bollig, Managing Director at Bastei Entertainment (Germany)

I had my first experience with e-books in the early 2000s, and to be honest, this experience was everything but promising. At the time, we licensed several titles for the "Rocket E-Book Reader". However, commercial success was elusive, and the device disappeared from the market. Nevertheless, the seed had been sown, and when in 2010 the opportunity arose to become involved in this segment again and to assume a managerial role at a department dedicated to e-publishing, I was immediately full of enthusiasm.

Digital media offer a wide variety of opportunities to establish direct contact with the reader, and it is an essential function of a publishing house to listen and to discover through listening which products can give added value to customers who are interested in new possibilities for reading.

A product that is of great importance to us is the serial novel, which consists of short episodes that are quickly available and help consumers to pass the time in an entertaining way. So, the decision to design new serial novels and series for the digital age was logical.

"Digital media offer a wide variety of opportunities to establish direct contact with the reader, and it is an essential function of a publishing house to listen and to discover through listening which products can give added value to customers who are interested in new possibilities for reading."

A basic prerequisite for this type of storytelling is that authors are willing to transfer an extensive rights catalogue to the publisher for a reasonable fee so that the publisher can avail itself of a broad value chain in an innovative and straightforward manner: from the "simple" EPUB to multimedia apps, audio books and "read + listen" versions – a combination of audio book and text developed in-house – to publishing a print book. This mixed calculation enables projects to be financed sustainably; in the best case the product range will be adapted to other media segments as well. The latter has for instance been planned for the project "Coffeeshop", which is being adapted for a film or TV series. For this reason, an additional requirement is for authors to have the ability to envision different means of exploiting their content from the very start.

Having fun when creating content and the need for a sustainable revenue model go hand-in-hand. This is the only way to ensure that additional investments can be made in a project. In addition, everything needs to be right from a content standpoint; the product has to work flawlessly and intuitively; and it has to be free of technical bugs and needs to be reasonably priced too. Yet, you have to keep in mind that the decision as to what is a reasonable price is not made by the publisher; instead you need to be in tune with the market. This means that when making your first calculations you need to ask yourself up front what the potential customer will perceive as a reasonable price.

[1] The complete article is available for download (in German) at: http://www.luebbe.de/Presse/Specials/Id/1641386/2013_09_03/Ein+Werkstattbericht+aus+der+Abteilung+Bastei+Entertainment#subtab=2

This results in different prices for different product segments. Our prices for e-books are around 20% below the price of the reference product (book); episodes of our series may be purchased starting at €0.99. The app segment is very price-sensitive, and you can hardly place a product priced higher than €2.69 – unless you also offer in-app purchases. Yet, investments needed for developing apps are still high, so finding a topic that enables high unit sales is critical. For example, in the "books" category, children's apps are especially successful.

Although Bastei Entertainment has tried many new approaches when designing digital products, we have for the most part still remained true to the traditional, linear method of storytelling. However, when you, as a publisher, concern yourself with new aspects of storytelling (trans- and cross-medial or interactive), you are entering unknown territory. For example, in the case of the "Das Supertalentier" project which we initiated with our colleagues at Boje-Verlag and which was designed with different means of exploitation in mind, we needed to learn that for our new product – the app – telling a story was not even critical.

As a publisher whose very core revolves around "storytelling", we should be able to take a step back when looking at new media forms and ask ourselves: what actually makes a product successful in this segment? One quickly realises that the real competitors are not necessarily other publishers but can be found in the gaming and animation segments, to name just two examples. This also means that one needs to grapple with the relevant technologies, because good programming work is the basis for successful apps. This means that authors not only come into contact with the staff of a publishing house, but also with designers, developers and people who take care of digital product marketing; colleagues from other segments (film and game) also participate in workshops. All this ensures high levels of creativity that in turn need to be harnessed and represent a challenge from a product management standpoint. Nevertheless, even if telling a story is no longer the focus of some segments, providing entertainment still remains the main goal and fiction publishing houses have always been good at that. Entertainment is and remains important – or as our publisher says: "We want to entertain!"

"Investments needed for developing apps are still high, so finding a topic that enables high unit sales is critical. For example, in the 'books' category, children's apps are especially successful."

Why there should be an equal VAT treatment between paper and e-books

By Geert Decock, e-publishing manager at Lannoo (Belgium)

Apart from the fiscal definition, there is currently no real, correct definition of the word "book": "A book is a printed item, sometimes illustrated, bearing a title and intended to reproduce the work of the mind of one or more authors...", or, in short: a book is a work (content) but then fiscally always taking the form of printed matter. That was the definition of what a book is in France on 30 December 1971.

