2 An overview of the books sector

Key points

- The total market for books in Australia is around $2.5 billion a year.
  - The market is split 60:40 between trade books (adult and children's) and educational books.
  - The sales pattern of books varies from title to title although, for many editions of trade books, a large share of lifetime sales occurs in the first year following publication. The majority of back list trade titles are sold in very small volumes.
- Most Australians read regularly and for various reasons. Their book purchasing decisions are influenced by a range of factors including price.
- Australians obtain books from a number of sources, including local book retailers, domestic or overseas online retailers, second-hand book stores, libraries and friends and family.
  - The bulk of new books are purchased from the more than 500 specialist chain and independent bookstores, though discount department stores are important outlets for better selling titles.
  - Online book sales are increasing, but still only account for a small share of the overall market.
- Many parties are involved in producing and distributing books, including authors, publishers, printers and literary agents.
  - There are more than 5000 (and some suggest as many as 10 000) full time and part time authors in Australia. In 2007-08, locally authored works accounted for around one third of sales of trade titles.
  - There are some 4000 book publishers in Australia, though a much smaller number of large publishers account for most of the activity in the sector.
  - The bigger publishers are mainly local arms of multinational firms. However, small to mid-size local publishers play an important role in the market.
  - Sales of rights to publish Australian works overseas have been growing strongly.
  - Local printing activity is dominated by the two largest printers which are able to provide quick turnaround to local publishers on higher volume, mono-colour titles. Most colour printing is undertaken overseas.

The books sector is of considerable importance to the Australian economy and community. Sales of new books are currently around $2.5 billion a year, providing income and an outlet for the work of several thousand authors and supporting the activity and employment of publishers, printers and book retailers. Moreover, as well as being sources of information and entertainment, books can be tools of earning or learning, repositories of history or even markers of cultural identity. And reading books improves literacy, which is fundamental to individual well-being and to the smooth functioning of society and the economy.

This chapter provides an overview of the books sector, including discussion of:

- the reading and purchasing habits of Australians such as: how often they read; what they read; and how much they spend on books
- where they source books from
- the production of books in Australia, focusing on the key players: authors; publishers; and printers.

It draws variously on: the now dated survey information previously published by the ABS; book market data purchased by the Commission from The Nielsen Company; information submitted by participants; and some recent third party surveys (see box 2.1).

2.1 Consumption of books

Categories of books

At a broad level, books fall into two main categories: educational and trade.

Educational books, which encompass primary, secondary and tertiary texts as well as professional and reference works, are typically 'intermediate inputs' into business and educational services and are often accompanied by supporting material to assist teachers and students. This supporting material may include: lessons plans; a dedicated website for extra material; interactive learning objects; downloadable templates; and up-to-date weblinks for further research.

In 2003-04, educational books accounted for around 40 per cent of the total value of books sales by Australian book retailers and local publishers direct to consumers (figure 2.1). Nothing submitted to this study suggests that this share has changed significantly since then. This category is dominated by the sale of primary, secondary and tertiary books. Professional and reference works accounted for just under one tenth of the overall market.

Box 2.1 The data challenge

Information sources

Forming a comprehensive picture of the current size and make-up of the books sector is far from easy. For example, there is no single data source for the size of the books market. And the ABS last surveyed the publishing and retail sectors in 2003-04.

To supplement the somewhat limited and now dated ABS information, the Commission purchased a variety of data from The Nielsen Company's BookScan and BookData databases. BookScan monitors retail sales of trade books sold in chains, independent retailers and discount departments stores. BookScan members account for around 90 per cent of all retail trade sales in Australia. BookData is a global bibliographic database that holds records for more than 7.5 million titles, including detailed information relating to the various local and foreign editions of an individual book title.

The Commission has also drawn on the results of a survey on the publishing industry undertaken by the University of Melbourne. The survey covered over 50 respondent publishers, including a substantial majority of the larger Australian publishers.

Other surveys to which the Commission has had regard, include:

