NESTA: Survey of SME publishers

Report on Stage One, April 2011

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Contents

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Research objectives

- To understand what impact digital technology has had, and is likely to have, on SME publishing businesses
- To establish the extend to which SMEs are engaged in digital publishing
- To test perceived need for change, the appetite for change and identify barriers to change in these businesses
- To investigate support needs – including skills, contacts and practical support programmes, and the likely take up of these
- To understand practical needs to take into consideration in the design of any programme of support
- To identify SMEs to interview for stage two of this project

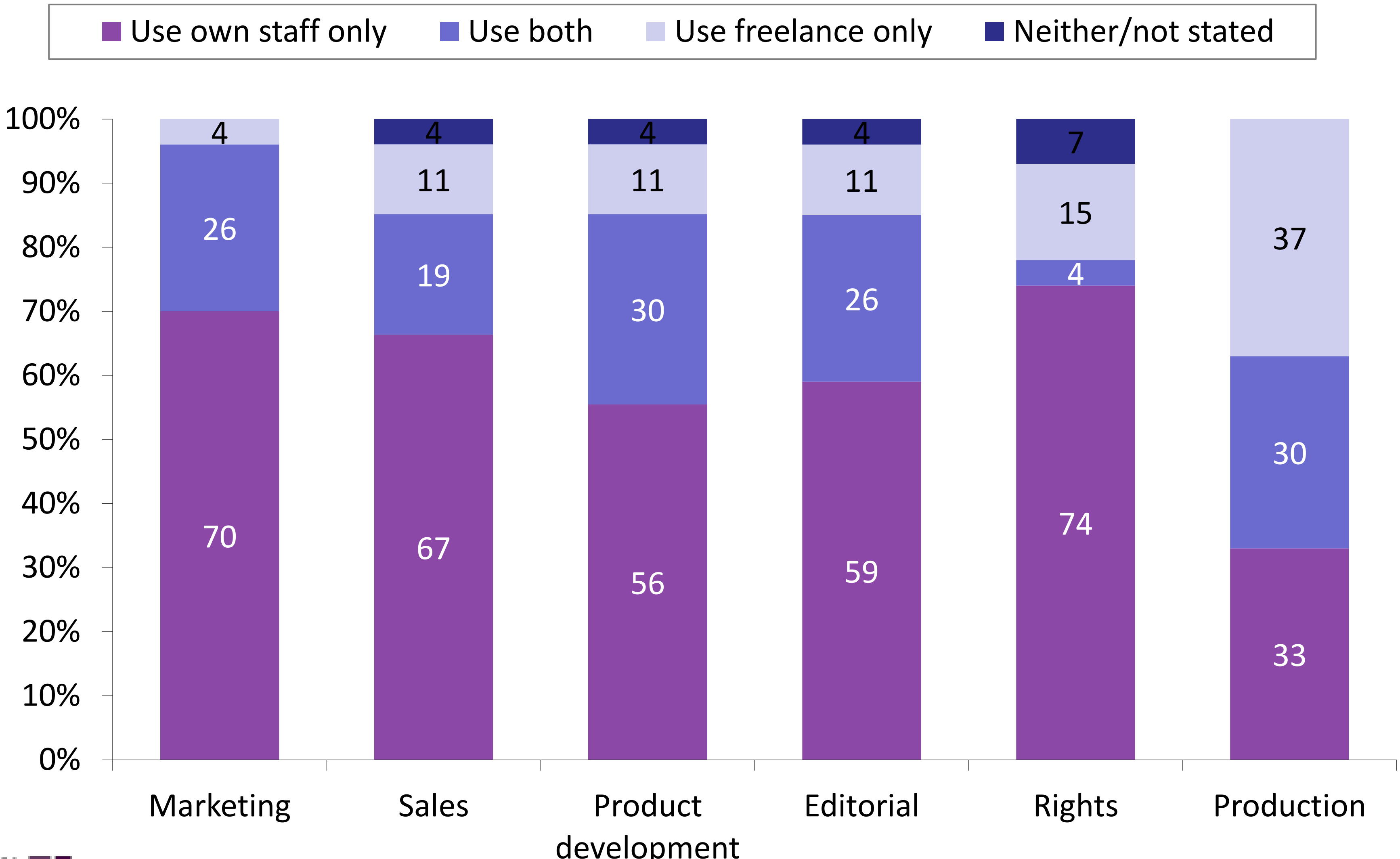
Methodology

- Online questionnaire designed by BML
- Sent out via the Independent Publishers Guild, Publishing Scotland and to independent publishers supported by the Arts Council via Inpress Distribution
- Deployed in February 2011

1.1 Use of staff vs freelancers

- The majority of respondents were using their own staff in the areas of rights, sales, marketing, editorial and product development of digital material, but not in production, where the majority (67%) were using freelancers (at all/only)
- In other function, the use of freelancers (at all/only) ranged from 41% of respondents in product development, 37% in editorial, 30% in sales & marketing to only 19% in rights
- With the exception of rights, larger companies were using freelancers more than smaller ones were
- The use of freelancers was more prevalent among consumer publishers in all the functions except editorial and rights