Books convey knowledge and are, on that ground, part of the essence of anyone's existence, just like the right to water. Books are content ambassadors of the right to culture and education. In 43 years' time, however, that content has undergone a true (r)evolution without the fiscal definition being revisited. Technology has enabled the use of digital forms in addition to print. The visually impaired also have the right to education and, thanks to the invention of audio books, access to culture and education has been able to take a big leap. Big? Yes, but not in the VAT domain: a reduced VAT rate is levied on braille books and the standard VAT rate is applied to audio books (in Belgium), whilst the content is the same.

We also see that inequality in other formats: for instance books that come with a CD (which contains a digital copy of the book), in principle need to be split-up for VAT purposes, whereby a reduced VAT rate is levied on the book and the standard VAT rate is applied to the CD. The CD has partly the same content as the book, however the layout is different, which is necessary for the reader's convenience.

Geographic content is another telling example. The geographic content of our Lannoo productions (eg, an atlas) are subject to a reduced VAT rate if printed but to the standard VAT rate when provided on DVD: in the Netherlands such printed products are subject to a standard VAT rate.

Clearly, there is a need for consistency here. In my view, there are two ways to address the issue: either the principle that needs to be upheld is that everyone has the right to culture and education, in which case all parties actively involved in "spreading" culture and education should qualify for a reduced VAT regime. By "actively involved", I mean that it is that party's core business, including bearing stock-related risks and actively promoting content. In other words, websites that generate a large part of their earnings via, advertising for instance, are not included in this reference. Not choosing this path corresponds to signalling that not everyone has equal rights.

„VAT differences obstruct the normal course of an economic system in many different ways. Bringing everything under a low VAT regime is, I think, the only least invasive solution.Plus, by applying a reduced VAT rate, we also give back the right to access culture and education."

The second given is that the applicable VAT is determined by the country of the buyer. This is more or less the current starting point with the new VAT B2C place of supply rules as of the 1st of January 2015. However, that treatment puts the digital formats at a disadvantage, as it is far from obvious what the country of the buyer is in a digital world! Such an approach opens the door to a new kind of trade: electronic post-boxes. This can hardly be said to be a solution – neither for companies nor customers: Companies will experience a higher cost of compliance as they need to determine where their customer is established and subsequently need to take care of possible VAT obligations in different member states. On the other hand customers will still be confronted with the fact that paper books and e-books are subject to different VAT rates as the latter can differ between member states.

VAT differences obstruct the normal course of an economic system in many different ways. Large groups can avail themselves of favourable regimes via other countries without actually fleeing to tax havens. Such groups are usually international players, outside Europe, that, bit by bit, are getting a grip on one of the essential aspects that make Europe what it is today: patrimony. The position of local players needs to be restored here. This has nothing to do with globalisation. Culture, the cultural patrimony, is one of the few things that, just like language, are typical of a country.

Bringing everything under a low VAT regime is, I think, the only least invasive solution, both administratively and technically, because the value used for a reduced VAT rate is the same in almost any country. Besides, a favourable VAT regime is also bound to improve the economy's health and increase sales. The level of tax earnings will thus remain similar to what it was before. Plus, by applying a reduced VAT rate, we also give back the right to access culture and education.

Discriminatory VAT/GST treatment between printed books and e-books needs to stop

By IPA[2] and PwC Belgium

The International Publishers Association (IPA), an international industry federation, along with PwC Belgium and the Global PwC Indirect Taxes Network[3], carries out a yearly global survey on the application of VAT/GST on printed books and e-books.

From this survey it can be concluded that several countries in Europe, the strongest book economy, are lagging behind in applying an equal VAT treatment to e-books. While many countries have seized the benefit of exempting or permitting reduced rates on e-books, several countries in Europe and in Latin America still need to amend their legislation in favour of an equal VAT treatment to e-books.

In the EU-27, 59.3% of the member states continue to apply the standard VAT rate to all e-books, but only 31.3% of the 16 Latin American states surveyed apply their standard VAT/GST rate to all e-books.

The discriminatory VAT/GST treatment of printed books and e-books continues and this in violation of the OECD's guidelines and benchmarks[4] recommending a non-discrimination policy and the application of concessions to e-books. As e-book consumption expands rapidly in the global English-language market and begins to take hold in other countries, this issue is becoming increasingly urgent.