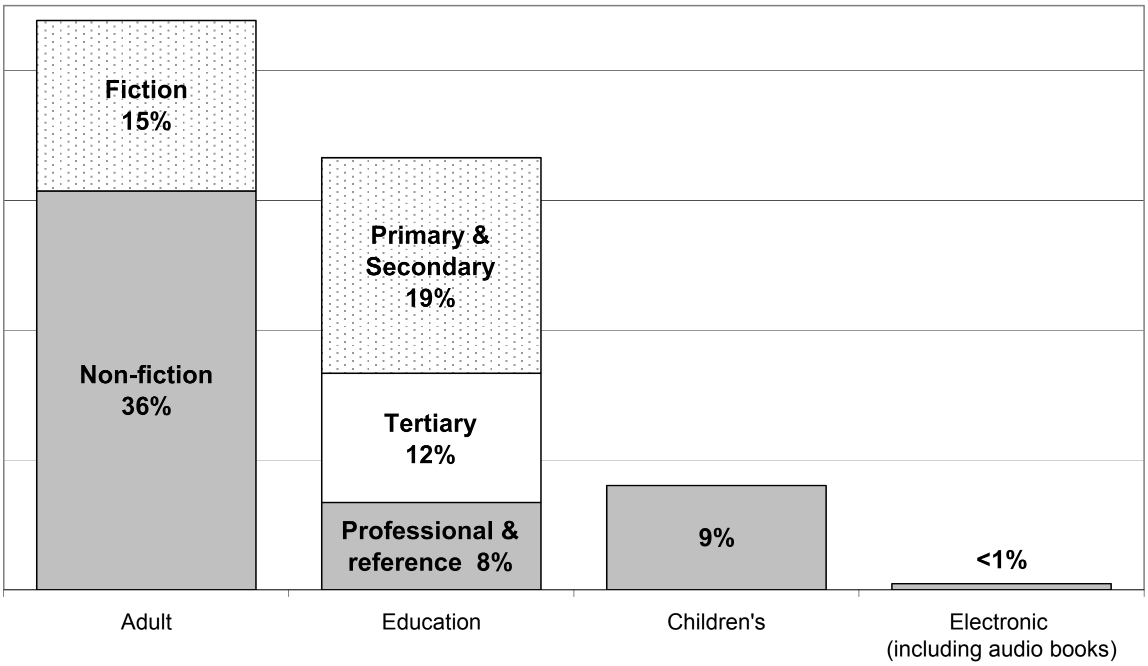
- a 2008 Starcom online survey (undertaken for the Australia Council for the Arts) of the reading and buying behaviour of 1200 readers aged between 16 and 65 years
- the 2008 Think Australian survey (produced by Booksellers+Publishers magazine) covering various aspects of book purchasing and production.

In addition, submissions included a range of anecdotal information which has helped to verify and augment the information contained in these larger data sets.

Interpretation issues

There are several important interpretation issues that can confuse discussion about the 'local' component of the books market and, ultimately, the benefits and costs of the Parallel Import Restrictions (PIRs). In particular, sometimes it is implied that 'Australian published works' or 'new Australian titles' refer only to 'Australian-authored works' (itself subject to various definitions). To the contrary, the ABS define Australian published works to include both locally and foreign-authored works, and books which are printed both here and off-shore. Hence, for some Australian published works — those by foreign authors which are also printed overseas — the Australian input may be very small. Drawing on the Nielsen BookScan database and other information sources, the Commission has delineated more precisely between some of these categories (see appendix E).

Figure 2.1 **Sales of books to consumers by category of book, 2003-04**[a b]
(per cent of total value)



a Includes sales by both book retailers and publishers direct to consumers. Books purchased by consumers directly from overseas suppliers (including online retailers and mail order) are not included. **b** For the sub-categories within the figure, the ABS only provided a breakdown for sales made to consumers by Australian publishers. This breakdown was used as an approximation for the proportion of sales by category for all sales.

Data source: ABS (*Book Publishers, Australia, 2003-04*, Cat. no. 1363.0).

The remaining 60 per cent of the market comprises trade book sales, which in turn is divided between adult trade books (51 per cent) and children's trade books (9 per cent). While much media attention is devoted to fiction writing (including genres such as science fiction, romance and mystery), around three-quarters of trade books sold are non-fiction books (including autobiographies, history, gardening and cooking books).

Trade books, in contrast to educational texts, are generally considered to be a final 'consumption item', purchased primarily for enjoyment. Hence, consumers' demand for individual trade titles is likely to be more responsive to price than their demand for education books.

The total market

Given the dated nature of the ABS statistics, the Commission looked for other indicators of the size of the Australian books market. These indicators suggest that the total market is currently in the order of around $2.5 billion a year. Specifically:

