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Amazon in relation to trade publishers

An examination of the relationship between Amazon and large trade publishers on the basis of the Field theory

Book and Digital Media Studies

Master Thesis

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1. Introduction

*'The book industry rightly feels torn between resenting Amazon for its dominance and its mercenary attitude towards books, while relying on the company for business and appreciating that it has made books more accessible to buyers.'*¹

This quote appeared in *The Economist*, as a reaction to a dispute that Amazon had with the large publisher Hachette. In 2014 a dispute between Amazon and Hachette took place. The two companies had a disagreement about e-book pricing. Amazon wanted Hachette to lower its e-book prices and used 'aggressive negotiating tactics' in order for them to do so. The retailer actively discouraged consumers to buy books from Hachette, by for instance removing pre-order buttons or delaying shipment on books from the publisher. This had a huge impact on sales for Hachette and caused outrage amongst a lot of people.²

The quote illustrates the complicated relationship between publishers and the largest online retailer of the world, Amazon. On the one hand, Amazon reaches consumers and encourages them to buy books. The company has also brought some key innovations to the 'land of books' with for instance, its Kindle e-reader. But on the other hand, publishers are getting more and more dependent on Amazon for the sales of their books. Amazon is a powerful player in the field of books and it is expanding greatly worldwide. For instance, last year Amazon.nl was launched in the Netherlands and the company currently has websites in thirteen other countries. The dispute with Hachette illustrates Amazon's dominant position and that the retail giant is not afraid to openly use this position for its own needs. The influence of Amazon on trade publishers is palpable and not to be underestimated.

The importance of online book shopping has grown immensely. For example, in the United Kingdom (UK) the overall book sales decline each year, but the online share of the book market continues to increase as an overall proportion of book sales in the UK.³ Moreover, *The Bookseller* reported that in 2014, online books sales overtook in-store sales for the first time. So in a market that is declining, online book sales are increasing.⁴ In this paper I will examine the relationship between the largest online bookseller, Amazon, and trade publishers.

¹ 'From papyrus to pixels: The digital transformation of the way books are written, published and sold has only just begun', *The Economist*, 4 November 2014.

² H. Ellis-Petersen, 'Amazon and publisher Hachette end dispute over online book sales', *The Guardian*, 13 November 2014.

³ A. Laing and J. Royle, 'Bookselling online: An Examination of Consumer Behaviour Patterns', *Publishing Research Quarterly*, 29:2 (2013), p. 111.

⁴ J. Farrington, 'Online book shopping overtakes in-store for first time', *The Bookseller*, 25 March 2015.

In the book *Merchants of Culture* John Thompson analyses the field of trade publishing in America and England. He applies Pierre Bourdieu's 'Field theory' on the field of trade publishing and the positions of publishers in their field. He lists five forms of capital that are the key resources of a publishing firm.⁵ These resources, or forms of capital, can be exchanged with others in the field to gain more capital or to improve the position one has in the field. In this paper I will apply Thompson's interpretation of the Field theory to Amazon's position in relation to publishers in the book trade. Thompson's analysis stems from 2010 and focuses mainly on publishers. However, I will use the theory for a different angle. The theory of Bourdieu will be used to do a similar analysis as Thompson did in his book, but here a retailer in the book trade will be analyzed. How has Amazon gained, used and exchanged its different forms of capital? And how has this influenced the company's position in the book trade and its relationship with publishers? I will examine how the exchanges of capital between Amazon and trade publishers have led to a rise in dominance of the company. First the Field theory and how it can be applied to study Amazon will be discussed. What does the theory entail and what are the different forms of capital that Thompson has formulated for the field of trade publishing? Second, Amazon and its history will be discussed. It is important to know more about the background of the company in order to be able to understand its position in the field of trade publishing. After this, I will discuss the following chapters of this paper.

1.1 The Field theory

The Field theory originates from the French sociologist Pierre Bourdieu.⁶ The theory is based on the principle that any social arena can be seen as a 'field', which is 'a structured space of social positions whose properties are defined primarily by the relations between these positions and by the resources attached to them'.⁷ This paper will examine the book trade field, a field where agents like trade publishers, retailers and authors work to make, sell and earn money from trade books. The relationships are fluent and subject to change as positions in the field shift. Field theory is fundamentally relational in character and it assumes that the actions of organisations and other actors are oriented towards each other and based on how others in the field might act. Every position, even the dominant one, depends on the other positions constituting the field.⁸ Organisations and agents are linked together through relations like cooperation, interdependency or competition and these relations are maintained by exchanging resources or capital. In *Merchants of Culture* Thompson applied the Field theory to trade publishing, in order to gain insight in the

⁵ J. B. Thompson, *Merchants of Culture (second edition)* (Cambridge: Polity Press, 2012), pp. 3-5.

⁶ P. Bourdieu, *The Field of Cultural Production: Essays on Art and Literature*, ed. R. Johnson (Cambridge: Polity Press, 1993).