As an example, in the EU, the EU VAT Directive 2006/112/EC allows the application of reduced rates to "books on all physical means of support", eg, e-books sold on CD-ROM or USB sticks. However, other e-books delivered via digital downloads remain excluded and cannot benefit from a reduced VAT rate, thus maintaining an unwarranted and obsolete discrimination.

Legislative developments in some EU member states, in particular France and Luxembourg, aim at abandoning this illogical and archaic distinction between e-books delivered on physical media and e-books delivered via digital download. It is our view that, as the VAT Directive does not mention 'the carrier' of a book, the applicable VAT rate is to be analysed from the consumer's perspective in line with previous CJEU judgments.

This will be a test for EU legislation, in particular because the EU Commission started an infraction procedure against both France and Luxembourg for their use of the reduced VAT rate on e-books. Next to that, another interesting Finnish CJEU case "K Oy" (C-219/13) is pending before the CJEU court that could lead to more insight as to VAT treatment of books on "other means of support".

This obsolete distinction is likely to hold back the development of the e-book market, in general, and especially in the non-English and small-language markets. In the new digital environment where consumers expect lower prices and authors ask for a 'larger share of the pie' (royalties), the application of standard VAT/GST rates adds additional financial pressure on publishers.

In addition, this discrimination in VAT/GST treatment runs directly contrary to numerous initiatives to promote digital literacy. For example, in a number of countries educational reform initiatives frequently involve the introduction of digital technology into classrooms and other learning environments. Discriminatory VAT/GST regimes often provide a significant financial incentive for schools to continue with printed textbooks.

Finally, this different VAT/GST treatment disproportionately affects persons with print disabilities. They often have no choice but to choose the more accessible digital book, which is subject to a higher VAT/GST rate and is therefore often more expensive.

We hope that governments all over the world acknowledge this urge for equal treatment, so that VAT will no longer form a barrier for the uptake of the sale of e-books.

„The discriminatory VAT/GST treatment of printed books and e-books continues and this in violation of the OECD's guidelines and benchmarks. This obsolete distinction is likely to hold back the development of the e-book market.“

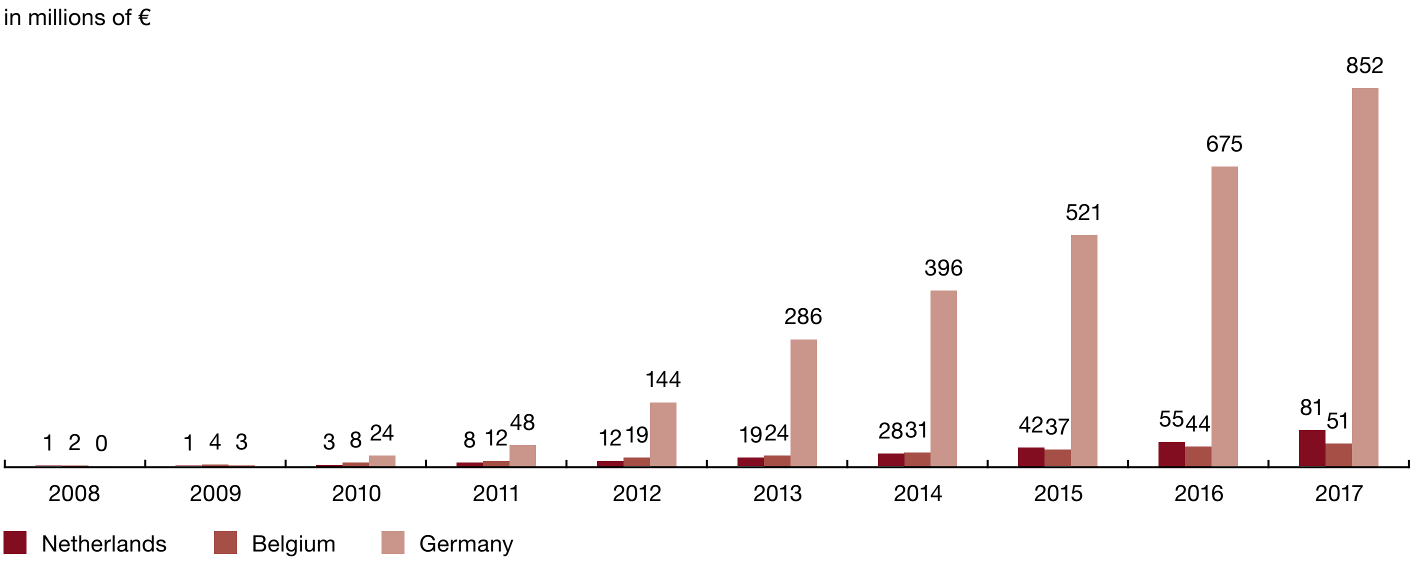
[2] Represented by José Borghino (borghino@internationalpublishers.org), Policy Director.
[3] PwC refers here to PricewaterhouseCoopers Tax Consultants bcvba/sccrl, which is a Belgian member firm of the global network of PricewaterhouseCoopers International Limited ("PwC IL"), all members of which are separate legal entities (herinafter also referred to as "PwC Firms"). A member firm does not act as agent of PwCIL or any other member firm. PwCIL does not provide any services to clients. PwCIL is not responsible or liable for the acts or omissions of any of its member firms nor can it control the exercise of their professional judgment or bind them in any way. For more information visit us at www.pwc.com or www.globalvatonline.pwc.com.
[4] http://www.oecd.org/tax/consumption/36177871.pdf.