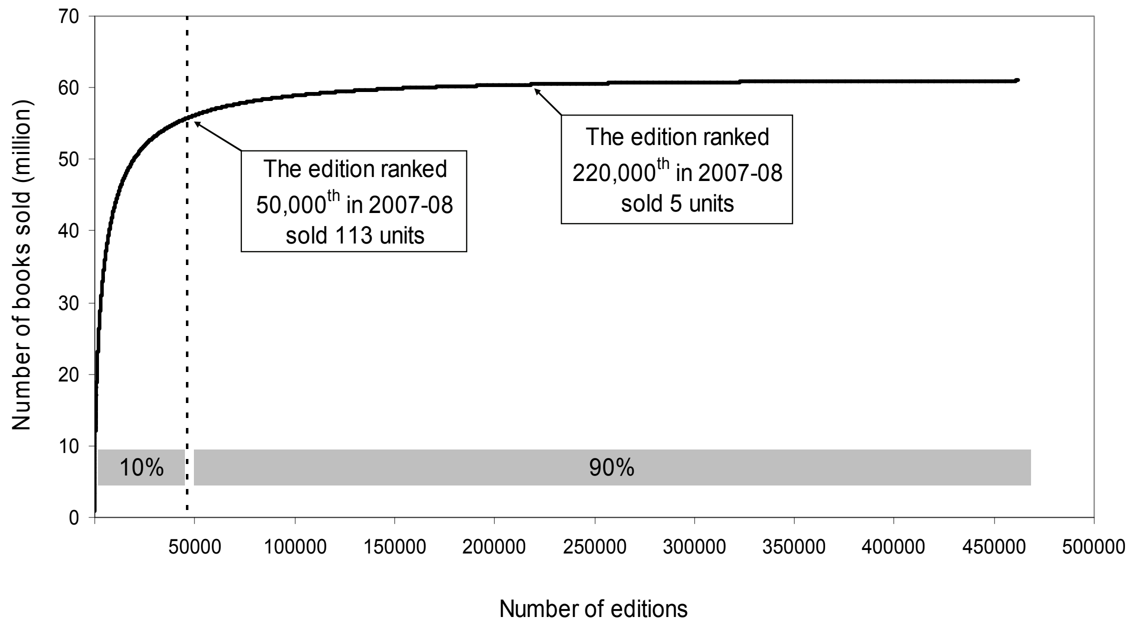
- Using the BookScan data, the Commission estimates that, in 2007-08, sales by Australian trade book retailers exceeded $1300 million (of which more than two-fifths, by value, were locally published). Application of the 60:40 ratio of trade to educational books[1], and adding in 'uplifts' for books sold by local and overseas online retailers and by publishers direct to libraries, educational institutions and book groups (see later), suggests a total market of around $2.5 billion.
- The survey of Australian book publishers undertaken by the University of Melbourne suggests that the total output of the publishing sector in 2007 was between $1.7 and $2.0 billion (Lee, Davis and Thompson 2009). Netting out export sales and sales of rights to foreign publishers, and adding in the uplift for online sales and books directly imported by retailers as well as a retail margin for sales made through booksellers, an estimate of well over $2 billion would result.
- Total household expenditure in the year ended June 2008 was around $630 billion (ABS 2008b). If households are still spending the same proportion of their income on books as in 2003-04 — around 0.4 of one per cent — the implied total market would be some $2.5 billion.

Some characteristics of book sales

As in other countries, a relatively small number of titles account for the lion's share of total trade book sales in any given year, with the vast majority of titles selling in very low volumes. Specifically, the bottom 90 per cent of the 460 000 trade editions sold in Australia (as captured by The Nielsen Company's BookScan database) in 2007-08 had individual volumes of 113 units or less, with the bottom 50 per cent selling 5 units or less (figure 2.2). (That is not to say that editions ranked low in the sales distribution in 2007-08 did not rank higher in previous years.)

[1] While professional and reference books are classed as educational books, some of these books (and, indeed, some textbooks) may be sold by trade retailers and captured in the Nielsen BookScan figures for the trade sector. The Commission has not sought to adjust its estimate to account for any such distortion.

Figure 2.2 **Cumulative volume of trade book sales by title, 2007-08**[a b]



[a] The cumulative volume of trade books sold in 2007-08 (as captured by BookScan), by the number of editions in descending order of sales volume. Around 15 per cent of all editions sold in 2007-08 were also released in Australia that year. [b] The Nielsen Company's BookScan database accounts for around 90 per cent of all retail trade sales in Australia.

Data source: The Nielsen Company's BookScan database, unpublished data.

For many trade titles, a major share of an edition's sales are made in the year following publication, although an analysis of BookScan data confirms that the front list/back list sales split of titles can vary significantly.[2] Sometimes, a rise in a

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[2] Using the Nielsen Company's BookScan database, the Commission traced the sales of a random sample of 1000 editions of titles, released in Australia in 2003, over the five year period ending in 2008. Two thirds of the sample were 'first editions'. The sales achieved by first editions in the year following publication, as a share of their first five years sales, were 64 per cent. The equivalent figure for second and subsequent editions was 62 per cent. Since this analysis was limited by the five year timeframe over which data was available, the actual proportion of the editions' lifetime sales in the first year of publication may be lower than implied by the above estimate. However, for nearly three quarters of all editions tracked, sales had ceased or fallen to less than 10 units per year by the fifth year.

The results appear to be broadly consistent with data on the overall importance of front list sales — suggesting that on average they account for more than half of total sales revenue — submitted by a number of major trade publishers (see, for example, subs. 212, DR360, DR480, DR550).

When the editions (first or subsequent) are ranked according to the share of their total sales made as front list titles, the top quartile of editions achieved at least 83 per cent of their sales in the first year of the five, whereas the bottom quartile of editions achieved 46 per cent or less of their sales in the first year of the five.

title's sales can occur years after its release when, for instance: a previously published author is 'discovered'; a new title in a series is released; a film version of a book is made; or the book is short-listed for or awarded a prize. For some trade titles, the sales pattern may be better described as a 'long slow fuse' with constant or growing sales over a number of years. Some of these slow burners may become 'classics' (such as *Possum Magic*), appealing to several generations of readers.

