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Digitisation of publishing: Exploration based on existing business models

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A B S T R A C T

Like other creative industries, the book publishing industry is currently experiencing a shift from analogue to digital technologies and formats. This shift challenges existing business models and impels firms to re-examine their product portfolios and core competencies. Through a qualitative case study of the three largest publishing houses in Norway, Aschehoug, Cappelen Damm and Gyldendal, this paper investigates how digitisation affects business models in the book publishing industry. The paper argues that the publishing houses are two-faced in meeting new digital technologies. The industry has come relatively far in developing industry standards and joint distribution systems. However, the functionality and user experience of digital products is still poor, prices are still high, and the share of Norwegian language digital titles is low. In addition, knowledge acquisition from consumers and lead users are suboptimal. Due to divergence in goals, formats and markets, there is a lack of a common dominant design for digital publishing. This represents a substantial uncertainty for the publishers, who are moving step-by-step into the new digital era and whose exploration of new market opportunities and alternative business models remains anchored in traditional and analogue business models. The paper also discusses how current institutions contribute to preserve the analogue publishing regime.

1. Introduction

> "*To survive, they themselves will have to plot the obsolescence of what now produces their livelihood.*"
>
> [(Levitt 1960:47)]

The book as we know it today has been more or less the same since the introduction of paper to Europe in the early 13th century. Although Gutenberg's invention of the printing press in 1440 and subsequent improvements to printing press technology has affected markets and production quality over the centuries, the art of writing, illustrating and binding have remained valuable forms of cultural expressions, and the age-old essential elements have remained unchanged. That is, until the new millennium, when the uptake of the Internet suddenly made possible the adoption and diffusion of digital technologies disruptive to the analogue publishing industry. Over the last decade a crop of new products have appeared, and online teaching platforms, e-reading devices, book streaming services and social forums have started to infiltrate the book market. Amazon currently sells more books in e-book format than paper [1].

How does digitisation affect business models in the book publishing industry? Based on a case study of the three largest book publishing houses in Norway this paper seeks to illuminate how the new challenges and opportunities of digital technologies affect the book publishing industry.

Theorisation on disruptive innovation has emphasised how the introduction of new technologies can restructure entire industries and replace prevailing business models [2]. Often, such large technological transformations go through different phases before settling into a new dominant design [3]. Although new technologies and altered consumer behaviour may require industrial restructuring and market reorientation, in many cases both firms and industries are largely influenced

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by their previous actions and current specialisations. Such path dependency may lead to myopia [4] or lock-in regarding product portfolios [5].

Other creative industries such as music [6,7], film [8] and advertising [9–11] have been struggling with digitisation for many years, and in moving from analogue to digital technological platforms, the business models of publishing may similarly experience fundamental alteration. Digitisation represents enormous challenges to the book publishing industry [12], and is likely to restructure publishing as we know it [1,13–16,26].

The scarce research and theorisation that so far exist on digitisation of book publishing has primarily been anchored in literature on organisation management. Existing literature can be divided into those dealing with the practical management of digitisation on a firm level [17–20] and those dealing with digitisation at an industry or national level [21–24]. In a similar vein, literature on business models also often tends to treat digitisation from a micro management's perspective [25,29]. Thus, with some notable exceptions [12,14,26,27] few contributions combine or connect the firm and industry level. It is hard to see how contributions on micro management relate to the wider industry and its networks and path dependencies. Indeed, writers such as [28] have researched the connection between policies and innovation in the book publishing sector, but without addressing digitisation. In this way there is a knowledge gap regarding the relationships between the effects of industrial infrastructure and policies on the industry as a whole, and how these conditions relate to competences, innovation and business models at the firm level.

This paper seeks to address this gap in the literature by discussing to what extent and how the business models of three prestigious publishing houses are affected by digitisation as well as discussing how ownership, industry organisation, networks and policies affect firm behaviour. In a context like Norway, with a small home market and strong cultural policies affecting the publishing industry, it seems particularly relevant to combine insights from the firm and industry level. Against this background the paper seeks to answer the following central research question: How does digitisation affect the business models in the book publishing industry? Subordinate research questions include: How do the publishers acquire new knowledge to adjust to the digital era? To what extent are institutional arrangements, such as cultural policies and ownership structures, influencing the digitisation of the book publishing industry?

The paper is structured as follows: Section 2 provides a theoretical framework for the study; Section 3 outlines the method applied; Section 4 presents the case study; Section 5 discusses the main findings of the paper; and Section 6 summarises the main conclusions.

2. Theoretical framework

This section presents theories that constitute the conceptual framework for the case study. Relevant theories on business models, digitisation of publishing and management of innovation will serve as starting points for the presentation and analysis of the case study.

2.1. Business models

A business model "articulates the logic and provides data and other evidence that demonstrates how a business creates and delivers value to customers. It also outlines the architecture of revenues, costs, and profits associated with the business enterprise delivering that value" ([25,29]:173). Business models should be built on a logical plan for bringing a product to the market and capturing a profit. An effective business model is important because it defines in what way, and to what extent, the firm is able to create and capture value. [30] operates with the notion of business model portfolios which refers to "the range of different ways a firm delivers value to its customers to ensure both its medium term viability and future development". Different types of models are based not only on the type of product, but also their distribution. [31] suggests that the business model both articulates the market the firm is working in, and places the firm within a value network of suppliers and customers. Examples of established business models include:

- The razor-blade model, where the initial product is priced inexpensively, and profit is secured through aggressive mark-up of the consumables.
- The subscription model, in which the consumer pays incrementally for access to content.
- The multiple revenue stream model, as in the case of musicians who earn via recorded music, live events, merchandise and licensing.
- The freemium model, where a service is offered for free, and revenue is created from advertisements or additional charged-for content.
- The crowdsourcing model, where the vast knowledge pool and resources of the user group is harnessed for problem-solving, funding or content creation purposes.

As [25,29] points out, the business model is "a conceptual, rather than financial, model of a business [in that it] makes implicit assumptions about customers, the behaviour of revenues and costs, the changing nature of user needs, and likely competitors responses" ([25,29], 173–4). Thus the business model does not only provide the logical architecture behind the production and supply of a product, but also a subjective understanding and response to the market and its needs.

The limits of perception that create path-dependency in a firm are both necessary and positive: without them it would be difficult, if not impossible, to remain focused in a complex reality. In this sense a business model can function as organisational glue. At the same time it can inhibit the uptake of alternative knowledge, and so may lead to a lock-in; a stable configuration resistant to change [32]. In this sense existing businesses facing a technological paradigm-shift have a challenging task. Due to constantly changing circumstances, organisations need to continuously monitor both the internal and the external environments [16]. As they are dependent on these changing external forces, business models must be capable of redesign and adaption.

Resembling Teece's definition, [16] list value proposition, cost structure, revenue model and market segment as the basic building blocks in any business model, and describe