1.2 Use of staff vs freelancers

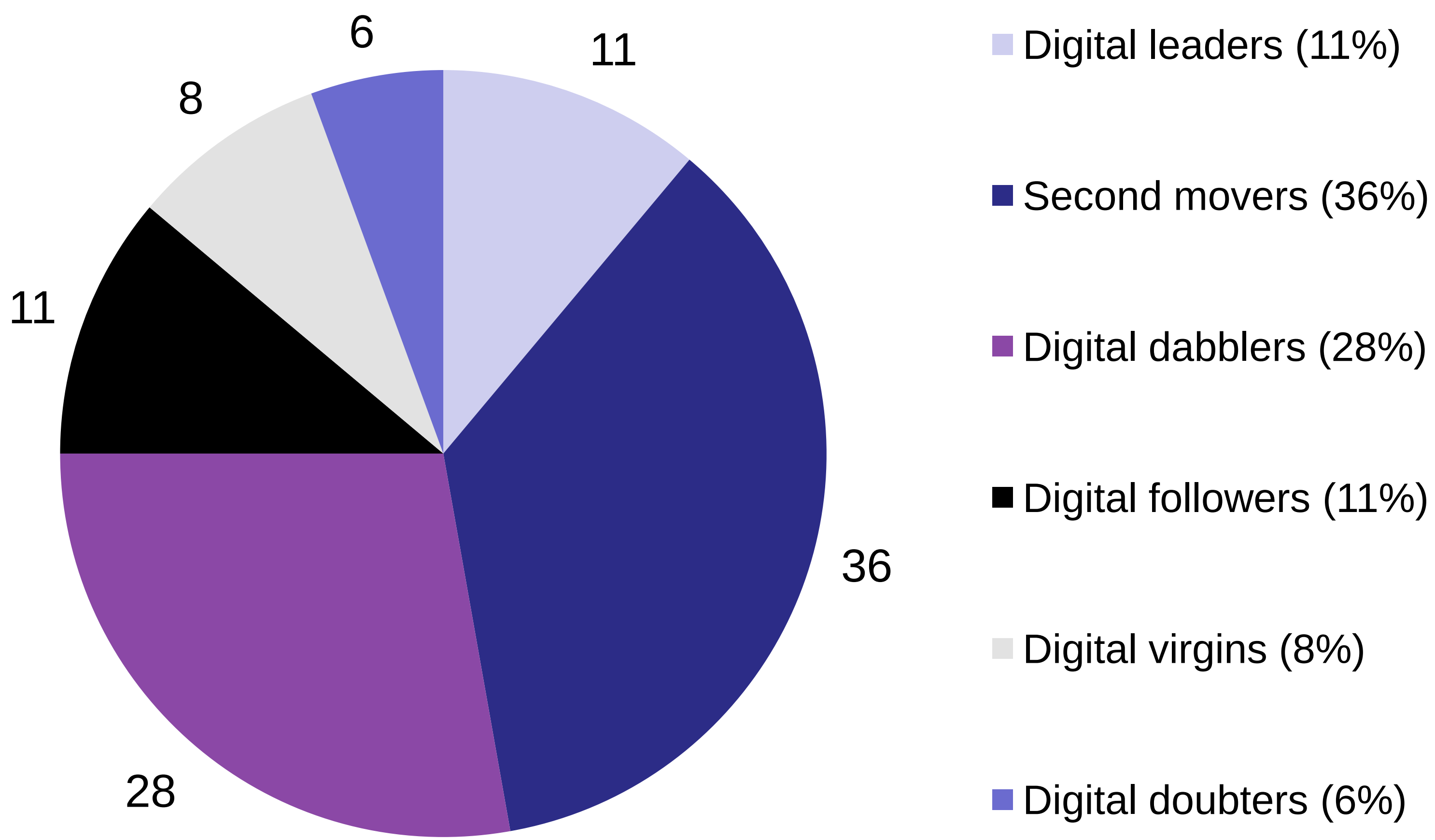


Base: all publishing digital

2.1 Current digital experience

- Whilst 1 in 10 respondents had developed a variety of digital product (digital leaders), just over a third were publishing ebooks only (second movers), and a further 3 in 10 were experimenting in digital product (digital dabblers)
- Altogether, three-quarters of respondents were involved in digital publishing to a greater or lesser extent
- A further 1 in 10 were following digital developments but not yet publishing this sort of material, whilst 8% claimed little knowledge, but some interest, in digital publishing and 6% (2 respondents) had no digital plans at all
- Larger publisher respondents and those publishing consumer titles were more likely to be digital leaders/publishers

2. 2 Current digital experience (%)



Base: all publishing books

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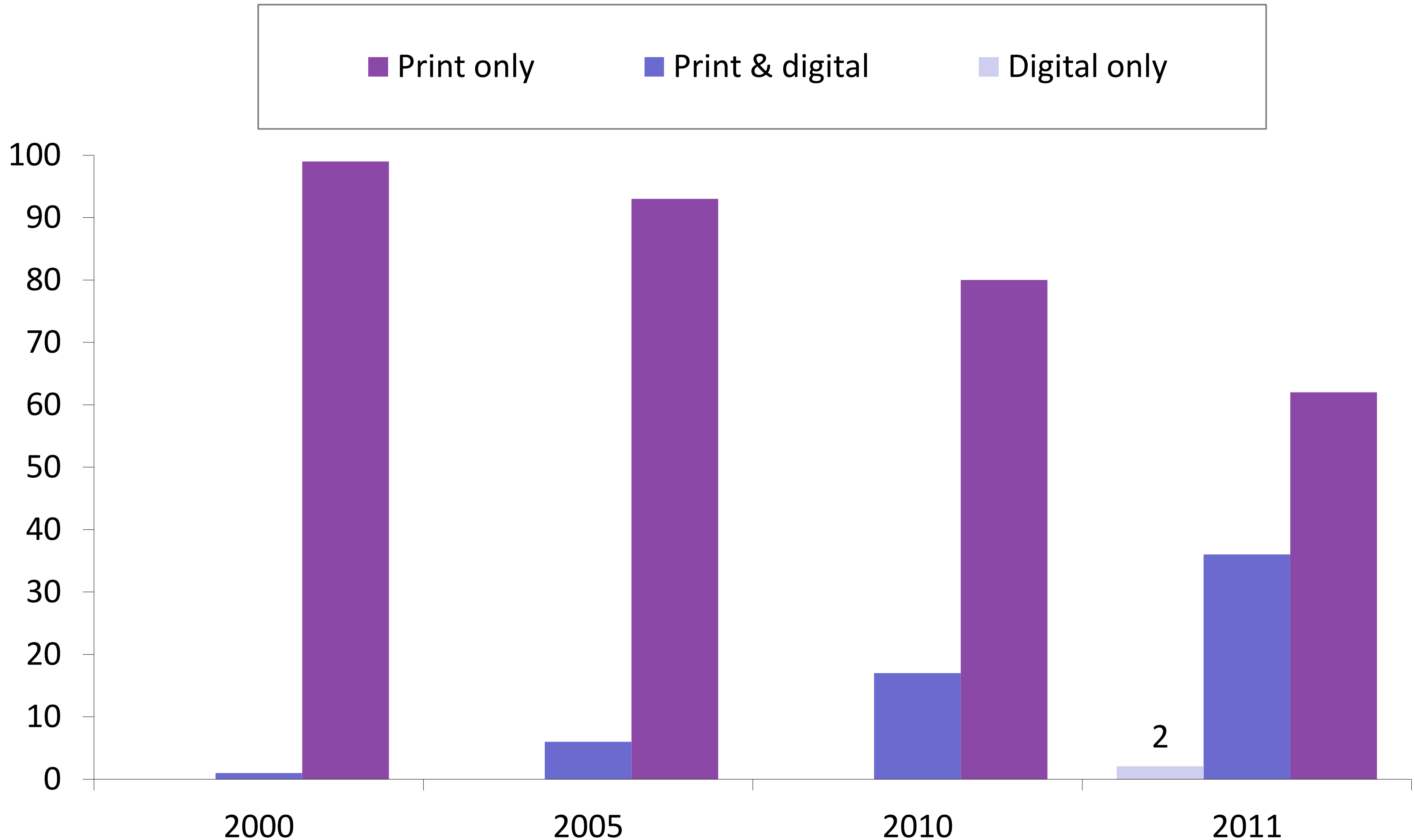
2.3 Current digital experience