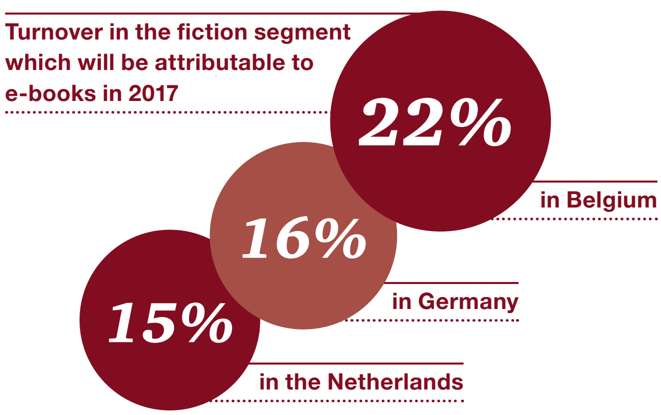
The e-book market in five years: a look ahead

Stabilization of technical infrastructure, consolidation and internationalisation, new market actors, more refined rental models, and finally a constantly changing selection of e-books: all of these topics will occupy the market in the coming years and ensure further growth.

The rapid spread of tablets and electronic reading devices has resulted in increasing momentum in the German, Dutch and Belgian e-book markets. For publishers, entering the e-book business is no longer a voluntary choice but a necessity. In Germany, the bigger part of new releases and around 80% of backlisted titles of the large publishing houses are available on the relevant e-book-platforms. Publishers are looking to benefit from the growing interest in electronic books on the part of consumers. This interest is being fuelled by digitalisation in general, an increased affinity for digital media on the part of consumers and increasing levels of experience with these media. For Germany, we expect that turnover from e-books in the fiction segment, including children's books and young adult literature, will exceed €850 million by 2017 – which corresponds to an average annual growth of 43%. In the fiction segment, the share of revenue generated by electronic books will increase from 3% in 2012 to 16% in 2017 in Germany and reach 15% in the Netherlands and nearly 22% in Belgium.

Fig. 5 Turnover from e-books in the consumer segment





For a vast majority of users, e-book reading becomes familiar and is not perceived as a special occupation. More than six out of 10 e-book users surveyed mention e-book reading as "I am reading a book". These figures confirm that for the largest majority of the customers a book, whether printed or digital, remains a book. In other words the product itself is important for the customer and not the type of distribution.

Establishing a solid infrastructure for e-books

In the coming years, an e-book infrastructure will be created comprising reading devices, content providers and platform operators which, on the whole, will be more uniform and complete than is currently the case. This will be achieved both by efforts at consolidation and collaboration among market participants, as well as by standardisation of and increasing flexibility in formats. The advanced EPUB3 format has good chances of becoming the standard for e-books. In these times of increasing mobility, the availability and accessibility of digital offerings on mobile devices are of critical importance. Access to e-books stored in the cloud is possible anywhere and at any time via cooperation with mobile operators. In addition, the expansion of mobile data networks and increasing confidence in cloud-based services in general are creating the foundation for e-book rental models.

New actors in a changing market

The production and distribution of e-books is changing the book market and entails new challenges and changing conditions. We expect that large players will claim large shares of the market for themselves by bundling services and through enhancing the relevance of their product range. Continuing internationalisation of the market will be promoted by the virtual elimination of delivery and border charges and will increase competitive pressure on content providers. Companies which have previously not operated in the industry are recognising the need for new market structures and, for example, are emerging as service-providers for the publishing houses. In addition, the significance of self-publishing will increase – in particular through platforms such as Amazon's Kindle Direct Publishing. This will compel established publishers to expand their offerings related to author support in order to convince potential self-publishers of the additional value of their services.

