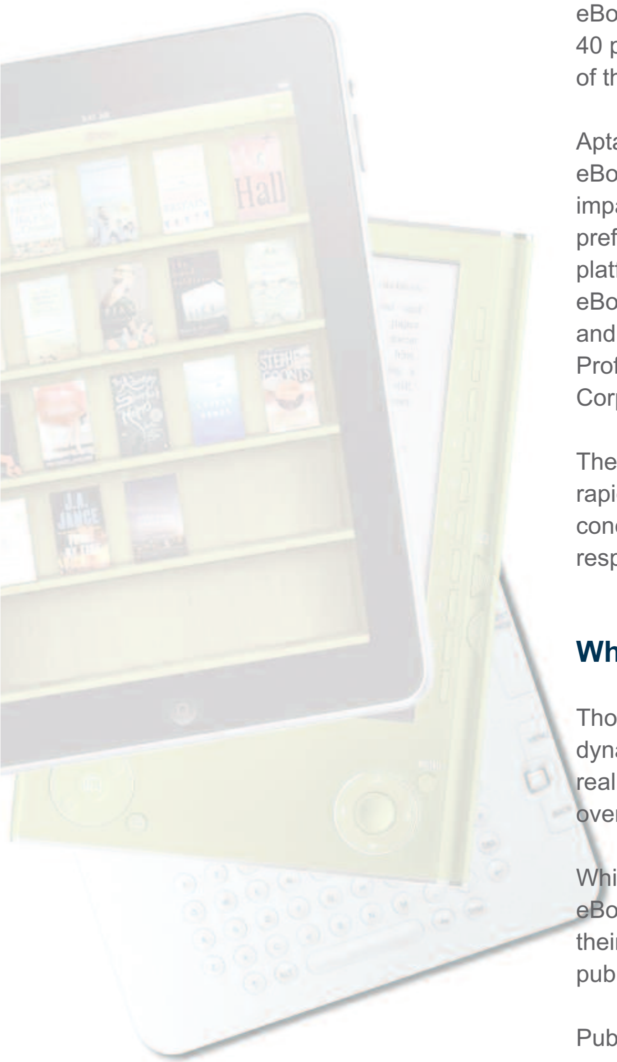
APTARA survey

Uncovering eBooks' Real Impact

Aptara's Third Annual eBook Survey of Publishers



eBooks are the most dominant force in contemporary publishing. Their sales rose nearly 40 percent in 2010,[1] and over a third of book publishers will issue more than 75 perccent of their titles as eBooks in 2011.[2]

Aptara has tracked publishers' transition from print to digital in response to the rise of eBooks through a series of three surveys, from 2009 to 2011. Designed to reveal the real impact of eBooks on book publishers, the annual surveys examined topics including preferred eBook formats, specific production approaches, preferred devices and platforms, distribution channels, enhancement strategies, and volumes and sources of eBook sales. The results present significant insights into the emergence of eBook trends and best practices across all four publishing market segments: Consumer (Trade), Professional–Scientific/Technical/Medical (STM), Education (K–12 and College), and Corporate (B2B).

The phenomenal growth in survey participation—100 percent year over year—reflects the rapid expansion of the eBook market and provides a statistically valid basis for the conclusions drawn from the survey. The April 2011 survey collected and organized responses from 1,350 publishers.

What Did the Third Survey Reveal?

Though the eBook market is expanding exponentially, it is still young, with unpredictable dynamics and an immature infrastructure. For most publishers, this early-stage market reality results in production growing pains and business model challenges, often overshadowed by the allure of eBook sales figures.

While one out of five eBook publishers generates more than 10% of their sales from eBooks, eBook production, promotion, distribution, and sales are still far from reaching their full potential. eBooks' market opportunity is vast, particularly for the majority of publishers that are still eluded by production efficiencies and meaningful revenues.

Publishers still see eBook formats, distribution channels, quality, and digital rights management (DRM) as serious challenges—but these concerns have gradually eased since our first survey—an encouraging sign that the eBook market is beginning to mature.

Survey Highlights: 2009 to 2011

- **One out of five eBook publishers generates more than 10% of their revenues from eBooks.** This is a strong statistic for an early-stage market. Considering the increasing rate of consumer sales projections, it highlights that the eBook market still has plenty of room for growth. (Question 7)

(cont'd)

[1] BookStats Survey, Association of American Publishers and the Book Industry Study Group, 2011
[2] Aptara's Third eBook Survey of Publishers, 2011

APTARA survey

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Aptara's Third Annual eBook Survey of Publishers

Survey Highlights (cont'd)

- **Trade, more than any other publishing market segment, has aggressively increased its eBook pursuits.** Trade publishers have become fully committed to the eBook format and at a faster rate than any other type of book publisher. The percentage of Trade publishers producing eBooks has risen from 50% to 76% in two years. (Question 4)

- **Two out of three eBook publishers have not converted the majority of their backlist (legacy) titles to eBooks.** With higher profit margins than frontlist titles, these digital assets hold significant untapped revenue potential. (Question 11)

- **Amazon still dominates distribution . . . but by a steadily decreasing margin.** Publishers still rely most heavily on Amazon for distribution, but do so less and less. This trend is more attributed to the proliferation of other platforms and channels, particularly EPUB-based, than a decline in actual sales for Amazon. The result is a larger eBook sales and distribution market. (Question 9)

- **Publishers' own eCommerce sites generate the greatest percentage of sales for all publishing market segments other than Trade.** Despite a decrease in publishers' reliance on their own eCommerce sites for distribution, these sites are producing the most sales for publishers by a significant margin (up to 18%). This reflects many publishers' reluctance to share revenues with channel partners such as Apple and Amazon. (Questions 9 and 10)

- **Amazon generates the most eBook sales for Trade publishers, even though a comparatively small percentage of Trade content is distributed through Amazon.** Despite Trade publishers using all of the main eBook online retailers, Amazon is the one producing sales—and, presumably, revenue—by a disproportionate margin (43%). This suggests that either publishers are distributing their highest value content through Amazon, or the return on investment (ROI) from Amazon distribution is greatest. Regardless, this reflects the central role that Amazon has played in helping develop the Trade eBook market. (Question 10)

- **Amazon generates significantly more eBook sales than EPUB-based platforms and devices.** However, EPUB eclipses the Amazon Kindle as the most widely targeted eBook platform. This discrepancy reflects Amazon's aggressive support for Kindle titles on a number of other platforms (PCs, iPads and Android apps), giving publishers more reasons to publish to its format. It also indicates that publishers would welcome, and may be preparing for, more EPUB-based distribution channels. (Questions 8 and 10)

- **Most eBook production still follows outdated print production models at the expense of significant operational efficiencies.** Though publishers are pursuing multiple-output production (print and eBooks), they are slow to transition from a traditional print-based production to more flexible and scalable digital workflows that produce output for mobile devices, PCs, and print–all from a single content source. (Question 13)

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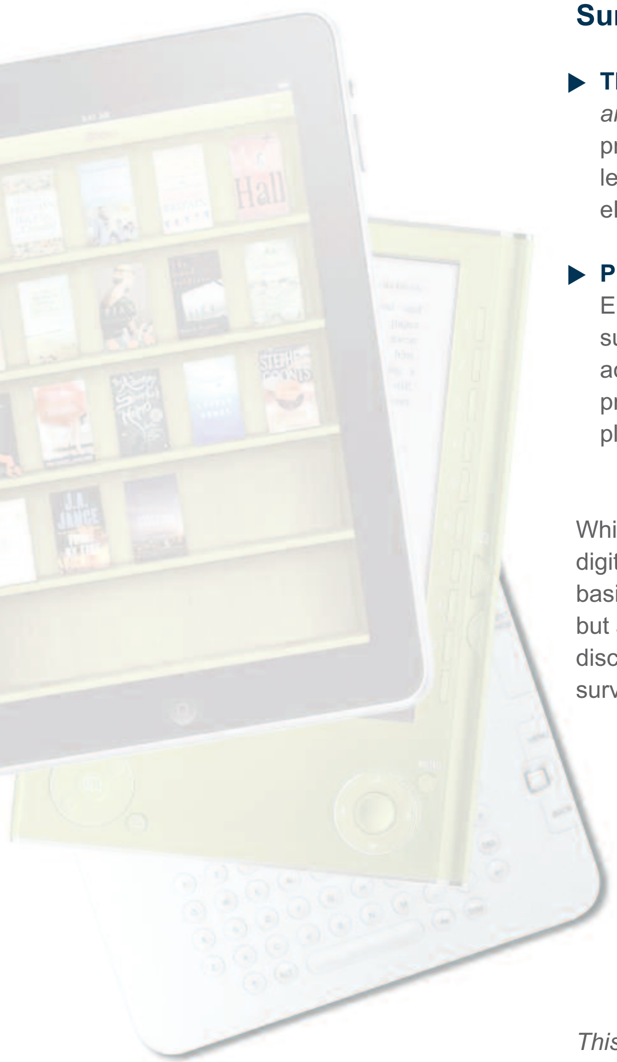

Survey Highlights (cont'd)

- **The question of "digital or print?" has been answered.** The answer is both: "digital *and* print." The vast majority of book publishers (85%), across all market segments, are producing print and eBook versions of their titles. For the time being, print publishing's legacy cost structure and business and production models are living alongside newer eBook-inspired practices. (Question 12)

- **Publishers' awareness of EPUB 3 and pursuit of enhanced eBooks is limited.** EPUB 3 is the next edition of the EPUB eBook format standard and includes significant support for enhancements. There is a general lack of awareness of it and its benefits across all publisher types. While there has been a sizeable increase in enhanced eBook production in the past year, 60% of publishers are either still investigating or have no plans to produce enhanced eBooks. (Questions 16 and 17)

While no one will be surprised by the range of needs faced by book publishers moving to digital, the contrasts among Trade, STM, Education, and Corporate publishers reveal very basic differences. There are key issues shared by all of the publishing market segments, but as the digital revolution has accelerated, some very different challenges, opportunities, discrepancies and trends have emerged, as the following results from Aptara's third eBook survey indicate.

This report documents results from the third in a series of eBook-related surveys designed to identify the eBook trends, challenges, and strategies of importance to book publishing professionals.

To be included in Aptara's fourth survey, scheduled for the spring of 2012, contact us at www.aptaracorp.com.

Note: Due to rounding, not all response calculations total 100%.