- In 2000, nearly 100% of these respondents’ titles were in printed format only
- By 2010, this had decreased to 80% of their output, with 17% of titles available in both digital and print editions
- By 2011, it is anticipated that a small percentage – 2% - of these respondents’ output will be available in digital format only, with a further 36% available in both print and digital format
- By 2005, a mere 0.1% of income was accounted for by digital
- By 2010, these SME publishers saw 2.8% of their income from digital product, increasing to 5-6% among those already engaged in digital publishing

2.4 Past, current and future format share of publishing



Base: all publishing books and answering question

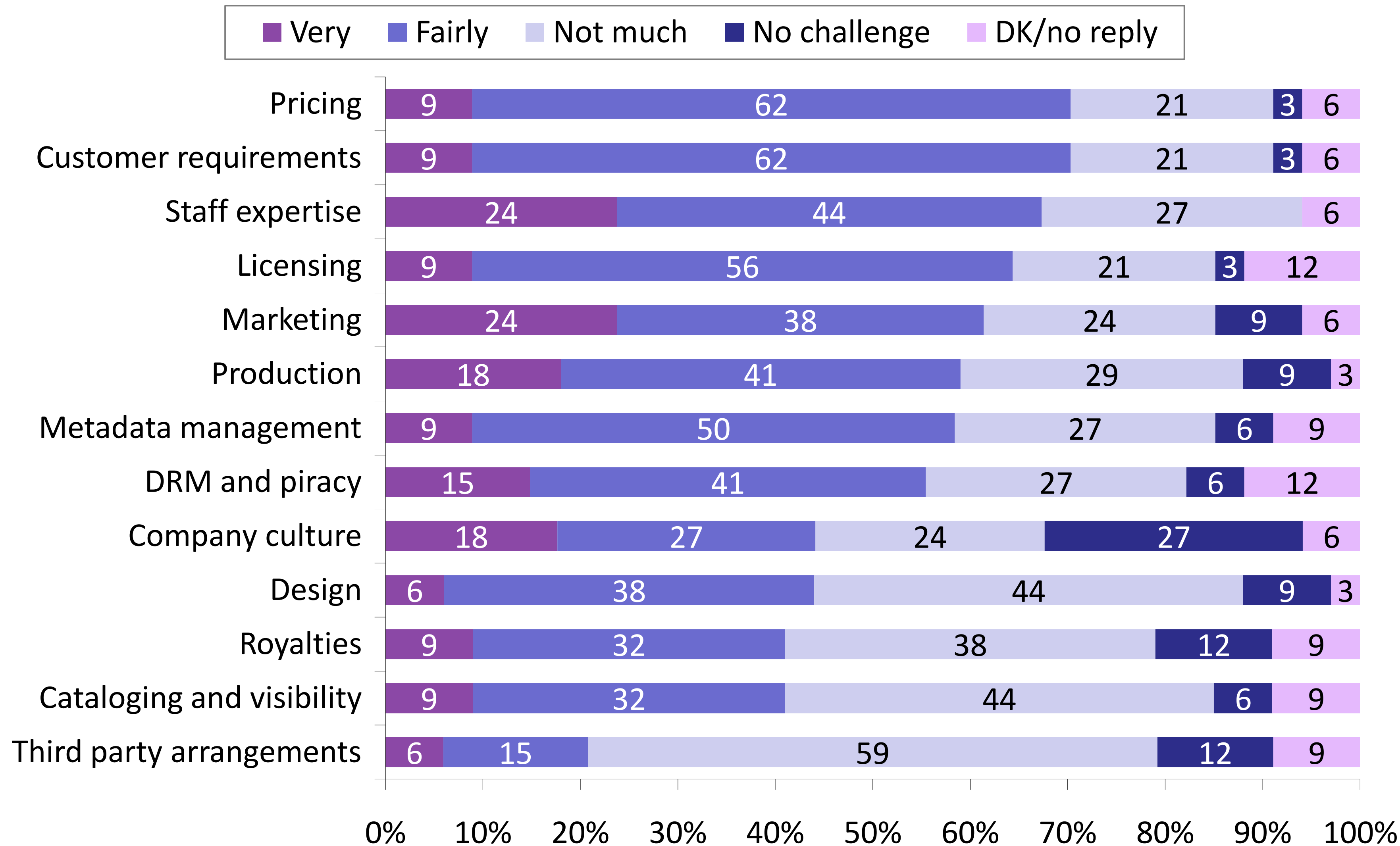
3.1 Challenges faced in digital publishing

- The greatest digital challenges were in the areas of pricing and understanding customer requirements, with over 70% of respondents saying that these were very or fairly problematic; this was the case for all types of respondents
- Over half said that staff expertise, licensing, marketing, production, metadata management and DRM/piracy were posing a very or fairly big challenge
- In the areas of company culture, design, royalties and cataloguing/ visibility less than half said they were facing a challenge, with only 1 in 5 facing a challenge in the area of third-party arrangements preventing experimentation in digital product
- Larger companies (92%) were much more likely to say that they faced a challenge with staff expertise issues than smaller companies (55%)

3.2 Challenges faced in digital publishing

- Those experimenting or planning digital products were rather more likely to say they faced a challenge in the area of licensing, compared to those already engaged
- Consumer and larger publishers were more likely than average to face marketing and production challenges
- Larger companies (83%), and those already publishing digital material (71%), were much more likely than other respondents to say that metadata management was a very or fairly big challenge
- Larger companies were also slightly more likely than average to have an issue with DRM/piracy
- Those already publishing digital material had more of a problem with design than average, whilst larger publishers had more of an issue with royalties and cataloguing/visibility than others
- Interestingly, larger publishers had a much greater problem with company culture (92%) than smaller publishers (19%)

3.3 Challenges faced in digital publishing



Base: all publishing /experimenting with digital

3.4 Challenges faced in digital publishing

The ways in which third-parties arrangements were limiting the ability to try out new business models included:

- Data feed and customer service issues
- Partners not being as technologically advanced as needed
- Inability to find the right partners in the first place
- Existing distributors for print not offering a similar service for digital product