Potential reductions in VAT and new business models promising additional growth

In Germany and the Netherlands, books, regardless of whether analogue or digital, are subject to price maintenance arrangements which allow limited discretion where price is concerned. However, the legislature has made a distinction between print and electronic books with regard to their taxation: whereas physical books are subject to the reduced VAT rate of 7% in Germany and 6% in the Netherlands, e-books are subject to the normal VAT rate of 19% and 21%, respectively. In Belgium, in principle printed books are subject to the reduced VAT rate of 6% and e-books are subject to the normal VAT rate of 21%. The difference in VAT treatment between printed and e-books originates from the EU VAT Directive and forms a barrier for the uptake of sale of e-books. However, many EU member states do not agree with this differentiation and do not want to lose the momentum in the e-book market. Certain member states have therefore also acted upon this and also allow a reduced VAT rate for e-books. The German government recently included in a coalition agreement the intention to defend the equal treatment, by applying a reduced VAT rate to both printed and electronic books, on an EU level. The current government in Belgium seems to be in favor of equal treatment between print and digital publications. It will be important that this position is defended by the next government (according to the elections in May 2014) also on an EU level. Without a doubt, a reduction in the VAT rate applicable to e-books would provide additional momentum to the e-book market and increase margins earned by the publishers.

Market players have their sights on new business models

At present and for the foreseeable future, retail sales represent the primary distribution model for electronic books. At the same time, the overwhelming majority of publishers are offering e-books at prices lower than those for print books – despite the higher VAT rate; many publishers are offering price discounts of 20% and more. The trend points clearly to the continual decline in e-book prices. Most publishers surveyed by the German Publishers and Booksellers Association in 2013 expect increasing price differences between print and electronic books in the coming years.

Even in light of these expectations, we believe that alternative business models, as have already become established in other forms of digital media, will be of increasing importance. For example, the initial chapters of e-books, or even entire books, may be offered for free as a trial using a freemium model, or flexible payment models may be used for additional chapters in a serial story. The fact that the small file size of e-books allows them to simply and quickly be transferred to reading devices likewise makes them well suited to rental models. The e-book file may, as is the case at Libreka! for example, be offered in exchange for a one-time, direct payment and locally saved to the reading device. In addition, there are models such as Divibib's Onleihe-System where the user merely needs to pay a fee for a library card and where borrowing the books is even subsidised by the state. Other providers are focusing not on providing e-books as a file that may be saved locally but rather as a file that can be accessed via an Internet connection as needed. This is the absolute opposite of print book ownership, as the user pays a monthly fee and may generally read as many of the e-books available through the Internet as he or she wishes. The actual providers of the content are paid on the basis of the number of times their content is accessed.

If these types of models increase in popularity, we believe that only a few large providers will be successful in the market. In such cases, many market players – in particular small and medium-sized publishers – will be in a difficult position during pricing negotiations and will be compelled to reconsider their pricing policies.

The publisher as content promoter

The addition of colour, set typography, multimediality and HTML has tremendously expanded the possibilities for e-books. In the future, enhanced e-books will increasingly force their way into the offerings of download platforms. However, investments in multimedia e-books need always be based on a view of the added value for consumers. For example, additional extras in the case of non-fiction books, cookbooks and travel literature generally offer greater benefit for the consumer and create a potentially greater willingness to pay for this content than is the case for novels and classic literature for example.

The integration of books into online systems will further simplify linkage to other digital media. In this process, the publisher assumes the role of content promoter and markets book contents in other media formats as well, either independently or within cooperative relationships. Connections to online games or videos, and the addition of social media links or fan communities, permit stories to be told via different channels in a more tailored manner.

Conclusion

The time has not yet come for print books to be viewed in the same category as vinyl records: a collector's item for aficionados. The overwhelming majority of books sold over the next five years will continue to be printed and bound. However, e-books will become a fixture in the media mix of consumers in Europe.

Users who already have experience with e-books appreciate their benefits. By 2017, we expect that turnover generated by e-books in Germany, Belgium and the Netherlands will rise to nearly €1 billion. This corresponds to a 16% share of total turnover in the fiction segment. Thanks to the increasing availability of electronic reading devices and growing acceptance of digital media in general, we assume e-books could largely replace their print counterparts for everyday reading, for example for commuters or readers of paperback books.

In order to participate in this growth, local market players will need to pool their resources when competing against global players. In addition, publishers will need to place greater focus on their content-related competencies and not only consider different book forms for good stories but also different media formats.

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