About Aptara: Aptara provides digital publishing solutions that deliver significant gains in cost, quality and time-to-market for eBook publishers. Having converted tens of millions of pages to eBooks, Aptara offers comprehensive solutions across all content sources and delivery media, including the Apple iPad and iPhone, Amazon Kindle, Barnes & Noble NOOK, and Sony Reader devices. In addition to eBook production, Aptara's expertise includes app design and development, content technology solutions, custom content development, and editorial and design services. Founded in 1988, Aptara is a U.S.-based company with more than 4,700 professionals worldwide serving leaders in the Trade and Consumer, Professional, Education, and Corporate publishing markets.

APTARA

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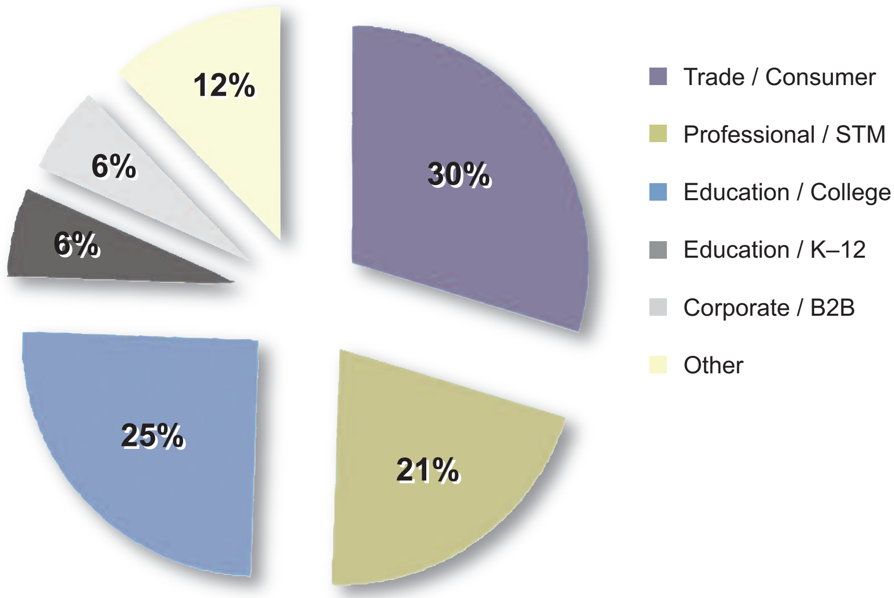
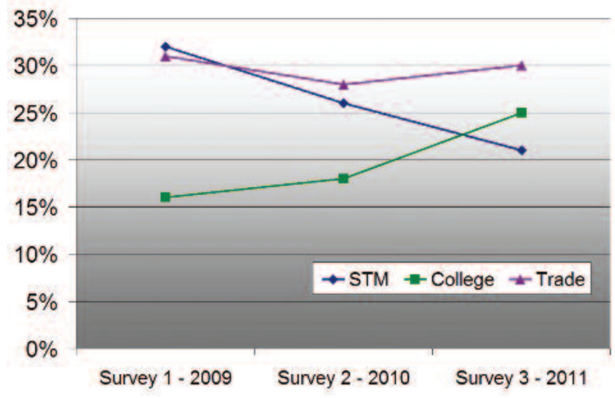
1) Market Focus

What industry segment best describes your market focus?



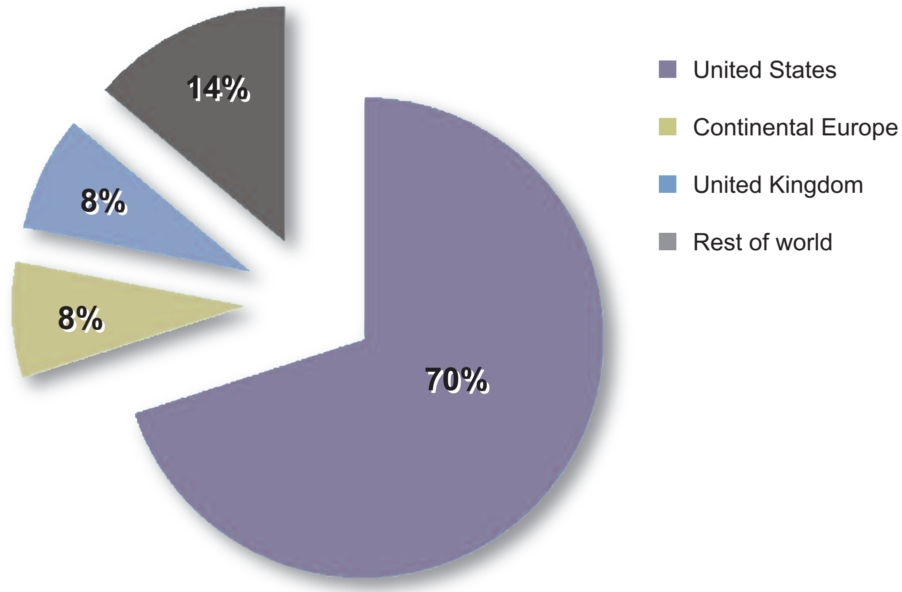
Significant Points:

- The Trade (30%) and College (25%) publishing market segments have the greatest representation in the third survey, with STM (21%) a close third.
- The STM publishing market segment has dropped as a percentage of total respondents over the past two years and three surveys. This contrasts with the relative growth of College publishers' participation.



2) Largest Market Country

Which country represents your largest market?



Significant Points:

- The overwhelming percentage of responding publishers—across all market segments—are from English-speaking countries: United States (70%), United Kingdom (8%), Canada (3%), and Australia (3%).

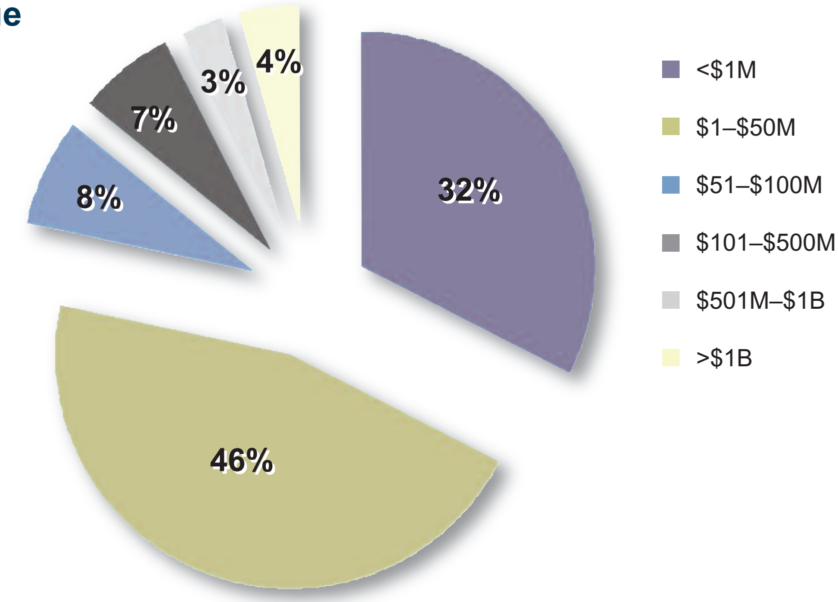
  While an English-language survey is most likely to attract English-speaking respondents, these numbers also reflect the early entrants into the eBook market, most notably the United States.

- 27% of respondents' largest markets are outside of the United States and Canada, led by Germany, Spain and Italy.

- The largest percentage of respondents, across all countries, is from the Trade publishing market.

3) Business Size by Revenue

What is the size of your business based on annual revenue?



Significant Points:

- The majority of survey respondents (78%) represent small- to mid-sized publishing companies, those with annual revenues of less than $50 million.

  The number of giant book publishing companies across all publishing market segments is modest, especially given the mergers and acquisitions of the last several decades. But it is also likely that the majority representation of small- and medium-sized publishers in this survey reflects a reduction in barriers to market entry. With expanded digital printing, technology toolsets, and third-party service options, many new publishing ventures—often small—have emerged in the past two years in pursuit of the expanding eBook market.

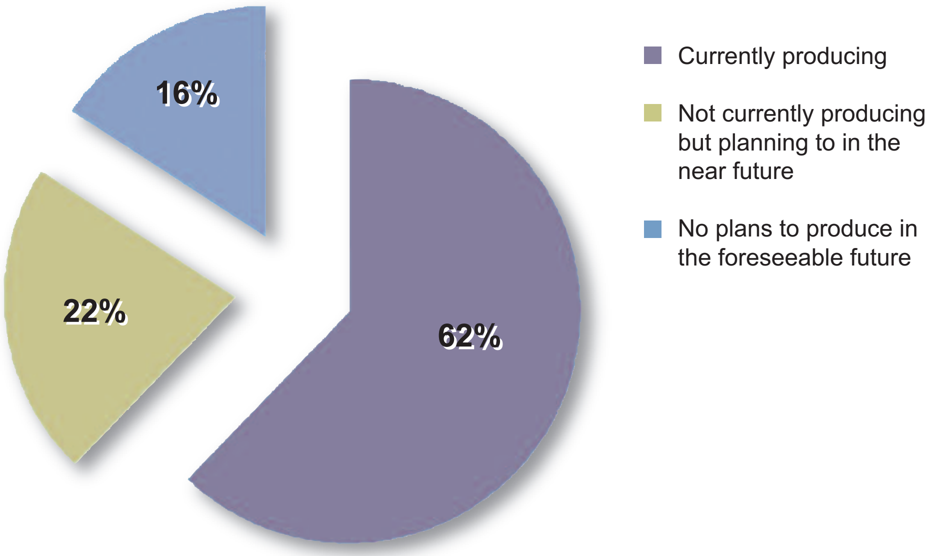
- Compared to all other publisher types, there are many more small publishers from the Trade market segment.

  Of the responding Trade publishers, 39% are small entities, with less than one million dollars in annual revenues.

  Given the higher development costs for Education and STM content, it is not surprising that College, K–12, and STM publishers have a larger percentage of respondents with greater annual revenues.

4) eBooks

What is your organization's current involvement with eBooks?



Publisher Type Breakdown	Trade	STM	College	K–12	Corporate
Currently producing	76%	64%	55%	63%	40%
Not currently producing but planning to in the near future	18%	26%	16%	22%	37%
No plans to produce in the foreseeable future	6%	10%	29%	15%	22%

Significant Points:

- Trade, more than any other publishing market segment, has aggressively increased its eBook pursuits.