The sales pattern of primary, secondary and tertiary education books tends to follow a cycle over a number of years, dependent somewhat on the rate at which school and university curricula are changed or updated. According to Cengage Learning Australia (sub. DR282), in the initial year after publication, there may be a staggered adoption of the text as teachers and lecturers 'tyre-kick' the book before they formally adopt it. Once a book is adopted, it may be prescribed for a course over the subsequent three to four years (or longer). Cengage noted that, over the past decade, 30 per cent of its secondary and tertiary titles' total sales have on average occurred in the first year following the release of a title, although the actual figure for any one title may vary from 10 per cent to 40 per cent.

Book reading and purchasing habits

Reading is a popular activity in Australia. A recent national phone survey of some 1000 adult Australians found that 84 per cent enjoy reading books (Australia Council 2008c). Starcom (2009) similarly reported that more than 80 per cent of participants in an online survey listed 'enjoyment' as a motivation for reading in their leisure time, with other motivations including reading for relaxation, for general interest and to improve knowledge. As a leisure activity, reading competes for people's time with other activities such as television, radio, the internet, cinema and physical pastimes. Of course, Australians read not only during their leisure time, but also at school and work, where less discretion is involved.

Some additional perspectives on reading behaviour emerged from a recent survey by the ABS (2008a), which found that around half of the population aged 15 years and over read books at least once a week. The survey further found that women are more avid readers than men; and that persons aged over 45 years and those with a university degree or higher qualification are more likely to read books frequently. A large number of children also read frequently — with the ABS reporting that around 80 per cent of girls and 70 per cent of boys aged 5–14 years read for pleasure outside of school hours.

For trade books, consumers' purchasing decisions are influenced by both price and factors that provide an indication of the content and quality of a particular book, including: an author's reputation; book reviews; bestseller lists; inclusion on book clubs' lists; store displays; and prizes and awards. Starcom (2009) found that previous experience with an author, a book's reputation and price are the most influential factors.[3]

The factors influencing purchasing decisions for educational books are very different, with publishers typically seeking to market these books to educational providers rather than the ultimate consumer. In the tertiary market, Cengage Learning Australia (sub. 52, p. 8) noted that publishers '… travel to each tertiary institution and visit lecturers and course administrators at their worksite to secure book adoptions'. In deciding whether to adopt a particular title, lecturers and teachers may consider, among other things, the quality of the text and supporting material as well as the extent of local content. In the case of primary and secondary education, the titles prescribed or recommended by teachers are influenced by requirements in national and state teaching curricula. While price may be a factor in the adoption decision of lecturers and teachers, they may be less sensitive to price relative to their students. Indeed, at the Commission's Melbourne Roundtable, Bryan Lukas (head of the Department of Marketing at the University of Melbourne, and also a lecturer and educational author) indicated that:

> When choosing which textbooks to prescribe for university courses, there can be a trade-off between the educational value of a book and the price of a book to the student. Some university educators focus almost solely, or strongly, on the educational value of the book as they assess it and do not give much weight to the price of the book to the student, whereas others, although fewer, may give the latter consideration more weight. (pers. comm., 4 May 2009)

As students have little discretion over whether to obtain prescribed educational books, they generally have to take the retail price of new texts, or access the material through alternative sources such as second-hand markets and libraries.

As mentioned, in 2003-04, on average, households spent around 0.4 of one per cent of their income on books (ABS 2006). Notably, this percentage differed little between higher and lower income households. Moreover, while lower income households spend less in absolute terms on new books, there is some evidence suggesting that these households do not read any less (Australia Council 2008c). It

[3] There is mixed evidence on the overall price elasticity of books. While some overseas studies suggest that the demand for books is relatively unresponsive to price (see, for example, Fishwick and Fitzsimons 1998), others have found that the demand for books is price sensitive (see Hjorth-Andersen 2000, Ringstad and Løyland 2006). In Australia, 40 per cent of respondents to the Starcom survey (2009) indicated that price is a barrier to reading more frequently.

is likely that these households have a relatively high propensity to borrow books from libraries or friends and family, or to purchase second-hand books. Thus, for example, the ABS (2007) found that individuals not in full time work, as well as young women and older Australians, tend to patronise libraries more frequently than others.

Libraries themselves are also large purchasers of new books. In 2005-06, there were around 1500 public libraries (including 83 mobile services) in Australia, which collectively held around 40 million books and related material (Public Library Services 2007). Just under half of these holdings were purchased in the previous five years. Public libraries spent $100 million on new library materials (excluding electronic resources) in 2005-06.

2.2 Supply of books

Bookstores

Though Australian consumers obtain books from a number of sources, the large majority of new books are purchased from local book retailers.