3.5 Challenges faced in digital publishing

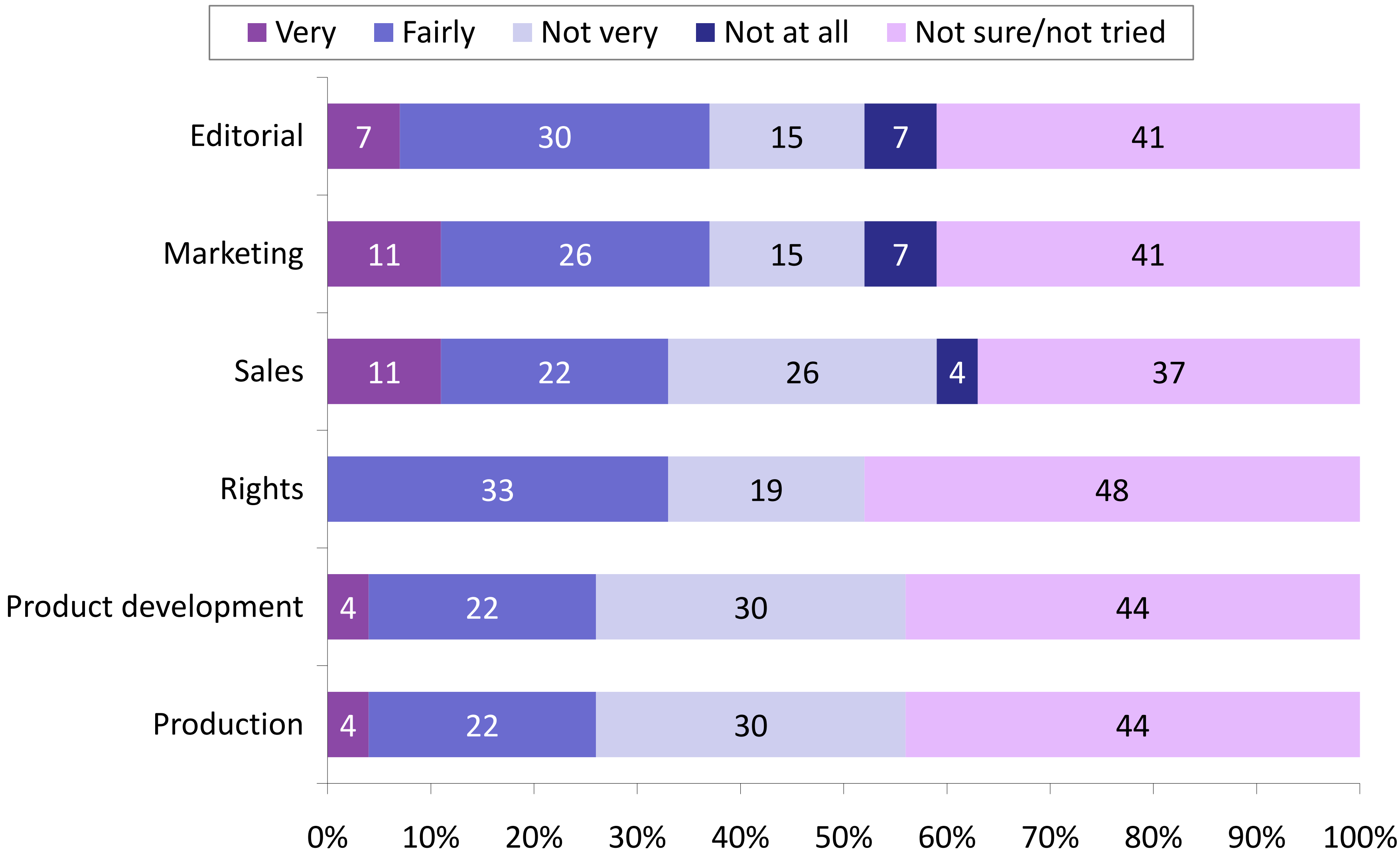
Other technological changes identified as likely to have a major impact included:

- An increase in devices on which to read digital material, including full colour e-readers, and devices suitable for the children's market
- Enabling easier discoverability for digital consumers
- Greater expertise in developing apps, gaming and interactive e-books
- Primary school children using PCs
- Students having access to cloud file sharing
- Better understanding among (new) distributors of rights issues

4.1 Staff recruitment

- Only 26-37% of respondents said they found it very or fairly difficult to recruit people with appropriate digital experience in the six areas tested, although in each case, 40-50% had not tried to do so
- Production and product development were the areas where the least difficulty was experienced, with editorial and marketing proving the most difficult
- Larger publishers, and those publishing educational/professional material, were the most likely to have difficulty recruiting staff with experience in digital product development, production and (in particular among larger publishers) editorial
- Larger publishers also experienced relatively more difficulty in recruiting those with appropriate digital marketing and sales experience

4.2 Difficulty of recruiting staff with digital expertise



Base: all publishing /experimenting with digital

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5.1 Third party arrangements

- The third parties used most to help SMEs with digital products were distributors, retailers and conversion companies (by between 63-74%)
- Just over half of respondents were using aggregators, whilst a third were using other publishers
- 2 in 5 were using DAM companies, whist 1 in 6 were using hardware producers
- Larger companies were more likely to be using all these partners, in particular retailers (91%), conversion companies (82%) and aggregators (73%)
- Digital leaders/second movers were more likely than average to be using these third parties except DAM companies and hardware producers
- Educational/professional companies were more likely to be using DAM companies (33%) than consumer publishers (7%)

5.2 Percentage of publishers working with third-parties on digital material

	%
Distributors	74
Retailers	67
Conversion companies	63
Aggregators	52
Other publishers	33
Digital Asset Management companies	19
Hardware producers	15
Other (please type in below)	4
None of the above	4
No reply	4

Base: all publishing /experimenting with digital

6.1 Channels used to sell digital product

- Amazon was being used by 63% of respondents to sell digital products, with 56% using other internet booksellers
- 1 in 5 respondents were not yet selling digital titles (25% of smaller publishers / 40% of digital dabblers)
- Only a third were using their own website to sell digital product
- Larger publishers were more likely to be using all these channels except for their own website, used by 27% of larger publishers compared to 38% of smaller publishers
- Consumer publishers were also more likely to be using all these channels except for other publisher's website, a channel used by 25% of educational/professional publishers compared to only 7% of consumer publishers