  Trade publishers have become fully committed to the eBook format and at a faster rate than any other type of book publisher. The percentage of Trade publishers producing eBooks has risen from 50% to 76% in two years. Another 19% of Trade respondents indicate that they have plans in place for eBook production.

  Only 6% of Trade publishers are *not* planning for eBooks in the foreseeable future, a 17% drop from Aptara's first survey.

(cont'd)

4) eBooks

What is your organization's current involvement with eBooks?

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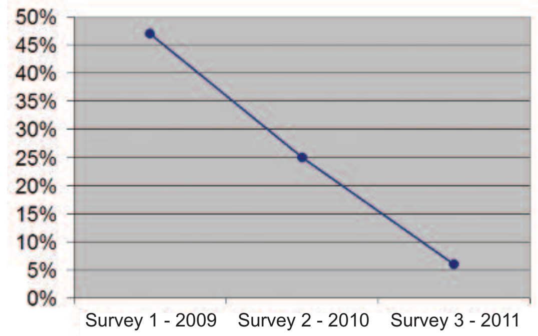
Trade Publishing Companies "Not Producing eBooks"



- Corporate publishing lags other book market segments in the production of eBooks.

  Only 40% of Corporate publishing company respondents are actively producing eBooks. Adding in the 37% of Corporate respondents who report that plans are in place for eBooks indicates that this market segment is poised for growth. Though not 'traditional' publishers, more and more corporations are recognizing that eBooks offer a convenient, device-agnostic format for providing information to customers, prospects, employees, and shareholders, particularly via mobile devices.

The Business of eBooks

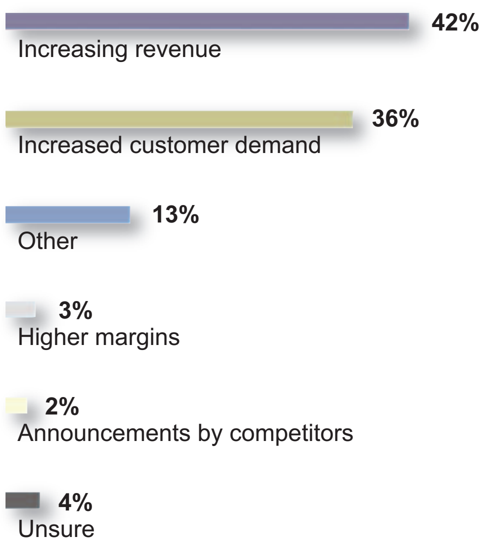
The survey was designed to make the results of Questions 5–11, those concerning the business results of eBooks, represent the opinions of those most involved with eBooks.

Respondents were channeled into one of three paths based on their response to Question 4: "What is your organization's current involvement with eBooks?"

Those producing eBooks (62%) were presented every question in the survey. Those planning to produce eBooks (22%) were routed from Question 4 to Question 12 for the remainder of the survey. Respondents with no plans to produce eBooks (16%) were routed from Question 4 to Question 20, the last question in the survey.

5) Driver

What is the main driver for producing eBooks?



Publisher Type Breakdown	Trade	STM	College	K–12	Corporate
Increasing revenue	49%	45%	31%	40%	23%
Increased customer demand	32%	36%	45%	38%	54%
Other	10%	11%	16%	12%	15%
Higher margins	4%	2%	2%	0%	4%
Announcements by competitors	2%	2%	3%	2%	4%
Unsure	3%	5%	3%	7%	0%

Significant Points:

- The main drivers for producing eBooks across all publishing market segments are "increasing revenue" (42%) and "increased customer demand" (36%).

  These two incentives go hand in hand and suggest that publishers are responding to customer demand in their embrace of eBooks. The fact that publishers are following the market rather than leading it indicates that the eBook market has moved beyond early adopters and into the mainstream as a viable, long-term channel for book consumption.

- "Higher margins" are not a significant driver for producing eBooks.

  This likely reflects the early stage of the eBook publishing market. Publishers' primary drivers ("increasing revenues" and "meeting customer demand") are easier to assess and therefore use as business arguments to champion and "sell" eBook programs internally.

(cont'd)

5) Driver

What is the main driver for producing eBooks?

(cont'd)

"Higher margins" require a more mature level of market activity in which eBook production costs can be amortized and sales channels are more settled. As indicated in Questions 7 and 10, eBook pricing models and sales channels are still in question, hindering established revenue streams and making margin assessment more difficult.

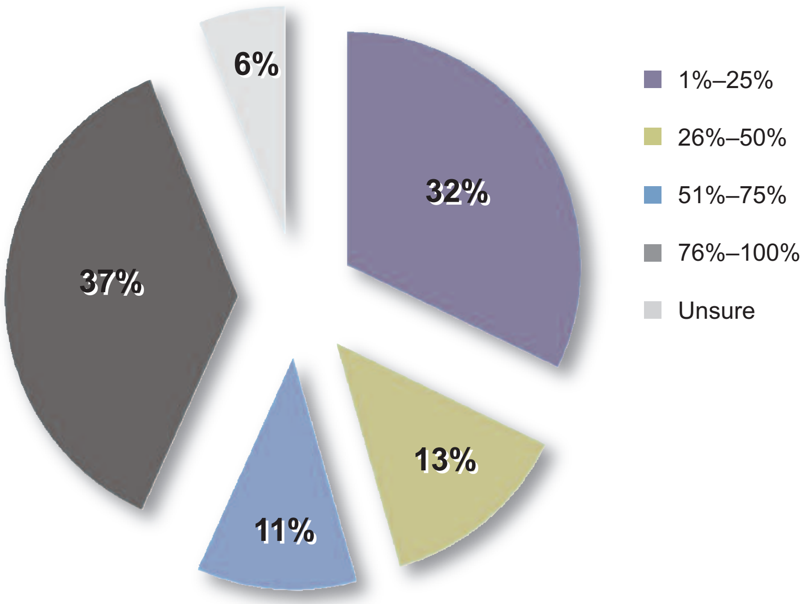
A question in Aptara's second eBook survey on return on investment (ROI) also highlighted that the real cost of eBooks was unclear to the majority of publishers. Nearly equal numbers of respondents reported that ROI was "better than printed books" and "worse than printed books". More telling was that the vast majority of respondents reported that ROI was undefined.

- "Announcements by competitors" (also known as market perception) may be a bigger driver than the results indicate if the number and nature of comments submitted in the "Other" field are considered.

Across all publishing market segments, if the totals for "Announcements by competitors," "Unsure," and "Other" are combined, they comprise the third-largest response. That these business drivers have significant statistical weight can be seen as another sign of the relative youth of the eBook market. Such comments as "To stay ahead of competitors," "To stay current and remain viable in growing and changing markets," "Trying to keep up to date," "Fear of being left behind," and "It [eBook publishing] is a shift that we need to be a part of" confirm that fear, uncertainty, and doubt are rife in the industry.

6) eBook Volume

Approximately what percentage of your titles will be distributed as eBooks in 2011?

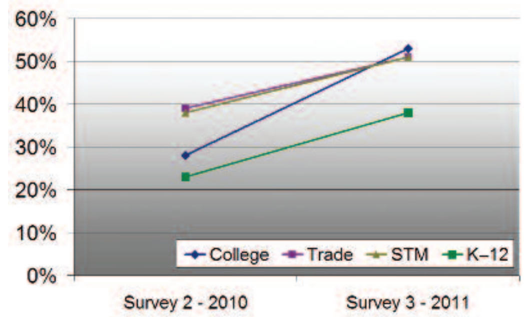


Publisher Type Breakdown	Trade	STM	College	K–12	Corporate
1%–25%	29%	36%	27%	47%	40%
26%–50%	15%	9%	11%	12%	20%
51%–75%	9%	16%	9%	12%	8%
76%–100%	42%	35%	44%	26%	8%
Unsure	4%	3%	9%	5%	24%

Significant Points:

- The percentage of titles that are being distributed as eBooks is significantly on the rise for all publishing market segments except Corporate.

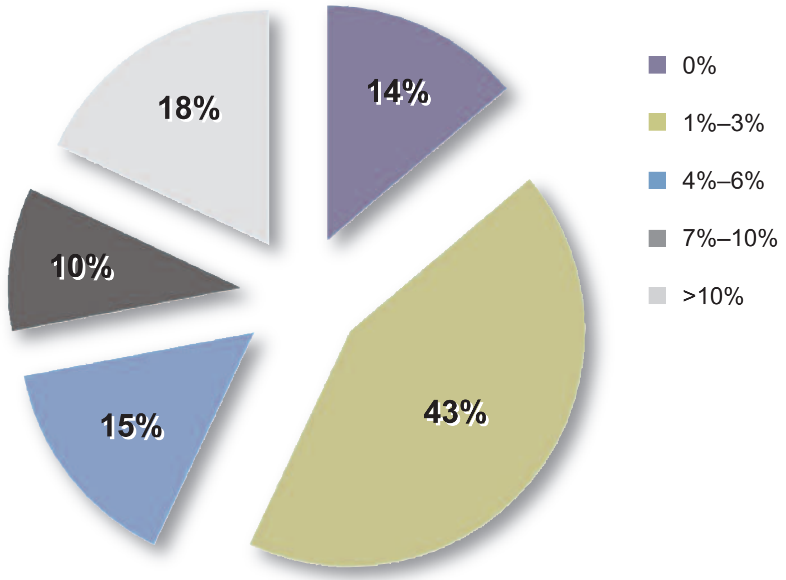
  Compared to the results of Aptara's second survey in 2010, there is a marked increase in every category of distribution percentages. Most notably there is a 13% increase in publishers who are producing 76%–100% of their titles as eBooks (37%, up from 24%). Below is the percentage of eBook publishers distributing more than half of their titles as eBooks in 2011.



Note: Question 6 was not asked in the first survey.

7) eBook Revenue

Approximately what percentage of your revenue is currently derived from eBook sales?



Publisher Type Breakdown	Trade	STM	College	K–12	Corporate
0%	13%	11%	14%	21%	17%
1%–3%	44%	40%	39%	55%	42%
4%–6%	11%	19%	18%	7%	17%
7%–10%	12%	11%	8%	10%	4%
>10%	20%	19%	22%	7%	21%

Significant Points:

- One out of five eBook publishers generates more than 10% of their revenues from eBooks. This is a strong statistic for an early-stage market.

