

Amazon's greed may prove its undoing in e-book price war

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In a Salon piece about Amazon's \$1 million literary grant scheme (which is itself well worth reading) Alexander Zaitchik reveals that the Big Six publishers have shied away from Amazon's most recent contract renewal. He writes:

For the first time, the "Big Six" publishers — HarperCollins, Random House, Hachette, Simon & Schuster, Penguin and Macmillan — have refused to sign Amazon's latest annual contract. The main sticking point is exorbitant increases in "co-op promotional fees" for e-books that the publishers see as an illegal gouge by another name. One person familiar with the details of the proposed 2012 contracts that Amazon has submitted to major New York publishers described them as "stupifyingly draconian." In some cases, he said, Amazon has raised promotional fees by 30 times their 2011 cost.

PaidContent's Laura Hazard Owen then reported that at least two of the Big Six are definitely refusing to sign. She said that although a failure to sign "could end with their 'buy' buttons being turned off, it is more likely for now that the feud will result in less promotion of their titles on Amazon's website."

Amazon is still selling these publishers' books, Owen said, but isn't promoting them on its site the way it used to. One sticking point is the money that publishers have to pay Amazon to get their books promoted on the website. The concept of these 'co-op fees' comes from bricks-and-mortar shops which would charge publishers for the best placement in the shop. Amazon, unsurprisingly, decided to keep that model for its website. But now Amazon wants bigger discounts from publishers and higher co-op fees and the Big Six aren't happy about it.

TeleRead's Chris Meadows points out that the Independent Publishers Group, one of America's biggest independent book distributors which works with a large number of publishers large and small, also refused to agree to Amazon's renewal conditions. Said the New York Times in February:

"They decided they wanted me to change my terms," said Mark Suchomel, president of the Chicago-based I.P.G. "It wasn't reasonable. There's only so far we can go."

With each side unwilling to yield, Amazon pulled the plug, and all of I.P.G.'s books for Kindle disappeared. The physical books were not affected. A spokeswoman for Amazon declined to comment.

Of course, the Big Six aren't about to start making any decisions on Amazon's contract in a way that might look as if they've been talking about it. Apple and five of the six are already under investigation by the US Justice Department for alleged collusion over ebook pricing. The publishers and Apple agreed to use what's called the agency model, where publishers set the price of ebooks and Apple takes a 30 percent cut, rather than a wholesale model where the publishers sell titles at a discount and the bookstore adds their margin on top deciding the final price without input from the publishers. The agency model isn't illegal; the accusation is one of ebook price-fixing, which Apple and the publishers deny.

But what might happen if even just two or three major publishers decided not to renew with Amazon? Scott Turow, president of the Authors Guild, wrote in March:

Two years after the agency model came to bookselling, Amazon is losing its chokehold on the e-book market: its share has fallen from about 90% to roughly 60%. Customers are benefiting from the surprisingly innovative e-readers Barnes & Noble's investments have delivered, including a tablet device that beat Amazon to the market by fully twelve months. Brick-and-mortar bookstores are starting to compete through their partnership with Google, so loyal customers can buy e-books from them at the same price as they would from Amazon. Direct-selling authors have also benefited, as Amazon more than doubled its royalty rates in the face of competition.

If a couple of the major publishers refused to renew and pulled their ebooks from Amazon, it's seems likely that Amazon would lose even more market share. Amazon has been the 800lb gorilla in the book market for far too long, but with its share decreasing, the withdrawal of a couple publishers' catalogues might help to even the market out. Amazon, then, will have to decide whether it wants to take the publishers' terms or carry on without them.

I don't think it would be a bad thing for Amazon to no longer be the canonical source of books. We don't expect DIY stores or clothing stores to carry every single power tool or shirt available, so why do we expect online bookshops to carry every single title published? It might be more convenient for us not to have to shop around, but is it better for us, the readers, in the long term? In my opinion, no. Monopolies lead to anticompetitive behaviour, but squeezing the publishers results only in the squeezing of authors and they're the ones who end up bleeding out.

I happen to think that ebooks are hideously overpriced at the moment, but that's an issue I want to see resolved through dialogue between buyer and publisher, not through the imposition by Amazon of onerous terms and extortionate fees on the publishers. Because if Amazon controls the Big Six, what hope is there for any improvement in the way it treats self-publishers?

Fonte: Forbes, New York, 12 Apr. 2012. Disponível em: <<http://www.forbes.com>>. Acesso em: 13 Apr. 2012. On-line.

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