Retail bookselling chains (such as Angus & Roberston, Dymocks, and University Co-op) and independent booksellers dominate the market. An ABS survey indicated that, in 2003-04, more than 500 such outlets accounted for nearly 80 per cent by value, and nearly 70 per cent by volume, of new book sales. Similarly, the more recent Think Australian (2008) survey suggested that retail chains now command around 55 per cent, and independent booksellers around 20 per cent, of the market.

The market share held by independent booksellers in Australia is around double that in the United States (US) and, according to Think Australian (2008, p. 5), has '… partly been preserved by their joining together in buying groups, the largest of which is Leading Edge Books, and also partly by the chains' focus on a narrow range of bestselling titles …'. In addition, a number of independent book retailers indicated that they are leaders in product knowledge and offer expert advice and service to customers (see, for example, Abbey's Bookshops, sub. DR449 and MacLean's Booksellers, sub. DR438).

Discount department stores (DDSs) account for most of the balance of sales made through bricks and mortar outlets. The DDSs focus on stocking the more popular bestselling titles and selling them at a substantial discount to the recommended retail price. While book retailers sell a mix of front list and back list titles, DDSs tend to sell a relatively high share of front list titles — that share being 80 per cent in the case of Big W (Coalition for Cheaper Books, sub. DR509, p. 15).

Consumers also purchase books from smaller non-specialist retailers, such as newsagencies and airport retailers. However, these retailers only account for a small share of the overall market (ABS 2005b).

Reflecting in part the current restrictions on the parallel importation of books (see chapter 3), book retailers source the large majority (91 per cent in 2003-04) of their books from local publishers (ABS 2005b) — though in some cases local publishers are acting solely as distributors for overseas publishers.

Online sources

While almost two thirds of Australian households have access to the internet, the Coalition for Cheaper Books (sub. 218, p. 1) indicated that online sales are now ‘upwards of $100 million per year’, which would represent about 5 per cent of the Commission’s estimate of the total value of the books market.

Several participants contended that various factors will continue to limit that share in the future. The Australian Publishers Association, for instance, said that Amazon’s business is relatively heavily concentrated in low volume titles which account for a small proportion of the overall market. Along with some other participants, it also commented on the ‘additional’ costs of purchasing through Amazon, claiming that this will further constrain future purchasing volumes through this route.

> To order from Amazon presents costs to Australian readers above and beyond the stated retail price of the book, including freight costs and delays, and requires faith that the book will arrive in an adequate edition, and in good condition. (Australian Publishers Association, sub. 244, p. 34)

However, as internet penetration increases, internet speeds improve and people become more comfortable with online purchasing, the market share of online bookstores is likely to grow. Indeed, the number of local online bookstores is increasing. As Wilkins (2008, p. 151) observes:

> Both Dymocks and Angus & Robertson have relaunched their online stores, and other pure-play web businesses such as The Nile, Booktopia and Boomerang Books are joining them.

Notably, in the major overseas markets, the presence of significant local internet book sellers has translated into a much higher and growing online market share. For example, in 2007, internet sales in the United Kingdom (UK) were estimated to account for 13 per cent by volume and 16 per cent by value of the total market, an increase of about 7 percentage points from 2004 (BA 2008). Similarly, in the US, online sales are estimated to account for as much as 22 per cent of all book purchases (Simba Information 2008).

Alternative sources

Libraries, and especially public libraries, play an important role in making books available to the community. In 2005-06, around one-third of the population aged 15 years and over visited a national, state or local library at least once (ABS 2007). Also, individuals who visit libraries tend to do so quite frequently — of those who visited a public library in 2005-06, nearly two in three visited six or more times during the year, and many visited once a fortnight or more. Reflecting such multiple use, public libraries loaned out an average of nearly 9 books per capita in that year (Public Library Services 2007).

As noted, books are also disseminated informally through family and friends. And though the ABS (2005b) estimated that the value of sales of second-hand books was less than 1 per cent of the sales value of new books, given much cheaper prices, the proportion in terms of volume would have been somewhat higher.

Finally, in the education market, many primary and secondary texts are purchased by schools, which in turn provide them to students. Schools also act as conduits for sales of second-hand text books by parents and students. Second-hand text book sales also thrive in the tertiary sector, facilitated in part by campus bookshops.

2.3 Producing a book in Australia

Many parties are involved in producing books and distributing them to retailers, including authors, publishers, printers and literary agents. Governments also play an indirect supporting role through, amongst other things, providing direct funding to authors and publishers and by legislating copyright laws (chapter 3).

Authors

Authors are the creators of original literary works embodied in books. Some Australian authors are well-known players on the international stage and a significant number of their less widely recognised colleagues are nonetheless published in a variety of countries around the world. Then there are the many established and emerging authors whose readership is almost solely in Australia.

However, getting a precise fix on the number of Australian authors and whether they are full time or part time writers is difficult.