6.2 Channels used to sell digital product

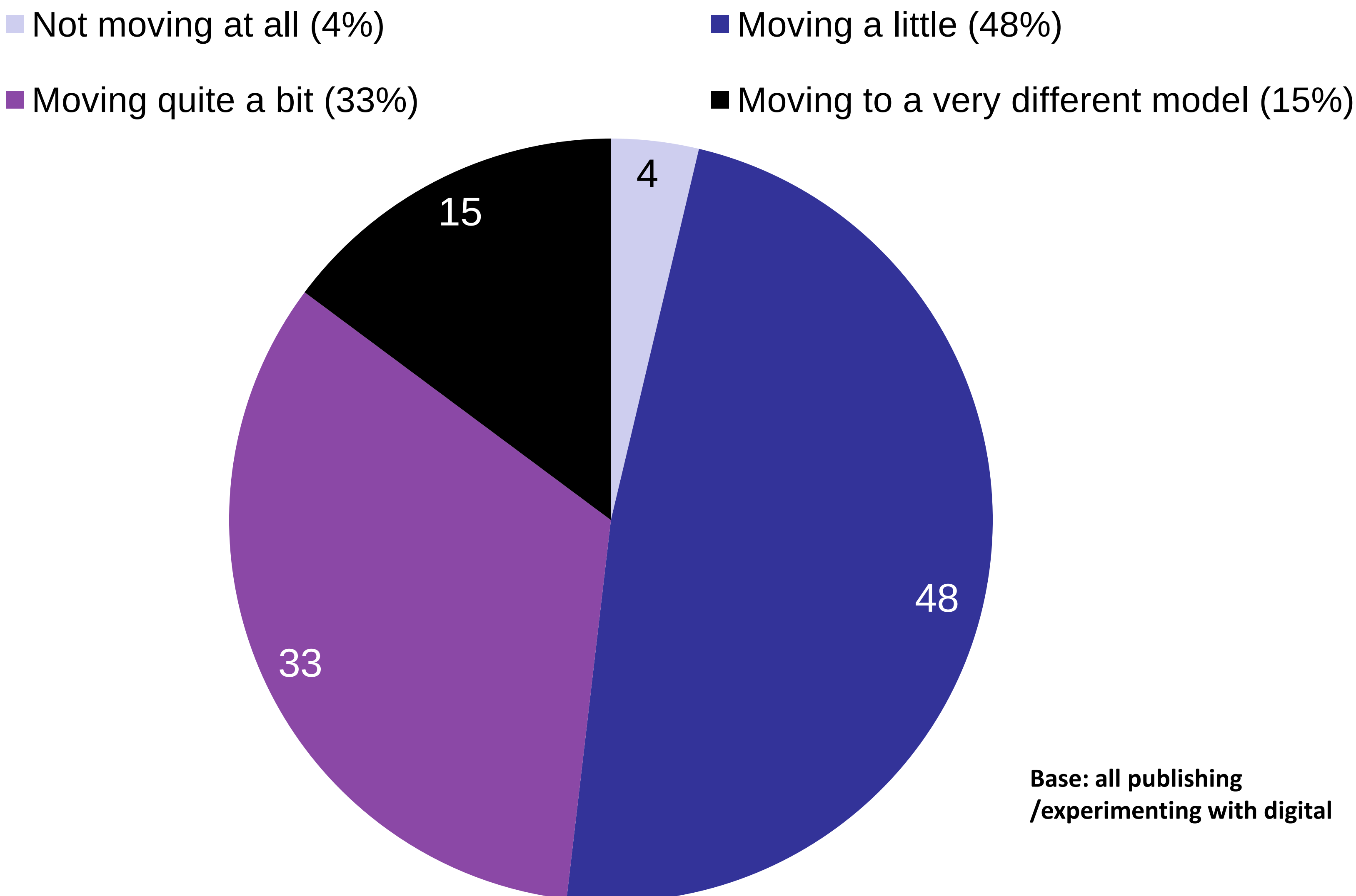
Channels	%
Amazon	63
Other internet booksellers	56
Distributors’ websites	48
Third party aggregators	48
Own website	33
Other publisher’s websites	15
Other websites	4
None/not yet selling digital titles	19

Base: all publishing /experimenting with digital

7.1 Extent digital is moving publishers to different business models

- There was general agreement that digital is moving publishers to a different business model, although nearly half said it was only moving a little
- A third felt it was moving quite a bit, whilst nearly 1 in 6 (15%) felt digital was moving them to a very different business model
- Fewer of the larger publishers felt it was moving them to a different model quite a bit/a lot (36% altogether)
- 1 in five of the consumer publishers, however, felt digital was moving them to a very different model, as did 20% of digital dabblers

7.2 Extent digital is moving publishers to different business models (%)



Base: all publishing /experimenting with digital

7.3 Impact on business models from move towards digital publishing:

- More use of social networking and online marketing, particularly D2C
- Greater concentration on sales channels; introduction of new ones
- New accounting procedures; new rights sales models
- Developing new types of material

7.4 Anticipated future impact on business models :

- Trying to grow digital revenue streams while finding new ways to exploit existing print products, even if/as the latter declines
- Changes to production schedules, contracts and rights selling models
- Greater emphasise on digital marketing, social networking
- Testing new products and new channels

7.5 Main barriers to changing business models to cope with digital:

- Complexity of distribution channels
- Customer – and company – acceptance of new ways of doing things
- Lack of market knowledge, lack of in-house expertise, lack of time, lack of money
- Rights issues / old contracts
- Finding suitable partners
- Having expert but accessible guidance

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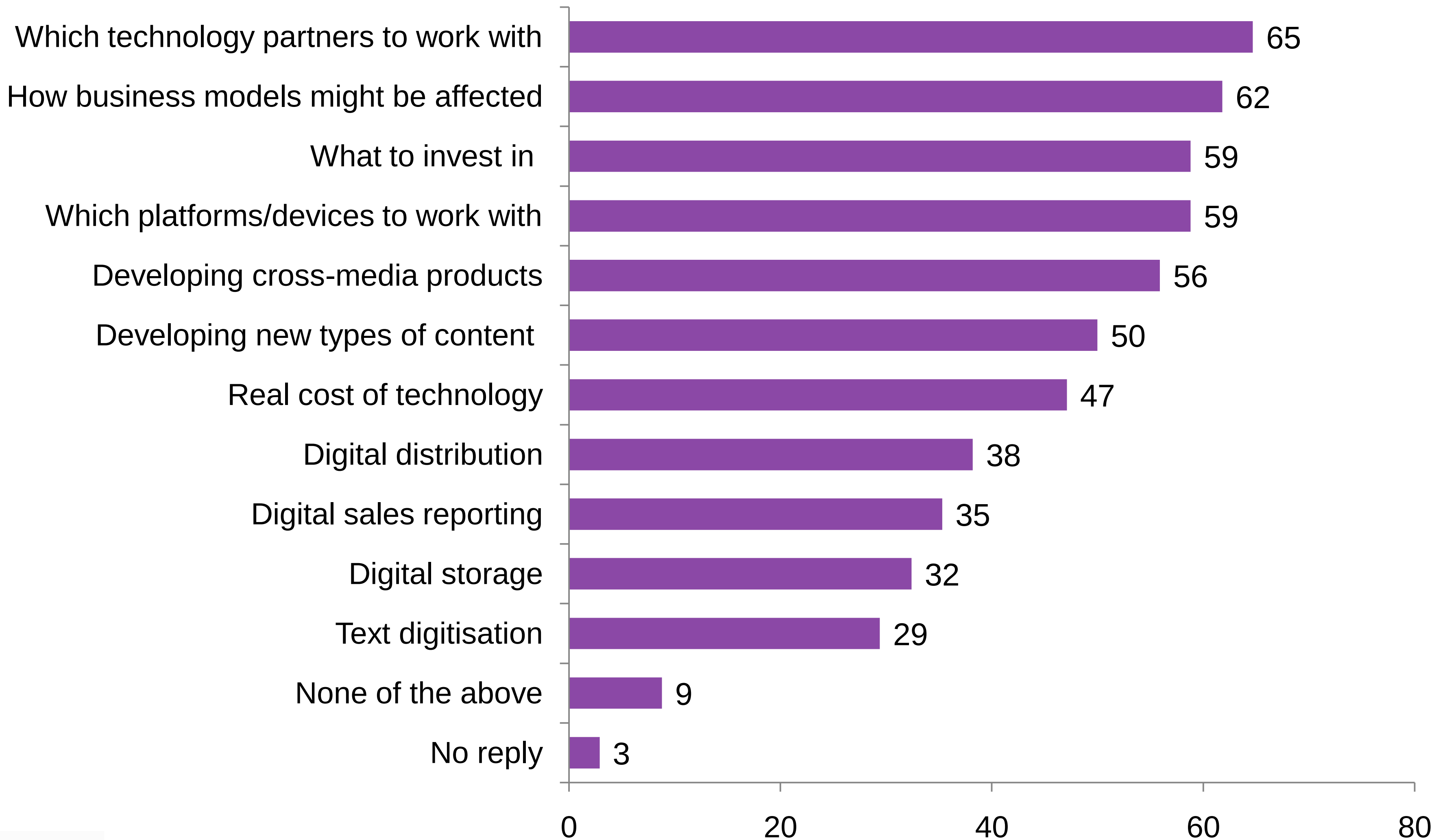
8.1 Areas needing more information