  Considering the increasing rate of consumer sales projections, this highlights that the eBook market still has plenty of room for growth—music to the ears of the majority (57%) of eBook publishers who derive between 0% and 3% of their revenue from eBooks.

  Amazon, as a driver of the eBook market, remains a mixed blessing for Trade publishers. Without Amazon's de facto subsidization of Trade eBooks—both in terms of establishing a popular eBook device (the Kindle) and encouraging (forcing?) lower prices—it is possible that eBooks would not have gained such significant traction. Yet some Amazon pricing ($0.99 and $9.95 per title) fuels eBook buying at the expense of profits.

(cont'd)

7) eBook Revenue

Approximately what percentage of your revenue is currently derived from eBook sales?

(cont'd)

As the eBook market matures and its value chain components approach their full potential, it will become clearer whether eBooks can be effective profit generators, or if alternative business and pricing models, such as those that involve subscriptions or advertising, may have to be explored.

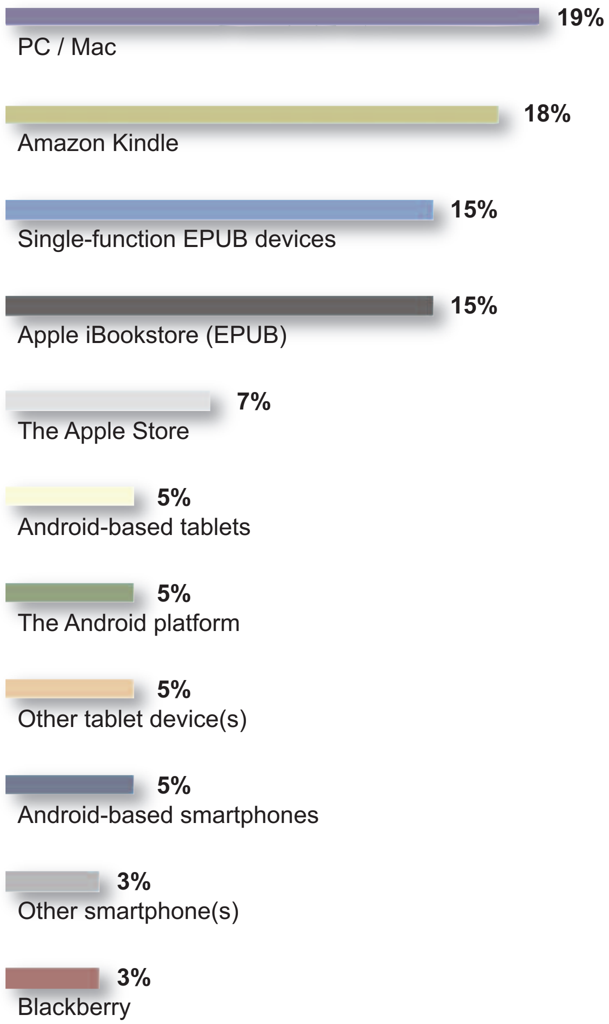
- K–12 publishers are significantly behind in eBook revenues compared to all other market segments, particularly College.

Unlike the College market segment, where learning platforms are making headway and the installed base of PCs is extensive, the K–12 market remains disadvantaged by the limited availability of eBook readers, PCs, and/or learning platforms within schools, retarding sales and revenue for this segment. It is also likely that eBooks are not yet addressing the needs of the K–12 market.

Note: Question 7 was not asked in previous surveys.

8) Target Devices and Platforms

What devices/platforms are you targeting with your eBooks?



Publisher Type Breakdown	Trade	STM	College	K–12	Corporate
PC / Mac	15%	25%	23%	28%	18%
Amazon Kindle	19%	18%	17%	16%	15%
Single-function EPUB devices	18%	11%	15%	13%	13%
Apple iBookstore (EPUB)	16%	14%	13%	14%	15%
The Apple Store	8%	6%	6%	7%	7%
Android-based tablets	5%	5%	5%	5%	5%
The Android platform	5%	5%	5%	5%	5%
Other tablet device(s)	5%	3%	6%	6%	7%
Android-based smartphones	5%	5%	5%	2%	5%
Other smartphone(s)	4%	3%	4%	2%	4%
Blackberry	3%	3%	3%	2%	4%

(cont'd)

8) Target Devices and Platforms

What devices/platforms are you targeting with your eBooks?

(cont'd)

Significant Points:

- EPUB has gained traction across all publishing market segments, eclipsing the Amazon Kindle as the most widely targeted eBook platform.

  This question allowed multiple selections. When "Single function EPUB devices" is combined with "Apple iBookstore (EPUB)" responses, EPUB's emerging dominance is clear. Kindle was selected 18% of the time and EPUB 30%.

  Of all of the publishing market segments, Trade has the widest EPUB-to-Kindle margin: 34% to 19%.

  Kindle's relative decline is due to other eReaders and their support for EPUB—the rise of the iPad specifically, and tablets in general. Amazon, in an attempt to counter this trend, has been aggressively creating support for Kindle titles on a number of other platforms (PCs, iPads, and Android apps), which gives publishers more reasons to publish to its format.

  The change to EPUB—as a format used in single-function eBook readers and on multifunction tablets, smartphones, and PCs—is a strong indicator that publishers are not only enjoying a larger installed base of EPUB-capable devices but also have a better understanding of cross-platform publishing processes.

- Next to EPUB, the personal computer is the most popular eBook platform target for all publishers except Trade.

  Not surprisingly, College, K–12, and STM publishers lead in targeting PCs and Macs as a preferred eBook platform (23%, 28%, and 25%, respectively). In the case of Education publishers, most learning platforms are PC-based; with STM publishers, historically the most active digital publishing segment, PCs were the original digital content consumption device and hence remain well established, but the growth of EPUB and explosion of tablet-like devices suggests that the PC as a primary platform will steadily lose its importance.

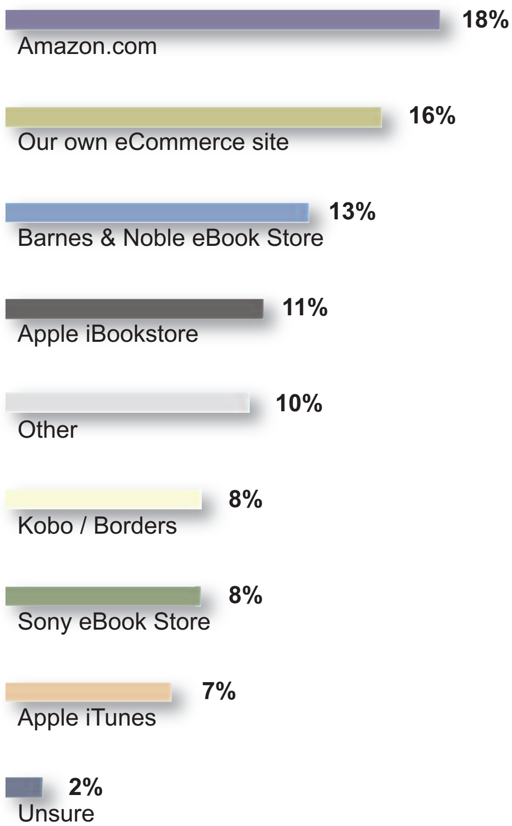
- For Trade publishers, it's primarily an EPUB and Kindle world. The Trade market segment is not strongly pursuing alternative OS tablets or smartphones as eBook publishing targets.

- Android-based eBook reading devices have strong potential, but are currently a fragmented group of targets for eBook publishers.

- Blackberry, as a target eBook device, continues its sharp decline, with the Corporate publishing market segment posting Blackberry's best showing at 4%.

9) eBook Distribution

Through which channels are your eBooks distributed?



Publisher Type Breakdown	Trade	STM	College	K–12	Corporate
Amazon.com	20%	21%	19%	19%	17%
Our own eCommerce site	11%	24%	22%	29%	30%
Barnes & Noble eBook Store	15%	11%	13%	12%	17%
Apple iBookstore	14%	11%	8%	9%	13%
Other	8%	15%	16%	13%	7%
Kobo / Borders	11%	5%	8%	5%	5%
Sony eBook Store	12%	3%	7%	6%	5%
Apple iTunes	9%	7%	4%	6%	7%
Unsure	1%	3%	3%	1%	0%

Significant Points:

- Amazon still dominates distribution across all publishing market segments—but by a steadily decreasing margin.

  While publishers are targeting many more devices and formats, they still rely heavily on Amazon for distribution, but do so less and less.

(cont'd)

9) eBook Distribution

Through which channels are your eBooks distributed?

(cont'd)

This trend is more attributed to the proliferation of other platforms and channels, particularly EPUB-based, than a decline in actual sales for Amazon. The effect is that the sales and distribution "pie" is getting bigger.

This trend also suggests that publishers are anticipating an increase in EPUB-based distribution channels.

Note: If responses to the two Apple distribution channel options (iBookstore and iTunes) are combined, Apple is tied with Amazon as the preferred distribution channel—both at 18%—across all publishing segments. However, combining these channels raises a complication that highlights the confusing state of eBook distribution today. iBookstore is an Apple-specific eBook distribution channel, and iTunes is the eBook title management mechanism. While iTunes allows eBook publishers to sell their titles to Apple device owners, it can also be used to purchase and manage non-Apple eBooks and apps, such as Amazon Kindle titles, or non-DRM versions of EPUB eBooks such as those from Barnes & Noble and Kobo, along with PDFs and audio books. So to keep the survey results and analysis as distinct and clean as possible, the statistics from the two "Apple" channels were not combined.

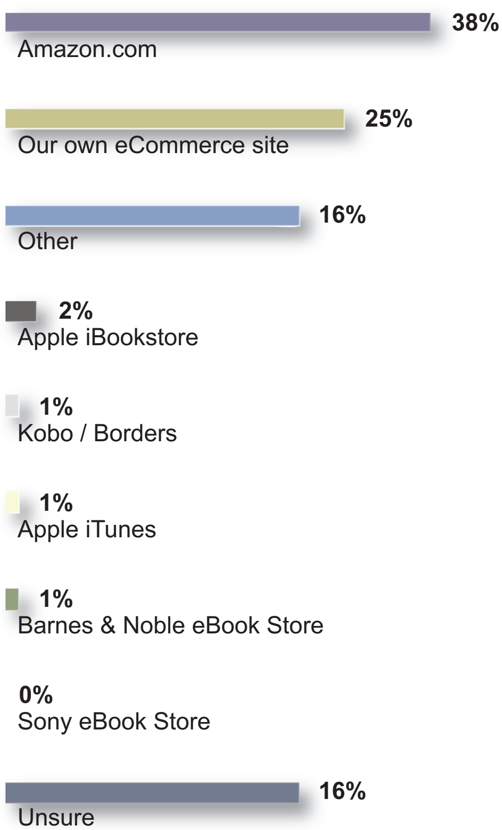
- Distribution through publishers' own eCommerce sites is experiencing a precipitous drop across all publishing market segments.