- In the 2006 census, some 2600 individuals nominated ‘author’ as their ‘main job’ (ABS 2008c).
- The Australian Society of Authors represents around 3000 writers and illustrators ‘across Australia’ (sub. 70, p. 1).
- Throsby and Hollister (2003) estimated that, in 2001, there were 7300 ‘professional writers’ (including book and script editors) in Australia, of which 3700 spent more than half of their time working as writers.
- Based on the authorship of manuscripts submitted to publishers and other evidence, there are many more Australians who write books on an occasional basis, or who aspire to do so, but for whom authorship is not a full time (or life time) occupation. In this regard, the Australian Society of Authors (sub. 70, p. 1) said that Public Lending Rights Committee estimates suggest there are more than 10 000 people working as writers or illustrators in Australia.

Getting a precise estimate on the number and value of locally authored books sold in Australia is similarly difficult. Most of the publicly available data relates to sales of books ‘originated’ in Australia by Australian publishers. However, these titles include books written by authors resident in both Australia and overseas.

As elaborated on in appendix E, estimates by the Commission, using the Nielsen BookScan database and other sources, suggest that, in 2007-08, locally authored works accounted for around one-third of sales (on both a volume and value basis) of all trade titles.

Although equivalent figures for educational titles are not available, the majority of schoolbooks sold in Australia would be locally authored, given the need to meet local curriculum requirements. John Wiley & Sons, for example, advised the Commission that none of its schoolbooks are imported or adapted from overseas editions (pers. comm., 5 June 2009). In relation to tertiary texts, Cengage Learning Australia estimated that around half of publishers’ portfolios comprise imported books, and that the remainder include adaptations of overseas versions, suggesting a much lower share of Australian-authorship than for schoolbooks. John Wiley & Sons noted that one third of its tertiary titles are imported, and that around half of those published here are adapted from foreign editions. It estimated that its adaptations can have from 20 to 60 per cent local author involvement when first released, with the share potentially increasing for updates of the books (pers. comm., 5 June 2009).

Returns from writing

There is considerable disparity in the earnings of Australian authors. In 2006, nearly 30 per cent of the 2600 individuals who nominated ‘author’ as their main job reported income from all sources (including income from activities unrelated to writing) of less than $400 per week. Conversely, one third reported income of $1000 or more per week (ABS 2008c) — significantly higher than the comparable share of one fifth for all employed persons (ABS 2009).

The proportion of authors’ total incomes derived directly from their creative writing efforts is similarly variable — though, on average, it appears to be quite small. Thus, for example, Throsby and Hollister (2003) found that, in 2000-01, ‘creative income’ accounted for only 14 per cent of the collective (median) income of the estimated 7300 ‘professional writers’. This is despite the fact that authors can potentially derive creative income from a number of sources including:

- advances by publishers on royalties for unpublished books
- royalties (or fees) paid to authors (over and above any advances) for sales either in Australia or overseas:
  - domestic royalties are generally set as a fixed percentage of the recommended retail price (RRP). In 2003-04, royalties for sales in Australia were around 11 per cent of the RRP (ABS 2005a) — though the figure that is now commonly quoted for these sales is 10 per cent
  - royalties to authors tend to be set lower for the sale of books outside of Australia — and are often based on the actual sale price of books (which is typically lower than the RRP). Thus, Garth Nix (sub. 102, p. 6) reported that such export royalties could be as low as 2–4 per cent of the RRP

  (royalties are not generally payable to the local author on any remaindered copies)
- payments under the Public Lending Right and Educational Lending Right programs (see chapter 3)
- payments from Copyright Agency Limited (CAL), which is the Australian statutory copyright collecting agency that manages the statutory right to reproduce the works of creators and publishers[4]
- book adaptations, including film and play adaptations
- grants, prizes and fellowships, from both government and private sector sources (see chapter 3).

[4] In 2007-08, CAL distributed around $40 million to its members, including authors and publishers, for material copied from books (CAL 2008).

In addition to the royalties (and related income) that authors receive from book sales, the non-pecuniary rewards that many derive from writing — such as the opportunity to influence the views of others, and the ‘joy of self-expression’ (Abbing 2002) — are widely acknowledged to be significant.

Use of literary agents and editors

While estimates of the proportion of Australian authors represented by literary agents vary between one quarter (Throsby and Hollister 2003) and one half (Westland 2006), it seems likely that usage is concentrated in the smaller sub-group of full time authors.

According to the Australian Literary Agents’ Association (ALAA, sub. 124, p. 2), literary agents ‘work to protect, manage and optimise an author’s copyright. They license the work of authors they represent and ensure that authors get a fair payment for all rights.’ Amongst other things, this may involve: assisting authors to prepare manuscripts for publication; advising them on which publishing house(s) to submit work to; negotiating contracts with those who use their works; and managing the sale of additional rights. By sorting out the highest quality manuscripts, literary agents may also perform an ‘assessor’ role for publishers. The ALAA said that the income of agents is derived solely on a commission basis from the sales they help to secure on behalf of their clients.

Authors may also employ editors to assist in the preparation of manuscripts — though for the most part this function is performed by publishers (see below) and sometimes by literary agents.