- More than half the respondents said that they needed information on *which technology partners to work with; how business models might be affected; what to invest in; which platforms/devices to work with* and *developing cross-media product*
- Areas where less than a third needed more information were *digital storage* and *text digitisation*, whilst 9% required no information at all
- In general, larger publishers were more likely to say they required information overall, except in the areas of *digital distribution, digital sales reporting* and *digital storage*, where smaller publishers were more in need of guidance
- Digital dabblers/followers were more likely to want information than those already publishing digital material except on four topics: *business model implications; what to invest in; developing cross-media products* and *developing new types of content*

8.2 Areas needing more information

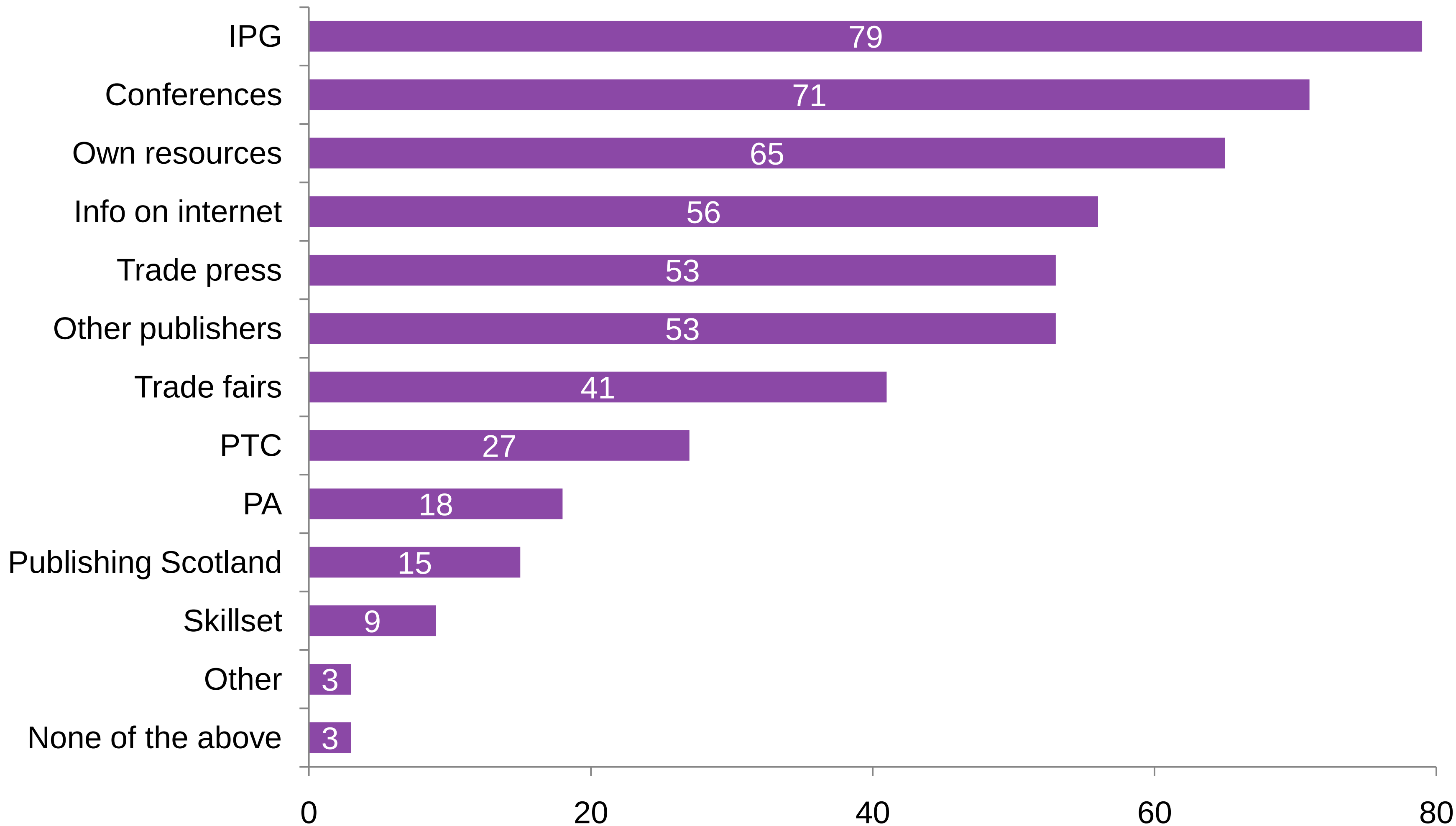


Base: all publishing or planning digital

9.1 Sources of digital information

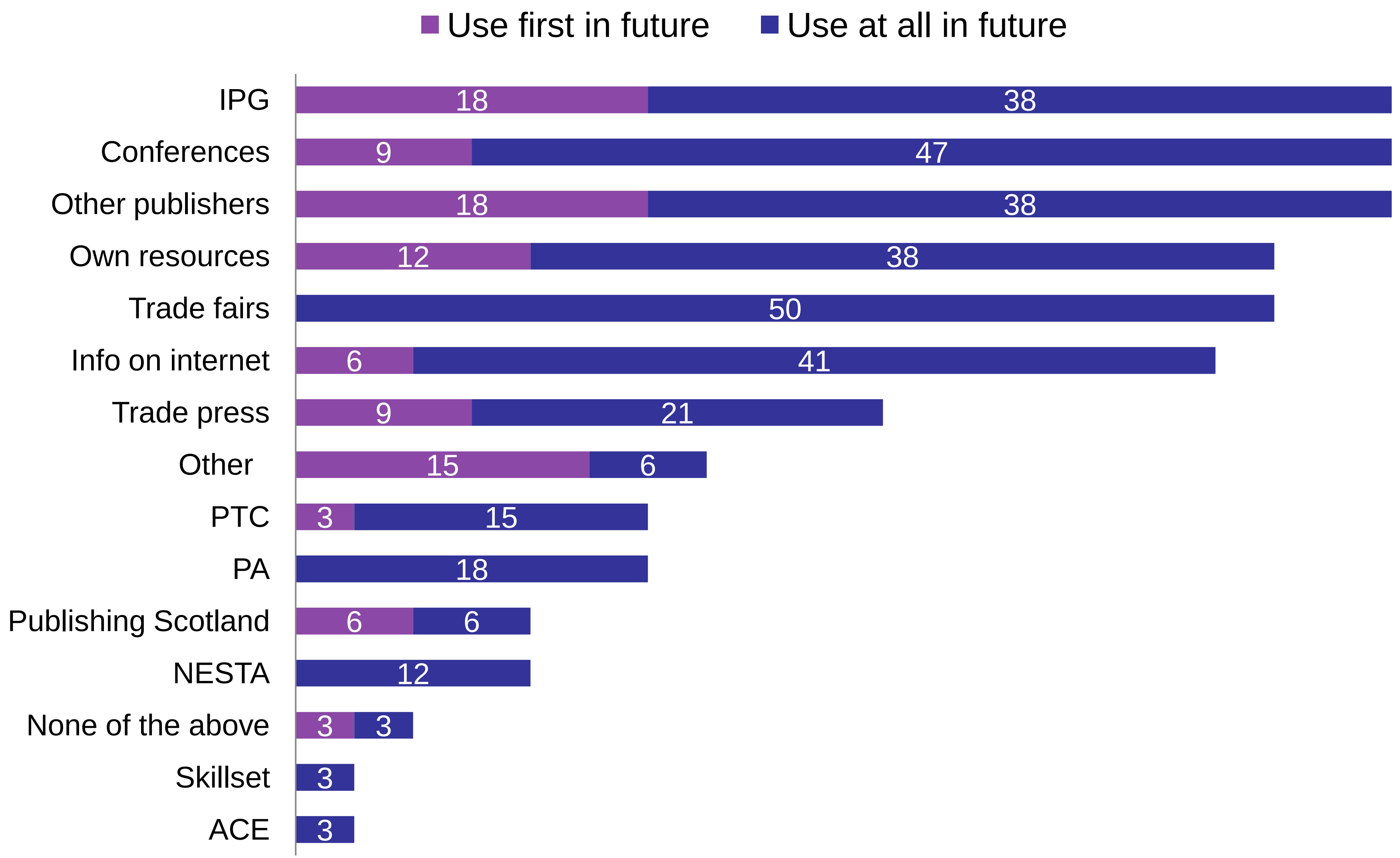
- Not surprisingly, given the use of IPG member lists to recruit respondents, the IPG was the source used by most respondents (79%) for information on digital publishing, and was also the most likely (along with other publishers – 18%) to be the first source in future
- *Conferences* were also valuable source of information, used by 71% at all, with 56% planning to use in future