  In Aptara's first survey in 2009, 36% of all respondents utilized their own eCommerce site to sell eBooks. Two years later, the average is 16%. At a more granular level, 54% of K–12 publishers reported use of their own eCommerce site for distribution in 2009, compared to 29% this year. College publishers' total decreased over the same two-year period from 34% to 22%, and STM from 39% to 24%.

- Even with the decrease described above, STM, College, K–12, and Corporate publishers sell their titles through their own eCommerce sites at double and almost triple the rate of Trade publishers (11%).

10) Source of eBook Sales

Which channel produces the largest percentage of your eBook sales?



Publisher Type Breakdown	Trade	STM	College	K–12	Corporate
Amazon.com	56%	26%	19%	23%	32%
Our own eCommerce site	13%	34%	33%	33%	50%
Barnes & Noble eBook Store	1%	0%	2%	2%	0%
Apple iBookstore	2%	1%	2%	0%	0%
Other	11%	21%	22%	21%	9%
Kobo / Borders	3%	0%	0%	0%	0%
Sony eBook Store	0%	0%	0%	0%	0%
Apple iTunes	2%	0%	1%	2%	0%
Unsure	12%	18%	21%	19%	9%

Significant Points:

- Publishers' own eCommerce sites generate the greatest percentage of eBook sales for all publishing market segments except Trade.

  Despite a decrease in publishers' reliance on their own eCommerce sites for distribution (Question 9), these sites are producing the most sales for publishers by a significant margin (8%–18% depending on the publisher type).

(cont'd)

10) Source of eBook Sales

Which channel produces the largest percentage of your eBook sales?

(cont'd)

These findings aren't surprising, particularly for STM, whose customers have long been accustomed to visiting publishers' Web sites for journal content and the latest research prior to the advent of mobile eBooks.

These statistics also reflect many publishers' reluctance to share revenues with channel partners such as Apple and Amazon.

- Amazon is by far the largest producer of eBook sales for Trade publishers.

The data here is conclusive: despite Trade publishers' use of all the main eBook online retailers, Amazon is the one producing sales—and, presumably, revenue—by a disproportionate margin (43%). This distinction is clearer than for any other publishing market segment. One condition that this result reflects is the central role that Amazon has played in helping develop the Trade eBook marketplace.

Other interesting Trade publisher statistics:

- While 56% of Trade publishers report that Amazon is their largest sales generator, only 20% of publishers report distributing their content through Amazon (Question 9). This suggests that either publishers are distributing their highest value content through Amazon, or that the return on investment (ROI) from Amazon distribution is greatest.
- While Barnes & Noble was the second-most popular distribution channel for Trade publishers (Question 9), the perception of Barnes & Noble's effect on Trade publishers' bottom line is almost non-existent (1%).

- Amazon generates significantly more eBook sales than EPUB-based platforms and devices. However, EPUB eclipses the Amazon Kindle as the most widely *targeted* eBook platform (Question 8).

Along with the results of Question 9, this finding reinforces that publishers are preparing for an increase in the adoption of EPUB, possibly concurrent with the introduction of EPUB 3, and anticipating alternate EPUB-based distribution channels.

- All publishing market segments express significant uncertainty about which sales channel is the most lucrative.

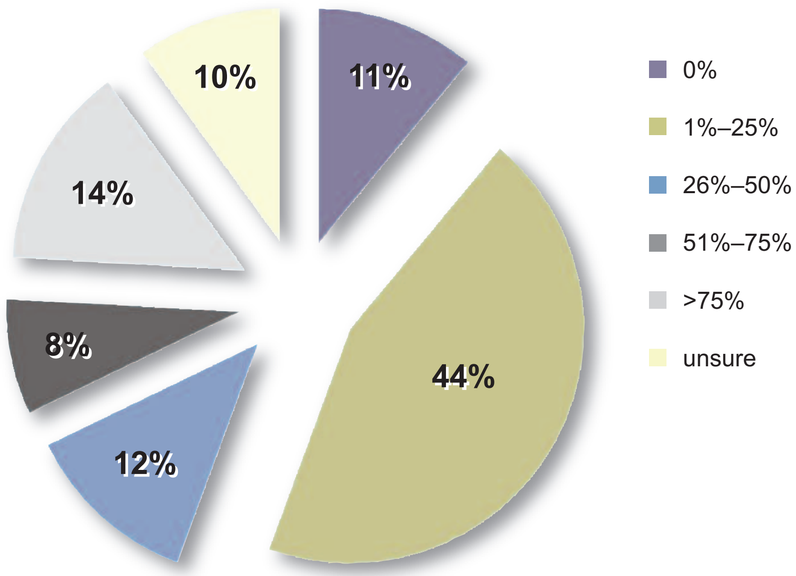
The choices of "Unsure" (79%) and "Other" (84%) rank as the third-highest response options. Of the comments generated under "Other," most reported that eBook sales are still very young, or pending. The Education and STM market segments are most unsure about which channels produce the most sales.

Publishers' lack of clarity surrounding a basic business metric like revenue source suggests that most publishers' eBook operations are still in their infancy.

Note: Question 10 was not asked in previous surveys.

11) Backlist Conversion

What percentage of your backlist (legacy) titles have you converted into eBooks?



Publisher Type Breakdown	Trade	STM	College	K–12	Corporate
0%	8%	10%	16%	19%	14%
1%–25%	48%	44%	33%	50%	48%
26%–50%	10%	14%	14%	7%	0%
51%–75%	9%	9%	7%	7%	5%
>75%	16%	15%	13%	10%	14%
unsure	9%	8%	17%	7%	19%

Significant Points:

- Two out of three eBook publishers have not converted the majority of their backlist (legacy) titles to eBooks.

  Backlists are untapped digital assets with huge potential resale value and significantly higher profit margins than frontlists.

  In addition to highlighting both the relative youth of the eBook market and potential enormity of its size, these findings suggest that the expertise required for efficient backlist-to-eBook conversion does not reside in-house at most publishers.

  Note: Question 11 was not asked in previous surveys.

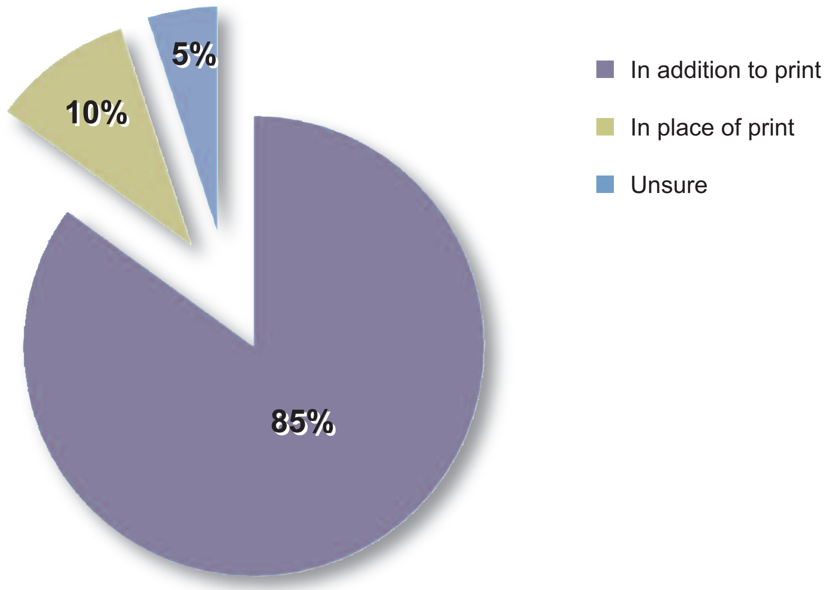
The Production of eBooks

As eBooks have become a larger part of publishing companies' efforts, production-related survey questions have become more useful in providing snapshots of best practices and trends.

Questions 12 through 15 address specific eBook production issues, including the determination of what has been a hanging question about "digital vs. print." The findings are clear about the central role third-party service providers play in eBook production. Less clear is the role of the XML file format in publishers' eBook production plans, where strong indications of XML understanding and application are offset by the large percentage of publishers still not employing it to take advantage of single-source digital publishing.

12) Digital vs. Print

Are/will your eBooks be produced primarily in place of, or in addition to, print editions?



Publisher Type Breakdown	Trade	STM	College	K–12	Corporate
In addition to print	87%	87%	79%	93%	76%
In place of print	10%	8%	13%	5%	11%
Unsure	3%	5%	8%	2%	13%

Significant Points:

- The question of "digital or print?" has been answered. The answer is both: "digital *and* print."

  The vast majority of book publishers (85%) across all market segments are producing print and eBook versions of their titles. For the time being, print publishing's legacy cost structure and business and production models are living alongside newer eBook-inspired practices.

  This finding emphasizes the need for publishers to address production workflows, especially in order to gain multiple-format output efficiency, such as can be attained through an XML-early process.

- Trade, STM, and College publishers are producing roughly 10% of their eBook editions *in place of* print editions.

  Though modest, there is real activity at some publishers to substitute eBooks for print editions:

  - College publishers produce the greatest percentage of standalone eBooks (13%) compared to other publishing market segments. This likely reflects the growth of online learning platforms for textbook delivery, as textbook publishers try to resolve the used print textbook challenge by reducing print textbook edition iterations.

(cont'd)

12) Digital vs. Print

Are/will your eBooks be produced primarily in place of, or in addition to, print editions?

