BOOKS & BOOKS

WESTHAMPTON BEACH

A member of the Books & Books family
of independent bookstores

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LITIGATION III, ANTITRUST DIV.
U.S. DEPT. OF JUSTICE

April 19, 2012

Mr. John Read
Chief Litigation III Section
Antitrust Division
U.S. Department of Justice
450 5th Street, NW, Suite 4000
Washington, DC 20530

Dear Mr. Reed:

I am the president and co-owner of Books & Books Westhampton Beach, an independent bookstore located in the Hamptons section of eastern Long Island, N.Y. Prior to opening the store in July, 2010, I had spent over thirty years in the book-publishing world, serving as the CEO and co-founder of the Perseus Books Group, president and publisher of the adult trade group of HarperCollins, and publisher of the trade division of Simon & Schuster.

In January, 2010, I presented the results of an extensive survey of book-buying behavior that I had conducted during the preceding December in association with Verso Digital, a marketing/advertising agency specializing in book publishing for whom I consult. The survey was conducted online, had over 5,000 nation-wide respondents, and yielded a 1.5 percentage point margin of error. The survey was undertaken pro bono on Verso's part and unveiled at the first Digital Book World conference in New York City on January 19, 2010 before an audience of several thousand industry attendees. It generated considerable trade media attention, at a time when speculation was rampant in the industry regarding Apple's impending entry into the e-book business.

One of the survey questions dealt specifically with the subject of e-book pricing. It asked current e-reader device owners the following question: "What is the maximum price you would be willing to pay for an e-book that is published simultaneously with the printed hardcover edition?" The results of that question were presented in the attached presentation slide, under the headline: "E-book Pricing: A Developing Consensus." Approximately twenty-eight percent of the respondents stated that "under $10.00" represented their maximum; a further twenty-eight percent ranged in price tranches between $10.00 and $19.99; and thirty-seven percent said they were not sure of their maximum price threshold.

During my presentation, I highlighted the following implications:

1. The lower range, $10.00 and under, represented a relatively price-inelastic group of early adopters who believed that all e-books should be deeply discounted to so-called "Amazon pricing." They were indifferent to any argument or marketing efforts publishers could make about the added value attached to simultaneous e-book/print publication.
2. The middle range, focused around $12.99-$14.99, represented a relatively price-elastic sweet spot for publishers, appealing to twenty-eight percent of the market and likely to convert a significant portion of the thirty-seven percent who had not formed a distinct opinion about what e-books should cost. (In fact, subsequent surveys that we conducted would bear this out.)
3. Under a 70/30 agency model, the $12.99-$14.99 range also represented the publishers' point-of-indifference, where the gross margin per e-book unit sold would match that earned on a hardcover book (due to the lack of printing costs associated with the e-book). This would eliminate any publisher concern over the potentially cannibalizing effect of simultaneous e-book/print book publication. It would preclude the need for a windowing strategy, such as prevails in the film industry, to separate primary (hardcover) and secondary (e-book) releases by several months. This would be enormously beneficial to consumers by satisfying their desire for immediate digital access to newly published works of all types. It would lead to a dramatic growth in e-book sales as the market inevitably moved beyond early adopters and into the mainstream.

What is my point? In late 2009-early 2010, this pricing calculation was open and available to any senior executive in the publishing world who understood the basic supply-chain economics of their business. The consumer data presented in our survey verified it was the right approach. It cut through the windowing controversy like a knife. I certainly recognized it as the obvious choice in my role as an independent industry observer and former publishing CEO. As I stated above, the results of our survey were widely reported. It almost certainly would not have escaped the attention of any publishing executive wrestling with the right way to approach the expanding e-book market. I firmly believe that what might appear in hindsight as collusion was actually a logical and necessary step, recognized at practically the same moment by any number of industry professionals.

Thank you for your attention.

Sincerely,

Jack McKeown

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VERSO DIGITAL

E-book Pricing: A Developing Consensus

Maximum $ Willing to Pay for E-Books

Base: E-Reader Owners