- *Own resources* have been a valuable resource, used by 65% at all, with 50% planning to use in the future
- *Other publishers* and *trade press* have also been used by more than 50% of respondents in the past, with *other publishers* more likely to be used in future (56%) than trade press (30%)
- NESTA is likely to be used by 12% of respondents in future, although none have used this source in the past or would go to this source first

9.2 Sources of digital information ever used



Base: all publishing or planning digital

9.2 Sources of digital information in future



Base: all publishing or planning digital

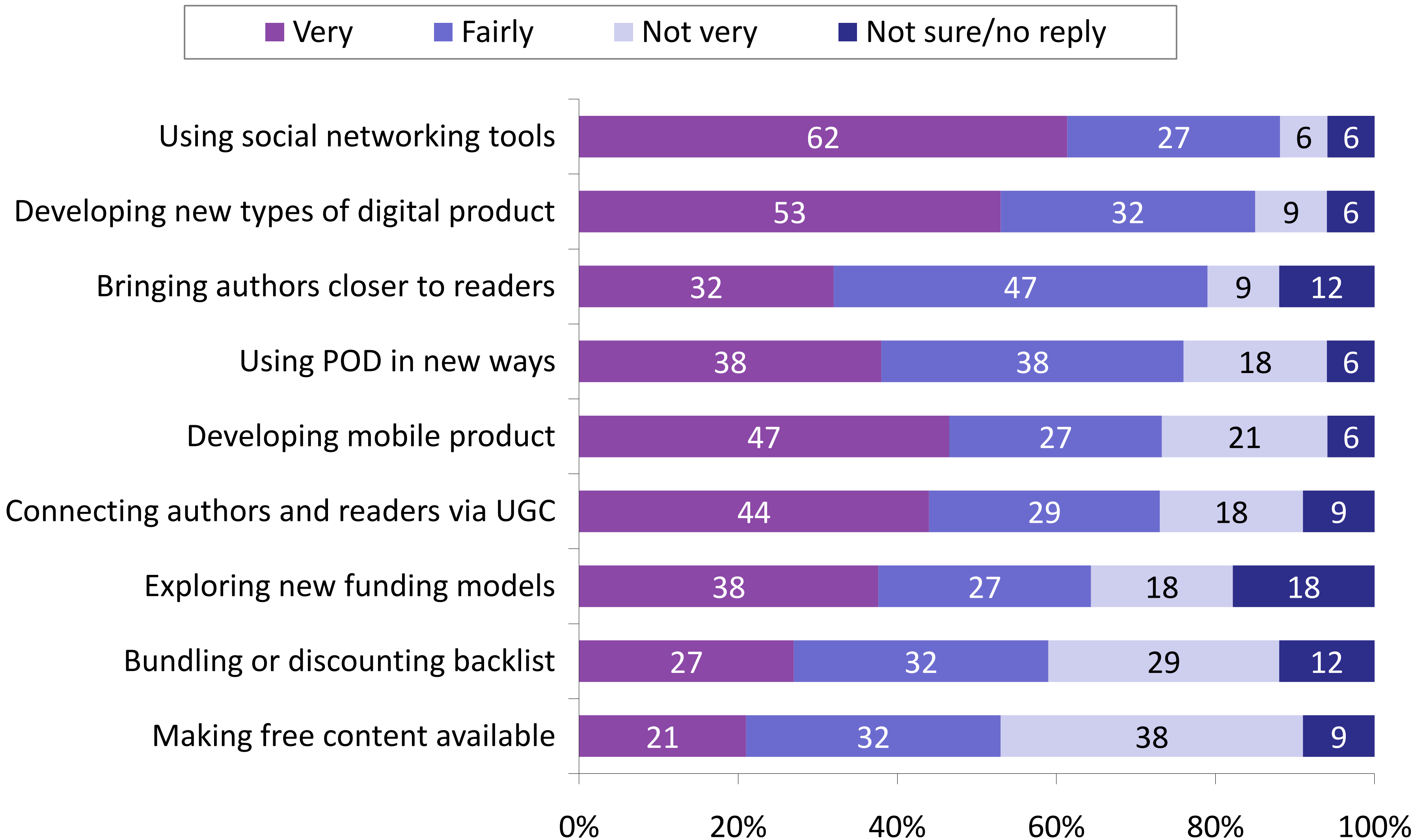
10.1 Interest in testing new models

- The greatest interest among respondents was in *using social networking tools to build markets*, cited by 89%, with 62% being 'very' interested in this
- In fact, over 50% were interested in all the new models suggested
- A greater percentage of larger publisher respondents than smaller publishers were interested in *making basic content available for free; bundling or discounting backlist titles; using website to connect authors and readers with user generated content* and *exploring new ways of finding funding/resources*
- Much greater proportions of smaller publishers were interested in *using POD in new or more effective ways* than larger publishers