(cont'd)

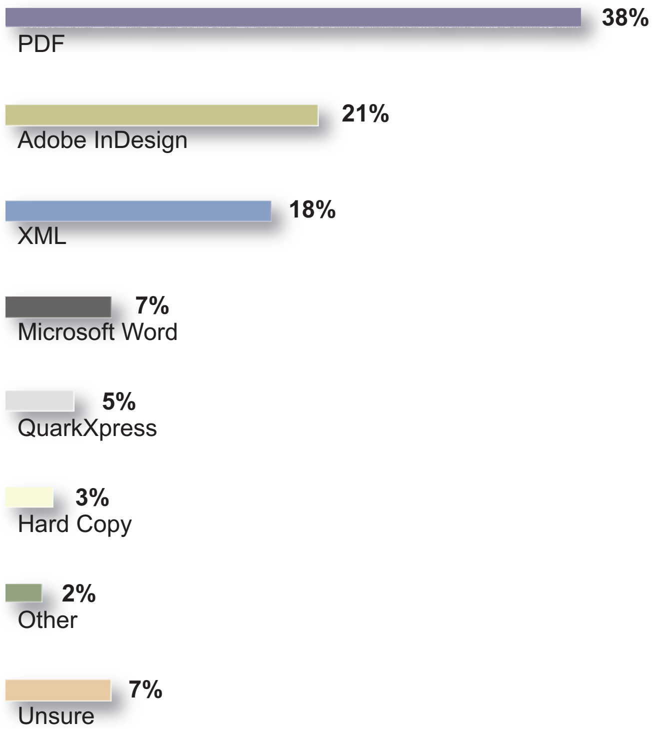
- Trade publishers likely have eBook-only editions for small sale backlist titles that otherwise might not support print runs, or to support digital print-on-demand. Another contributing factor could be the efforts of the new eBook-only or self-publishing companies that are forgoing print from the outset.

▶ The percentage of publishers producing eBooks *in place of* print editions has increased by only one percent over the past two years and three Aptara surveys (9%, 9%, and 10%).

These numbers reflect publishers' unease at going "all in" with eBooks until the market's value chain—in particular, revenues and profits—are more discernable and consistent.

13) Source Files

What are/will be your primary source file formats for eBooks?



Publisher Type Breakdown	Trade	STM	College	K–12	Corporate
PDF	35%	41%	42%	36%	32%
Adobe InDesign	26%	17%	13%	28%	21%
XML	12%	24%	22%	14%	20%
Microsoft Word	10%	5%	5%	4%	9%
QuarkXpress	6%	3%	3%	7%	1%
Hard Copy	2%	2%	5%	2%	7%
Other	2%	4%	2%	1%	4%
Unsure	8%	4%	8%	7%	7%

Significant Points:

- PDF remains the most common source file for eBook production.

  PDF is a foundational file format, especially for those publishers coming from print and moving to digital. Print title delivery files are most often Print PDF, revealing that most of today's eBook production still follows print production, at the expense of improved operational efficiencies.

  Though publishers are pursuing multiple-output production (print and eBooks), they are slow to transition from traditional print-based production to more flexible and scalable digital workflows that produce output for mobile devices, PCs, and print—all from a single content source.

(cont'd)

13) Source Files

What are/will be your primary source file formats for eBooks?

(cont'd)

Note: PDF was the preferred source file format for all publishing market segments in Aptara's second survey in 2010. The first survey did not include a source file format question.

- The use of XML as an eBook source file format remains modest, with its strongest showing among the STM and College publishing market segments, where it ranks second behind PDF.

  The STM publishing market has long led in the use of XML, and true to form, STM also ranked higher than any other publishing segment in the last two Aptara surveys for its use of XML as a primary eBook source file format.

  Adobe InDesign's earlier versions have the reputation for importing and exporting XML poorly, although there is hope that the latest version will improve this capability significantly. As is likely with Microsoft Word's growing XML capabilities, the distinction between XML file format and an InDesign file format may become less important in terms of flexible eBook production workflows.

  While the use of XML is modest, and in line with last year's survey results, many respondents' comments suggest a future increase in its usage, such as:

  - "We think that XML is the most flexible."
  - "Today, PDF almost always; in nine months, XML."
  - "Learning how to edit XML so that it can be the foundation file."

- Trade and K–12 publishers are less invested in XML, with a proportionately stronger emphasis on PDF and InDesign source files.

  Trade likely retains more of a traditional graphic-design process, with PDF feeding eBook production, because the demands on Trade eBook production are relatively simple.

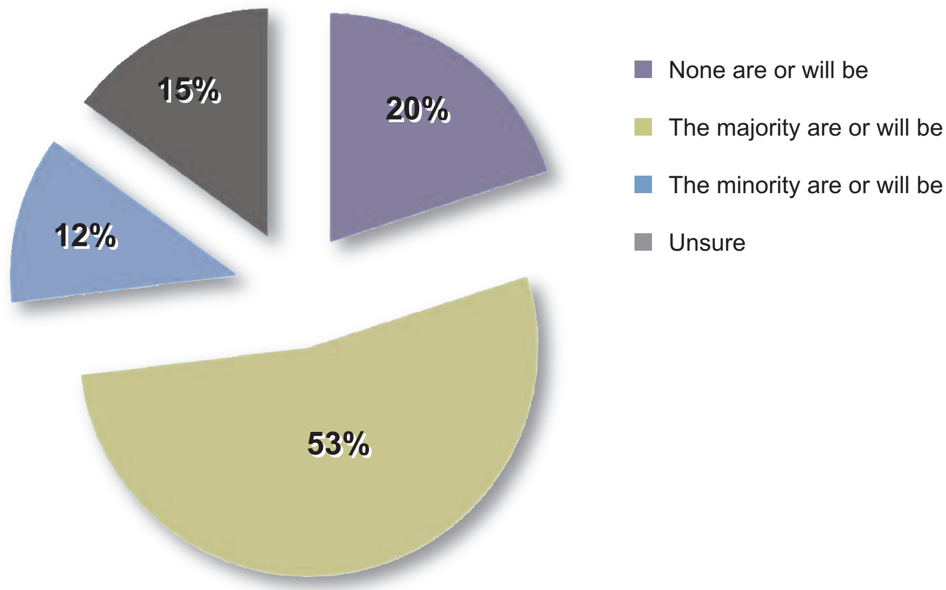
  K–12's reason for sticking with traditional graphic-design processes and PDF output is likely the opposite of Trade's. K–12 publishers work with complex textbook layouts and represent one of the slower growing eBook segments, in large part because complex eBook presentation devices are not well established in this marketplace.

- Trade and Corporate publishers employ Microsoft Word as a primary source file for eBook production more than any other publishing market segment (10% and 9%, respectively).

  Both of these publishing segments rely more heavily on outside authors or office workers for content creation with content output—whether print or eBook—that is relatively simple. As Microsoft Word continues to evolve, its intrinsic XML qualities blur the lines between Word and XML source file formats.

14) Production Partners

To what extent are/will your eBooks be produced by an external technology partner(s)?



Publisher Type Breakdown	Trade	STM	College	K–12	Corporate
None are or will be	20%	20%	23%	14%	30%
The majority are or will be	55%	55%	49%	56%	41%
The minority are or will be	11%	10%	12%	14%	9%
Unsure	14%	16%	15%	16%	20%

Significant Points:

- Publishers are increasingly turning to third-party providers for eBook production.

  53% of publishers use outside technology partners for the majority of their eBook production while 12% employ outside help for some of their eBook production.

  As the level of eBook activity has grown across all publishing market segments, so too has the use of external technology partners. While different publishing market segments have varying levels of reliance on these providers, all see a central role for them.

- The Trade publishing market segment is increasing its use of third-party technology partners more than any other publishing market segment, almost doubling this eBook production strategy in two years.

  Of Trade respondents, 66% use external technology partners for eBook help, most for the majority of their production. Almost unchanged over the past two years is the percentage of Trade respondents reporting that eBook production is entirely done in-house (21% versus 20%).

(cont'd)

14) Production Partners

To what extent are/will your eBooks be produced by an external technology partner(s)?

(cont'd)

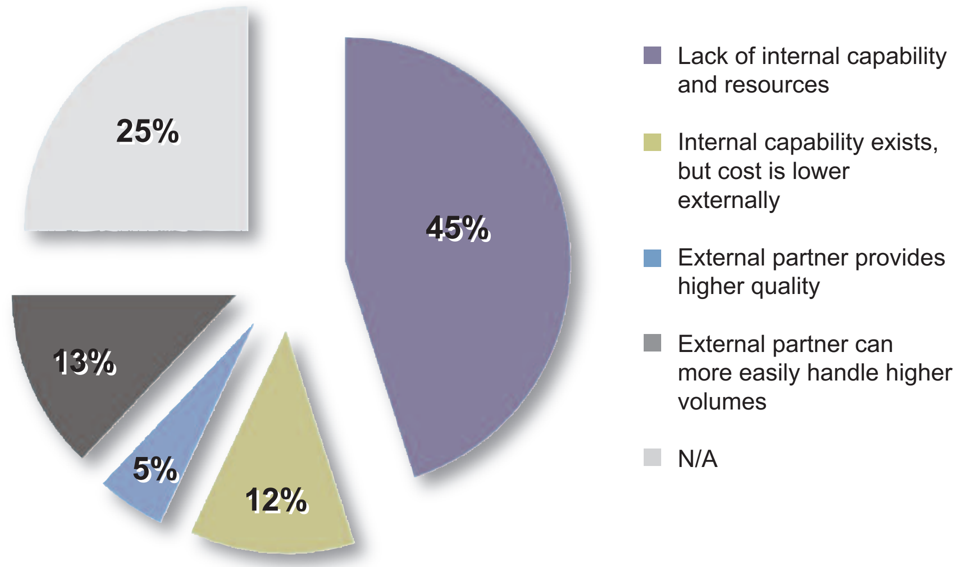
Note: The second Aptara survey from 2010 asked a similar question, "How does your organization produce eBooks?" The answer options differed slightly from the current survey. The correlation is mapped for comparison below.

2010 Aptara Survey: "How does your organization produce eBooks?"	%	Maps to	2011 Aptara Survey: "To what extent are/will your eBooks be produced by an external technology partner(s)?"	%
A hybrid approach (both internal and external resources)	27	→	The minority are/will be	11
Third party conversion partner	27	→	The majority are/will be	55
Using internal resources	21	→	None are/will be	20
Unsure	2	→	Unsure	14
Undefined	22	→	Unsure	

Note: Question 14 was not asked in the first survey.

15) Outsource Driver

What is the main driver for using an external technology partner?