Publishers

Australian book publishers are comprised of a diverse group of entities, ranging from businesses publishing over one hundred titles annually in Australia to self-publishers who may only ever publish one title. As such, estimates of the number of book publishers vary depending on how ‘publishers’ are defined:

- Counting all entities that published one or more titles in a year, there are currently around 4000 book publishers in Australia (Think Australian 2008). Most are self-publishers or very small entities releasing only a handful of titles each year.
- If publishers are defined to include all entities that describe themselves as a publisher and nominate publishing as their main activity (regardless of their actual level of publishing output), Lee, Davis and Thompson (2009) estimate that there around 1000 publishers in Australia.

- Limiting the definition to only those entities publishing more than five titles in a year, there are around 280 book publishers in Australia (Think Australian 2008). (By way of comparison, the ABS estimated that, in 2003-04, there were around 230 businesses whose main function was publishing (ABS 2005a).)

The University of Melbourne study estimated that the total sales revenue of Australian publishers was between $1.7 billion and $2.0 billion in 2007.[5] This is 28.5 per cent higher than the value of output at the time of the last ABS survey in 2003-04, which was estimated to imply an annual average growth rate of approximately 6.5 per cent (Lee, Davis and Thompson 2009).

Most of this income comes from domestic sales of what are commonly referred to as Australian 'originated' titles — noting that these comprise both locally and foreign-authored books. In addition, local publishers derive revenue from the importation and distribution of books published overseas, from the sale of rights for Australian works to overseas publishers and from the export of locally published books. Although estimates will vary with the definition of the local publishing sector (see above), the Australian Publishers Association (sub. 244) indicated that direct employment in the sector is around 5000, a quarter of whom are part time or casual.

The role of publishers

In the process of acquiring and publishing manuscripts from foreign and Australian authors (and distributing books published overseas), publishers perform several roles. Specifically, they:

- collaborate with authors and their literary agents on proposed manuscripts and, especially in relation to the educational and professional market, commission authors to write manuscripts to meet an identified market need
- provide editorial support to authors. As well as enhancing the saleability of a particular work, this process may also help develop the skills of authors, with benefits for the quality of subsequent manuscripts
- organise designers, coordinate any input from illustrators and arrange for the printing and distribution of books
- stimulate demand for books, by organising promotional events such as author signings, radio interviews, attendance at literary festivals and the like

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5 Using a range of estimates of the market share held by the top 20 publishers (based on earlier ABS data), Lee, Davis and Thompson (2009) extrapolated the revenue of the 'top 20' publishers in their 2007 survey to infer the total revenue for all publishers that year.

- sometimes pay authors an advance on royalties for yet-to-be published books
- provide books to booksellers on a 'sale or return' basis, effectively acting as a banker for the industry. In 2000, just over half of all books distributed to booksellers were supplied on this basis, with around 13 per cent returned (Accenture 2001); however, the Australian Publishers Association (sub. 244, p. 20) indicated that this arrangement now applies to most new books and much of the back list.

Central to publishers' commercial success are the strategies they adopt in relation to the type and range of manuscripts acquired and to the release and pricing of books.

The likely success of titles can be difficult to predict prior to release, especially for books by less well established authors. Hence, larger publishers typically release a 'portfolio' of titles, with returns from the better sellers helping to cover losses on titles which do not generate significant sales. For instance, Random House Australia (sub. 193, p. 8), indicated that the top 1 per cent of its titles generated 10 per cent of its sales revenue in 2008, with the top 7 per cent accounting for 40 per cent of total revenue. More starkly, the Australian Publishers Association said that:

> For every 10 titles published, on average two succeed, by meeting or exceeding expectations, a further three may cover costs with a small margin, and the other five fail to find a market and end up being published at a loss. (sub. 244, pp. 36–7)

The portfolio approach also allows publishers to take risks with emerging authors on the expectation that likely losses in the short term will be offset in the future as at least some of these authors become established and commercially successful.

In regard to the release and pricing of books, a common strategy is to initially publish a book as a large 'C format' trade paperback (or hardback) and to later re-release it in a smaller paperback format at a lower price. This release sequence allows publishers to target consumers with varying sensitivity to price. Publishers also typically organise the release or re-release of books to coincide with peak demand periods (such as Christmas, Mothers Day and Fathers Day).

Types of publishers

Commercial publishing businesses in Australia specialising in trade books can be grouped into two categories:

- local arms of multinational publishers. These businesses are generally large, are able to attract and retain established authors and publish a diverse portfolio of titles. Examples include Penguin, Hachette, Random House and Harper Collins

- Australian publishers. The largest local publisher, Allen and Unwin, commands a reasonable market share and publishes a diverse portfolio of titles. In contrast, small to mid-size local publishers (such as Scribe and Black Ink) tend to specialise in a small number of genres — which, in some cases, are considered too 'risky' by the large publishers — and may maintain particularly close ties with independent booksellers.