10.1 Interest in testing new models

- Consumer publishers were more interested than educational/ professional publishers in *bundling or discounting backlist titles* and *bringing authors closer to readers,* and <u>much</u> more interested in *developing products for mobile platforms; using social networking tools* and *developing digital product beyond ebooks*
- Those already publishing digitally, rather than experimenting or planning to do so, were keener on every new model suggested except for *using POD in new or more effective ways,* in which 82% of digital dabblers/followers said they were very or fairly interested
- Those already publishing digitally were <u>much</u> more interested than digital dabblers in *bringing authors closer to readers; using social networking tools; developing products for mobile platforms* and *developing digital products beyond ebooks*

10.2 Interest in testing new models



Base: all publishing or planning digital

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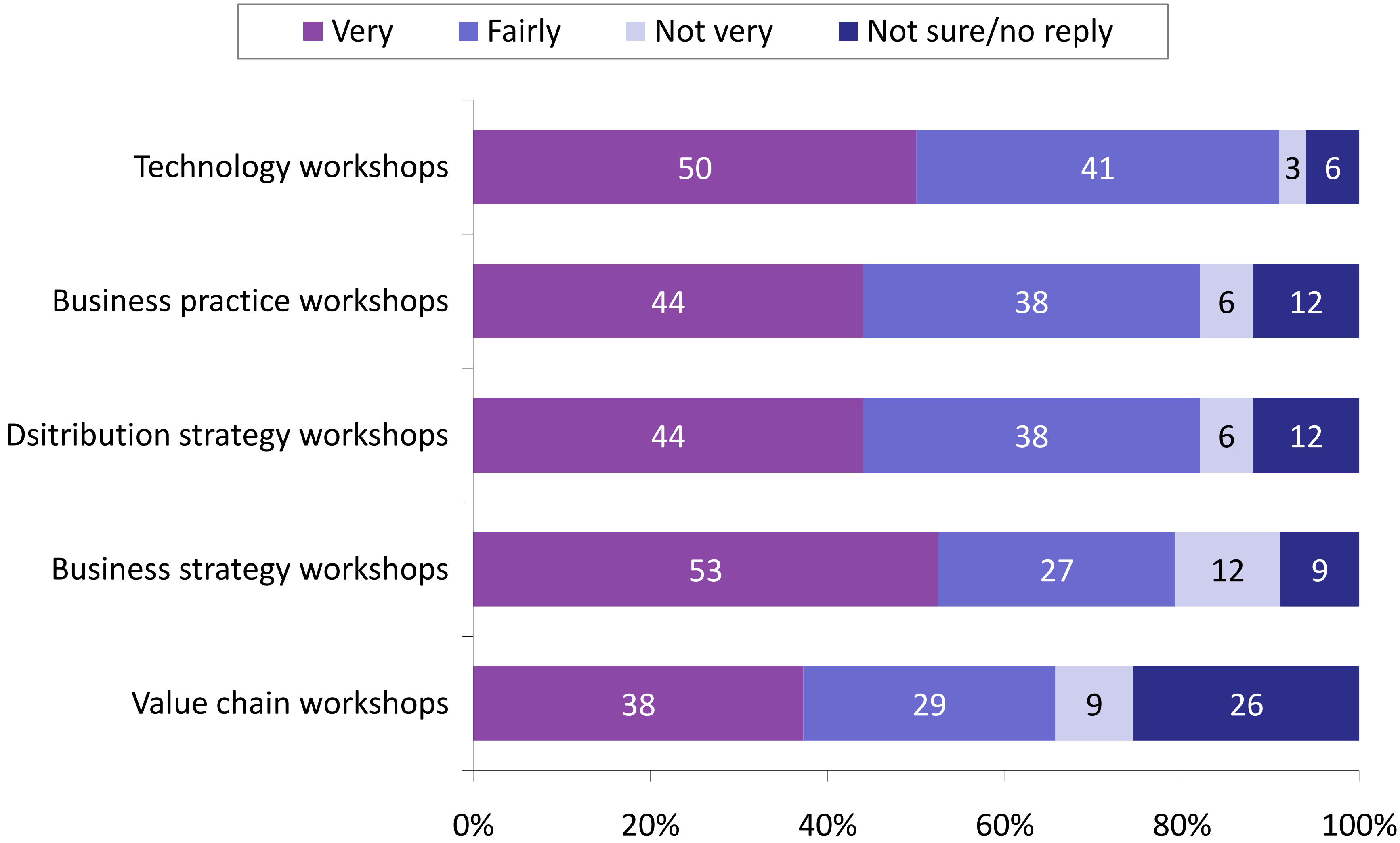
10.3 Other ideas/models interested in testing:

- Creating apps, gaming, enhanced e-books
- Finding suitable partners including third party content aggregators, gaming and media companies
- How to successfully integrate a digital business
- How best to convert backlist to digital
- New business models eg subscriptions

11.1 Interest in NESTA programmes

- 80%+ were very/fairly interested in all the potential NESTA programmes apart from *value chain workshops*, although two-thirds (67%) were interested in this option
- The *value chain workshop* option, however, was of interest to 82% of those already publishing digital material, compared to 53% of those experimenting or planning digital products
- Larger publishers were more interested than smaller ones in all the potential programmes except *value chain workshops*
- Educational/professional publishers were more interested than consumer publishers, albeit sometimes only marginally, in all the potential workshops apart from *technology workshops*, which were of interest to marginally more consumer publishers

11.2 Interest in NESTA programmes



Base: all publishing or planning digital

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12.1 Sharing outcomes and further research

- 71% were willing to share the outcomes of any NESTA funded projects with others, rising to 83% of the larger publisher respondents, 78% of consumer publishers and 77% of those already publishing digital material
- 65% were willing to take part in a conversation with BML to follow up the quantitative stage of this research project, rising to 83% of the larger publishers respondents, and 77% of those already publishing digital products
- This means that up to 24 publishers are willing to be contacted by BML for further research

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