Publisher Type Breakdown	Trade	STM	College	K–12	Corporate
Lack of internal capability and resources	45%	45%	44%	52%	33%
Internal capability exists, but cost is lower externally	12%	10%	9%	19%	9%
External partner provides higher quality	5%	6%	5%	2%	9%
External partner can more easily handle higher volumes	12%	17%	13%	17%	9%
N/A	26%	23%	28%	11%	41%

Significant Points:

- By an average margin of more than 30%, every publishing segment agrees that the main driver for using an external technology provider for eBook production support is "Lack of internal capability and resources."

  With the continuing evolution of the EPUB standard and emergence of significant new devices and operating systems, eBook formats still present challenges to publishers. Gaining eBook production efficiencies in a shifting environment requires ongoing development of expertise in standards, eReader hardware, and software, as well as investments in research and process development. With the rapidly changing state of eBook devices, platforms, and production requirements, it is difficult for publishers to justify investing their own resources in order to develop such expertise.

- Some publishing market segments, particularly K–12, see lower costs through the use of external technology partners, even when internal capability exists.

(cont'd)

15) Outsource Driver

What is the main driver for using an external technology partner?

(cont'd)

With the state of eBook formats still in flux, several third-party content technology providers have developed extensive expertise in eBook production. They are notable for the efficient internal tools they've designed and the leadership roles they've filled in eBook standards development. While it is likely that at some point eBook production toolsets will become widely available to allow publishers to take these efforts in-house, the rise of software as a service (SaaS) eBook production platforms will likely slow this shift.

▶ Higher quality output is not the most significant driver for publishers to use external eBook technology partners.

This finding likely reflects that publishers across all market segments understand that responsibility for quality ultimately rests with them. So while publishers undoubtedly expect and demand quality output from third-party service providers, quality output is not the driving reason for their use.

Note: Question 15 was not asked in previous surveys.

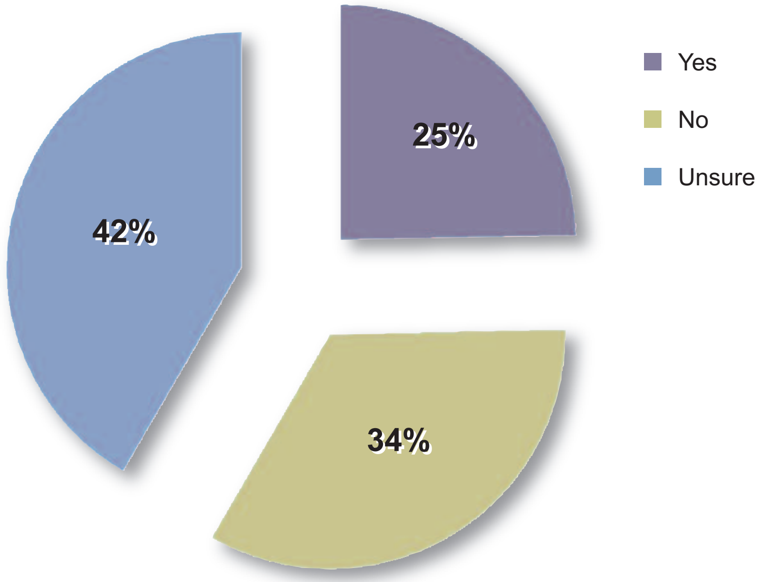
A Look at EPUB 3, Enhanced eBooks, and Apps

If one were simply to read blogs, conference session descriptions, and news items about enhanced eBooks and eBook-based apps, there would be every reason to assume that enhancements and apps are the next big thing in eBooks.

The data in Questions 16–18 suggests a different reality. Book publishers are far more focused on getting titles into current eBook formats than on creating new types of enhanced and media-rich content—another reminder of the market's untapped potential.

16) EPUB 3 Strategy

Do you have a strategy for moving to the EPUB3 standard once it is finalized?



Publisher Type Breakdown	Trade	STM	College	K–12	Corporate
Yes	28%	24%	19%	14%	36%
No	32%	35%	31%	40%	36%
Unsure	40%	41%	50%	46%	29%

Significant Points:

- Awareness of EPUB 3 is limited, with Corporate and Trade publishers ahead of the curve.

  EPUB 3 is the next edition of the EPUB eBook format standard and includes significant support for enhancements. There is a general lack of awareness of EPUB 3 and its benefits across all publisher types. This isn't surprising, given that publishers are still working to catch up to the exploding market for EPUB eBooks, and that EPUB 3 is only now being finalized and currently has limited device support.

  Among respondents of all publisher types, nearly half are unsure about EPUB 3 and only 25% have a plan for moving to EPUB 3. Corporate and Trade publishers are the most prepared with an EPUB 3 strategy, at 36% and 28%.

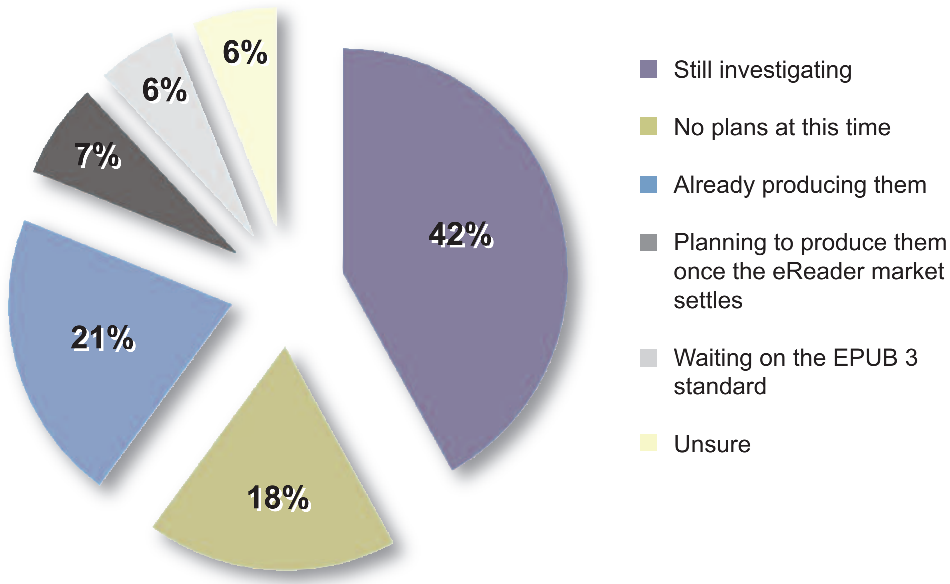
  Trade has been turning to EPUB strongly overall with many Trade eBook publishing programs regularly publishing in EPUB as well as Kindle formats. Trade's relatively heightened interest in EPUB 3 may simply reflect the relatively recent pursuit of EPUB.

  While Corporate publishers report the highest percentage of publishers with an EPUB 3 strategy, the relatively small size of this market segment's survey participation weakens the statistical reliability of these results.

  Note: Question 16 was not asked in previous surveys.

17) Enhanced eBooks

What is your plan regarding enhanced eBooks (i.e., books with links to related content or rich media such as audio/video)?



Publisher Type Breakdown	Trade	STM	College	K–12	Corporate
Still investigating	35%	47%	46%	33%	56%
No plans at this time	20%	20%	12%	12%	11%
Already producing them	21%	16%	26%	35%	16%
Planning to produce them once the eReader market settles	10%	6%	6%	9%	2%
Waiting on the EPUB 3 standard	8%	6%	3%	7%	11%
Unsure	6%	6%	7%	4%	4%

Significant Points:

- While publishers' enhanced eBook plans remain modest—with 60% of publishers still investigating enhanced eBooks or not planning to produce them—the number of respondents across all publishing market segments that are producing enhanced eBooks has increased significantly as compared to a year ago.

  Contributing to the significant increase across all publishing segments is the introduction of the Apple iPad and other multifunction eReader tablets that lend themselves to audio and video enhancements.

  The most telling jumps are in the Education arena. College and K–12 publishers' production of eBooks has skyrocketed in the past year, from 3% to 26% and 4% to 35%, respectively. Education eBook publishing has long been producing rich media content, even though the content was most often targeted at PCs and learning platforms versus discrete eReaders.

(cont'd)

17) Enhanced eBooks

What is your plan regarding enhanced eBooks (i.e., books with links to related content or rich media such as audio/video)?

(cont'd)

Trade respondents report that 21% are "already producing enhanced eBooks," an increase of 11% from last year, while STM jumped to 16%, up from 7% last year. Corporate also reveals increased activity in enhanced eBooks, with a jump from 0% in 2010 to 16% in 2011.

- The perception of "enhanced eBooks" is still largely separate from EPUB 3.

  When "enhanced eBooks" are cited (Question 17), instead of EPUB 3 (Question 16), respondents across all publishing segments indicate a stronger growth in producing or planning to produce enhanced eBooks, suggesting that publishers do not yet associate enhanced eBooks with EPUB 3, and/or are uncertain about what the revised EPUB 3 standard will contain. This is most noticeable in the Education publishing markets.

  While EPUB 3 promises to help extend eBook standards to enhanced eBooks, its potential is not widely understood. The enhanced eBook will likely remain something of a moving target, especially as competing eReader operating systems are still fighting for market share.

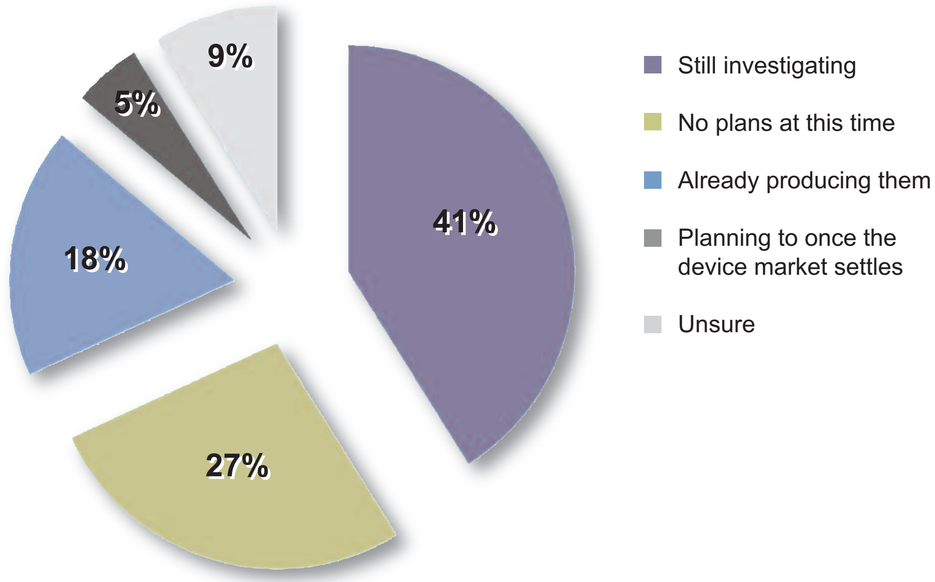
- The Trade and K–12 publishing market segments are most concerned about unsettled reader markets when it comes to enhanced eBook publishing.

