

From: Murray, Brian (HarperCollins US)
Sent: Wednesday, January 27, 2010 10:29 AM
To: Hulse, Leslie; Redmayne, Charlie; Alessi, Ana Maria
Subject: Apple Cheet Sheet: Highly Confidential

Any comments on this? I'd like to talk to this and then share it after our call.

Timing: Key dates

Announcement today: new bookstore; new tablet; new reader app
Late March: devices shipped and store launched

What is an agency model?

It is where the Publisher sets the price to the consumer and the retailer takes a commission
Apple's commission is 30%

Windowing

We will make new releases (defined as at least the first 7 months) available to retailers on an agency model.

Implications:

If Amazon, B&N, and Sony want our books as new releases, they must adopt our agency model and terms.
We have just begun conversations with these partners.

Agency Model + Windowing = Strategic win

Publishers are now able to set the prices to consumers for new releases and the price will be the same across all customers.

We will no longer have retailers selling new ebooks below cost.

This should allow many retailers to build profitable ebook businesses

Pricing

Developed a grid with Apple with some maximum prices for hardcovers

e.g., if hardcover list price is between \$25 and \$27.50, then the ebook price will be \$12.99

if hardcover list price is between \$27.51-\$30.00, then the ebook price will be \$14.99

List prices of hardcovers below \$27.50 should possibly be increased.

Pricing of Childrens Picture Books, Cookbooks, Travel books, illustrated books, bibles and reference works – all can be priced however we choose to price them.

Paperback books will be priced from \$9.99 and down – our choice

Bestseller pricing

Strangely, when a book hits the NY Times printed Hardcover Fiction list, Hardcover NF list or Hardcover Advice How-to list, the price to the consumer must drop \$2 for that week. This reduces out margin and the author royalty – a disincentive to hit the list! We fought this to the end and lost!

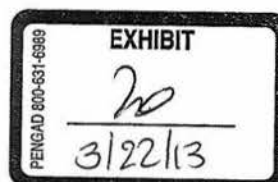
Author Royalty

Given the \$14.99 and \$12.99 price points and a 30% commission, authors will earn about \$2.50 per unit compared to over \$4 for a hardcover.

We fought the pricing caps and commission until the bitter end and lost. We were the 5th publisher to agree to these terms.

We still believe that a 25% net royalty is more than fair because the current royalty from all print editions is 18% across HarperCollins. A 25% net royalty is a 40% raise compared to the 18% net.

Many authors argue that their royalty should go up because we don't have to manufacture and ship books. That is true which is why we increased the royalty to 25% of net. Furthermore, Apple is giving the consumer ALL of the savings that we get from not having to manufacture and ship. The publisher is getting nothing!



Authors Can Opt Out of Apple

If an author doesn't want their book in the author store (say for pricing reasons), they can keep it out.

In that case, we can set a higher price and take the book to B&N, Sony and any other retailer to make it available at a higher price.

Why did we agree?

Strategically, we want Apple to have a large and successful book store and we want our books available on the iPhone and new tablet.

Apple has 110M customers that represent a terrific opportunity - a new channel - for our books and authors

Having another player besides Amazon is critical for the future of publishing

Introducing the Agency model allows publisher to set prices and better dictate the value of ebooks - and it ensures that Amazon doesn't "own" the ebook business

Next Steps:

We need to get files ready for Apple

We are starting discussions with Amazon, B&N, Sony and others to adopt the agency model

Agent and author communications need to be developed and worked out.

We need to review books on sale in April and set pricing for new books