There is less contemporary sector-wide data on the activities of those publishers concentrating mainly or exclusively on educational, professional and reference books. However, in 2003-04, the ABS estimated that around 45 per cent of publishing businesses specialised in this part of the market (ABS 2005a) — broadly in line with the commonly accepted 60:40 delineation of the overall market between trade and educational/professional books.

More specifically, Cengage Learning Australia (sub. 52, p. 5) provided a variety of information on publishers of educational texts. Amongst other things it noted that:

- There are 8 local arms of multinational publishers and more than 20 Australian publishers supplying educational books to booksellers and educational institutions.
- More than half of sales in the primary sector are of books aimed at improving literacy.
- In the secondary and tertiary segments of the market, publishers provide a range of add-on services (see section 2.1).
- In the tertiary sector, as noted, publishers' portfolios comprise around 50 per cent of locally originated titles or adaptations of overseas versions. The remainder are imported books, principally from the UK, the US and Asia.

On a revenue basis, Australian book publishing is highly concentrated. Commission estimates based on Nielsen BookScan data indicate that around 60 per cent of the total revenue from trade book sales in 2007-08 accrued to titles published by the top 10 publishers and thereby mainly to titles released by multinational publishers. Even so, many smaller local publishing houses are operating successfully in the domestic market, as well as having a significant export business.

Sales and distribution channels

While publishers supply the bulk of their books to booksellers, they also sell to schools, universities, libraries and book clubs. The ABS (2005a) estimated that, in 2003-04, such 'direct' sales accounted for more than 15 per cent of publishers' total revenue from sales in Australia.

A number of larger publishers have their own distribution systems. Some (including Penguin Books and Random House) also act as distributors for smaller publishers. These distribution arrangements are in contrast to those in the UK and the US, where distribution is mainly undertaken by specialist wholesalers.

A number of Australian publishers also export books to other English language markets, including New Zealand, the UK and the US. Many publishers (and literary agents) are also actively involved in ‘foreign rights’ trading. For example, where an Australian author licenses the ‘world rights’ for their book to an Australian publisher, the right to publish in an overseas country can in turn be assigned to an entity in that country. In value terms, the leading markets for the export of rights are the UK and the US (Think Australian 2008). However, the majority of rights deals (61 per cent in 2008) are made with publishers in non-English speaking countries (most notably Germany).

The Australian Publishers Association (sub. 244, p. 18) said that the sale of foreign rights and book exports now generate revenue for local publishers of around $220 million a year, or some 12 per cent of their total revenues. Indeed, several small- to mid-size Australian publishers established over the last decade or so have based their business model on trading rights — that is, selling Australian rights overseas and acquiring rights to publish foreign titles in Australia (Text Publishing sub. 63).

Printers

A significant proportion of the books published in Australia are also printed here. And, while estimates differ somewhat, it appears that the book printing industry generates more than $250 million a year in revenue and employs some 2000 people directly.[6] The industry also provides significant sales for supplier industries such as paper manufacturers and ink suppliers.

While there are more than 200 book printers dispersed across Australia, the two most prominent firms, Griffin Press in Adelaide and McPherson’s Printing Division based in Melbourne (but with a major production plant in the Victorian country town of Maryborough), account for more than 40 per cent of total direct revenue earned by the industry. The Printing Industries Association of Australia (PIAA, sub. 106) further estimated that, in Maryborough, a quarter of the workforce is

[6] The Victorian Government (sub. 270) suggested that, collectively, book printers earn $250 million a year in revenue. Ligare (sub. 76) and the PIAA (sub. 106) estimated that the total book printing market is worth between $250 and $300 million per annum.

either directly employed in the industry or dependent on it. The other significant printer is Ligare, based in Sydney.

The economics of the Australian book printing industry was recently explored at length by the ACCC (2007). That report and other information (Accenture 2001 and PIAA, sub. 106) indicates that:

- Offshore mono printing — soft and hardcover books printed in one colour with a full colour cover — is somewhat cheaper than in Australia. However, shipping costs and the ability of local printers to deliver books quickly and in smaller print runs provide offsetting incentives for publishers to print mono books in Australia. The capacity for timely turnaround is particularly important for many trade titles which are generally printed in mono form.
- The domination of the market by Griffin and McPherson's reflects the fact that they are the only printers in Australia to operate high speed fixed-format web-fed presses. For longer print runs of mono books, this technology is a pre-requisite to compete with overseas printers.
- Australian book printers are less price competitive with Asian printers in the market for colour books, which tends to be more prevalent in the children's and educational market segments.

It is also important to note that technological developments have affected the printing industry and will continue to do so in the future. In this regard, the PIAA said that these developments:

> … including the proliferation of the internet and the increasing tendency to purchase books online coupled with the release of electronic devices such as ebooks, as well as plans to produce electronic versions of printed textbooks all pose serious competitive challenges for the Australian book printing industry. (sub. 106, p. 13)

The Association further observed that print-on-demand technology is starting to blur the distinction between printers and booksellers and is likely in the future to displace some traditional printing activity.