  Trade publishers will remain reluctant to invest in enhanced eBook production if the installed base of eReaders requires varying and incompatible formats that will drive up publishing costs for this riskier content type. The technology platform concerns of K–12 publishers are more general and relate to the installed base device issues that remain in this market.

  Note: Question 17 was not asked in the first survey.

18) App Development

What is your plan regarding book-based app development?



Publisher Type Breakdown	Trade	STM	College	K–12	Corporate
Still investigating	37%	44%	47%	32%	49%
No plans at this time	28%	28%	25%	30%	31%
Already producing them	23%	16%	14%	16%	11%
Planning to once the device market settles	5%	6%	4%	5%	2%
Unsure	7%	7%	10%	16%	7%

Significant Points:

- The pursuit of book-based app development is very modest across all publishing market segments.

  At 23%, Trade has the highest percentage of respondents reporting that they are "already producing book-based apps."

  "Still investigating" and "no plans at this time" significantly outweigh the "already producing" responses for all publishing market segments.

  When asked about book-based apps, the response rate of K–12 publishers—who produce more enhanced eBooks than any other publisher type at 35% (Question 17)—drops by more than half, to 16%, suggesting that there is not necessarily a correlation between enhanced eBook production and app development.

  Overall, apps are not a major driver for publishers in comparison to eBooks.

  Note: Question 18 was not asked in previous surveys.

A Look at the Future of eBook Publishing

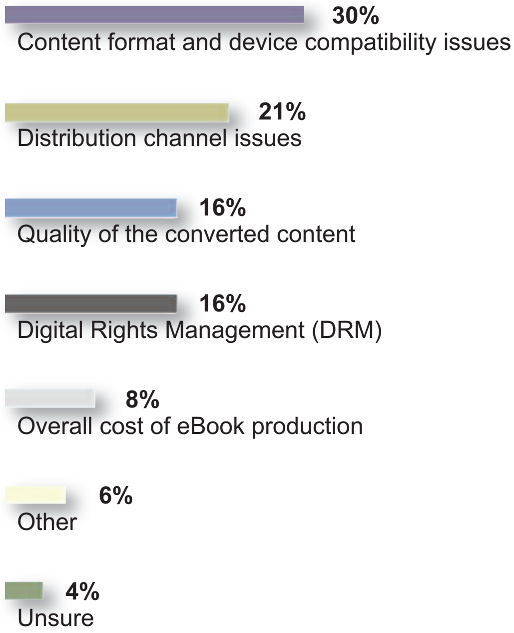
What will publishers' eBook future look like? A look at the challenges facing book publishers offers a good indication, and in this case, what's past is prologue: two years and three surveys later, publishers across all market segments remain concerned about the unsettled nature of eBook readers, formats, and standards.

The emergence of multifunction tablet devices may be cause for hope, as seen in book publishers' own eReader device preferences. But tablets won't solve every problem, as publishers still face distribution channel, quality, pricing, and DRM issues, but these concerns have gradually diminished over the past two years—a sign of an eBook market that is starting to mature.

Publishers couldn't ask for a better position: the ground floor of an early-stage market experiencing exponential sales growth. The downside to being at the starting gate is the growing pains; the upside is the untapped revenue potential that lies ahead. The goal of Aptara's survey series is to document both sides, and in doing so, provide publishers the latest intelligence on the eBook production landscape to better equip them to optimize their own eBook operations and revenues.

19) Challenges

What are/were the greatest challenges in bringing eBooks to the market?



Publisher Type Breakdown	Trade	STM	College	K–12	Corporate
Content format/device compatibility issues	31%	28%	31%	33%	27%
Distribution channel issues	21%	22%	15%	22%	21%
Quality of the converted content	18%	13%	18%	13%	16%
Digital Rights Management (DRM)	14%	17%	17%	15%	17%
Overall cost of eBook production	8%	9%	9%	8%	9%
Other	4%	8%	7%	7%	1%
Unsure	4%	3%	3%	2%	8%

Significant Points:

- "Content format and device compatibility issues" still rank as the greatest eBook publishing challenges across all publishing market segments, as they have in all three Aptara surveys, suggesting that publishers are concerned with the difficulty of getting their content to market.

  The eBook market still suffers from publishers' perception that they must pursue as many eBook formats as they can. Yet, the marketplace hasn't matured enough in terms of format standards, device operating systems, and digital workflow adoption to make this approach a practical reality. Though EPUB has helped ease the format struggle, it is still not fully incorporated into most publishers' eBook production processes.

(cont'd)

19) Challenges

What are/were the greatest challenges in bringing eBooks to the market?

(cont'd)

- "Distribution channel issues" are still the second biggest eBook publishing challenge across all publishing market segments, as they have been in all three Aptara surveys.

- "Digital rights management (DRM)" has lessened as a concern over the past year, representing barely half of the percentage of those concerned about "Content format and device compatibility issues."

- Publishers across all market segments seem less concerned about the cost of eBook production.

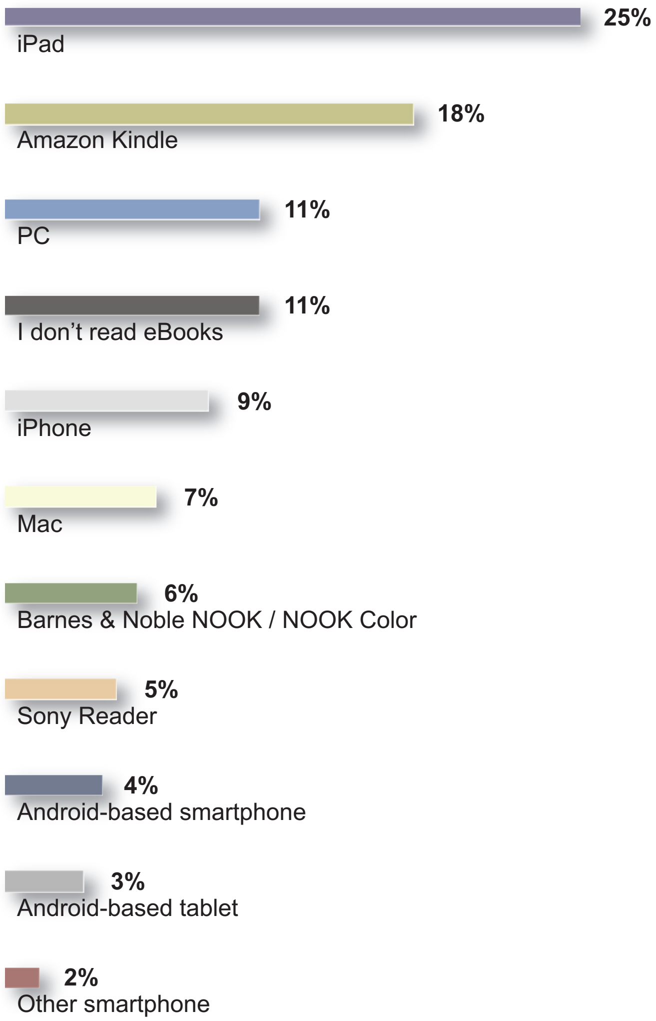
  The selection of "overall cost of eBook production" dropped 13 points, from 21% in last year's survey to 8%. Many more publishers are involved in eBook production now, and the systems and services available to help them have been in place in a competitive environment for some time, thus lessening the concern.

  When correlated with revenue growth from the eBook channel, this clearly indicates a shift in publishers' mindsets—to viewing eBooks as an investment and not a cost.

- "The quality of converted content" is a significant concern across all market segments—twice as important as cost, and matching the level of the moderating concern about DRM.

20) Preferred Personal eReader Device(s)

Which of the following devices do you personally use to read eBooks?



Publisher Type Breakdown	Trade	STM	College	K–12	Corporate
iPad	28%	23%	20%	29%	29%
Amazon Kindle	21%	14%	19%	14%	13%
PC	7%	15%	15%	12%	13%
I don't read eBooks	8%	15%	14%	8%	10%
iPhone	8%	10%	8%	10%	9%
Mac	6%	6%	7%	8%	7%
Barnes & Noble NOOK / NOOK Color	7%	4%	5%	6%	3%
Sony Reader	7%	3%	3%	4%	4%
Android-based smartphone	4%	5%	5%	4%	5%
Android-based tablet	3%	4%	3%	5%	4%
Other smartphone	2%	1%	2%	0%	2%

(cont'd)

20) Preferred Personal eReader Device(s)

Which of the following devices do you personally use to read eBooks?

(cont'd)

Significant Points:

- eBook readership among publishing professionals continues to grow across all publishing market segments, with Trade showing the greatest change.

  The findings across a period of two years show an interesting trend. In the first Aptara survey in 2009, 22% of all respondents reported that they did not read eBooks. In the current survey, this number drops to 11%, with Trade publishers experiencing the most significant decline—a 13% reduction in those who do not read eBooks from 2009 to 2011.

- The use of the Amazon Kindle grows, but only moderately.

  The percentage of respondents preferring the Kindle eReader has grown by only a few percentage points over two years. In data collected in 2009, the Kindle represented 12% of the eReader market among publishers, by 2010 it had increased by one point, and 2011 saw a 5% increase, to 18%.

- The iPad is the preferred eReader of publishers across all market segments.

  Not on the market in time to include in the 2009 survey, the iPad shows up in the 2010 survey, already claiming more users than the Kindle, with 16% of all respondents. A year later, the iPad is still readers' top pick with a 25% average response rate.

- The preference for iPad or Android-based tablets (28%) as a personal reading device is statistically tied with dedicated eReaders (29%).

- Computers—PCs and Macs—are still the preferred eReading device for nearly one out of every five respondents.

  In 2009, 28% of respondents preferred to read eBooks on their PCs and Macs, but in the two surveys since, this rate has dropped 10 points. As new devices continue to enter the market and tablet OS versions settle out, this declining trend is expected to continue.