

Chapter 4

Pricing Strategies for Digital Books: Issues and Directions for Research

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While the World Wide Web has impacted many industries significantly, none of them have been affected as dramatically as the publishing industry. The ability to deliver electronic content online and to distribute it in various forms instantaneously using the Web have opened up technological possibilities and consumer expectations that have left the industry grappling for new business models. Most of those running publishing businesses have finally come to a consensus about the importance of the Web to the future of the industry and are embracing the new technologies but with little guidance on how to best use the medium. They are aware of the pressing need to adapt to the much speedier efficiencies, strategies, and requirements of the digital channel while balancing them with non-digital strategies that continue to work but are looking for some guidance on how to move forward. In this chapter, we first describe some of the key trends and challenges faced by book publishers with the emergence of the digital arena. We then focus on the issue of pricing electronic books distributed online, especially in conjunction with books distributed through traditional channels. We outline some of the possible strategies that book publishers could adopt and examine the pros and cons of the different strategies in light of the features of the product marketed and consumer segments targeted.

INTRODUCTION

The recent developments in Web technologies have created immense opportunities for the publishing industry, but at the same time the speed with which these changes have arrived has created much confusion among managers as to how best to take advantage of the opportunities. As the market transitions from one that is primarily based on providing print products to one that delivers content comprised of bits and bytes, there are many challenges with which the industry has to grapple. In this chapter, we focus on the book publishing industry, examining business models for book publishers in this transitional stage and concentrating primarily on pricing issues. We first describe some of the key trends in the market and challenges that the technological advancement creates. We then turn to the issue of pricing electronic books, especially in conjunction and in comparison with books distributed through traditional channels. We describe some of the possible strategies that book publishers could adopt and then examine the pros and cons of the different strategies in light of the product features and the targeted consumers.

KEY TRENDS AND CHALLENGES

The U.S. publishing industry consists of three distinct segments: daily newspaper, book, and magazine with expected gross sales of more than \$125 billion by the year 2001. Although the three segments seem vastly different from a business model perspective, they have one significant thing in common—they are all evolving toward electronic media and they share many of the challenges that come with such a major change. While there is an immediate need for the publishing industry to adapt to the much speedier efficiencies of digital distribution and presentation, the benefits must be weighed in balance with the non-digital strategies that have worked for many decades and continue to work. For example, more than 95% of the books that are sold in the United States are still sold in printed form, and more than 70% of these books are sold through traditional retail outlets. Thus, any strategy that focuses on selling books in electronic form has to take into account consumer preferences and expectations regarding the many features of the books they purchase in print form. In addition, managers must do their best to predict what customers will want in the future regarding electronic content and not rely only on current consumer preferences (Christensen, 1997). Customers have trouble visualizing and communicating preferences about attributes or products that do not currently exist. And in this electronic age, new possibilities for innovative products and delivery systems arise daily, making long-term planning and building strategies for new business models even more daunting.

The book publishing world is characterized by a number of factors that have made moving to the digital world risky. Those responsible for the distribution systems for books for the general public have relied almost exclusively on the retail

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