⁷ J. B. Thompson, *Books in the Digital Age* (Cambridge: Polity Press, 2005), p. 30.

⁸ Bourdieu, *The Field of Cultural Production*, p. 30.

workings of the field. He has listed five types of resources that are important for the positions and relations that actors and organisations have in the field of trade publishing. These are ‘human capital’, ‘social capital’, ‘economic capital’, ‘intellectual capital’ and ‘symbolic capital’.⁹

Human capital consists of the people working in an organisation and the accumulated skills and knowledge that they have. For an online retailer like Amazon the human capital for example includes a product manager’s marketing skills and the sales staff member’s negotiation skills. At a publisher the skills and expertise of the employees are also very important. Their human capital includes an editor’s expertise in a specific publishing domain like fantasy or non-fiction. Good editors are needed to recognize and attract books that will be successful. *Social capital* consists of the network and relationships that the organization and individuals have constructed over time. It also includes the goodwill and network of consumers backing an organisation or company. This form of capital is especially important in the book trade. Healthy social relationships with for example agents and retailers are very important for publishing houses, because they rely on those agents for the acquisition and distribution of their books. Social capital is also important for Amazon. Relationships with publishers are important for the company, for they are its main supplier of content and Amazon has a lot of advertisement deals with publishers. Furthermore, there is a great value in the social capital of consumers, something that Amazon exploits actively. The company gathers and uses a lot of information about consumers and their behaviour on its website. It also makes use of consumer generated content, like reviews of customers on the product pages of books. Chapter two will further discuss Amazon’s use of consumers’ social capital.

Economic capital is the accumulated financial resources to which an agent or organisation has access, either direct or indirect (for example access to a parent company’s resources).¹⁰ With commercial companies like retailers or some publishers, economic capital is important for their shareholders. Moreover, economic capital is important for investing. Publishers have to draw on their financial resources to build and expand their business. At several stages of producing a book, a publisher has to invest money: paying typesetters, printers, etc. A publisher’s economic capital also influences the level of royalty advances that it can offer in the highly competitive game of acquiring books and the marketing and promoting it can do for its titles.¹¹ For Amazon economic capital is important for the resources it can invest in the field. An example is digital reading, where Amazon invested a lot of money and resources in the development of the kindle e-reader.¹² *Intellectual capital* consists of the rights that a publisher owns or controls of intellectual content.¹³ The books it

⁹ Thompson, *Merchants of Culture*, pp. 3-14.

¹⁰ Idem, pp. 5-6.

¹¹ Thompson, *Books in the Digital Age*, p. 31.

¹² J. Merkoski, *Burning the Page* (Illinois: Source-books, 2013), p. xii.

¹³ Thompson, *Merchants of Culture*, pp. 6-7.

publishes are reliant on these rights. So the value of intellectual capital is fluid, depending on whether the book is actually produced and how successful it is. *Symbolic capital* is the status and prestige that is associated with a publisher or company and the recognition and respect accorded to them.¹⁴ This is important for publishers for numerous of reasons. A publisher or an imprint of a publisher can be seen as a 'brand', something that distinguishes it from the rest of the publishers in the field. Its symbolic capital, its reputation, strengthens the position it has in the network of the field. Symbolic capital is for example important in the acquisition process, it makes a publisher more attractive to agents and authors when they have a good reputation in a particular genre. Or as Arnoud Nourry (chairman and chief executive of the large publishing house Hachette Livre) said in an interview with *The Bookseller*: 'our creative capacity through our authors gives us a symbolic strength and consequently bargaining power'.¹⁵ So its intellectual capital (acquired by exchanging economic capital) gains a publisher more symbolic capital, which in turn strengthens a publisher's negotiation position. For Amazon symbolic capital is important to gain customers. It has to appear trustworthy, with a good quality of products and service. If a (online) company has a bad reputation, then consumers are less likely to buy their products there.

According to Thompson, the most important forms of capital in the publishing field are economic and symbolic capital. These two forms of capital shape the field of trade publishing most and are predominantly important in determining the competitive position of a firm within the field.¹⁶ The trade publishing field is a very competitive one. Publishers compete not only with each other for attention and content from authors and agents, but also for the attention of retailers and consumers. Publishers with the most economic and symbolic capital often have the strongest positions in the field. This enables them to compete effectively with other firms. Small firms have a more vulnerable position, with less capital to exchange in order to gain more capital and to improve their position in the field. For retailers in the book trade, both economic and symbolic capital are important as well. Economic capital is for example important for Amazon because it is a listed company that needs to earn money for its shareholders. Economic capital is also relevant for the amount of books the retailer can have in stock. This also contributes to its symbolic capital: the bigger Amazon is, the greater its reputation. Having a reputation like 'the biggest bookstore' is important for Amazon, for it attracts consumers and it gives the company a better position in negotiations with publishers and suppliers. However, Thompson's analysis of the field stems from 2010 and it does not adequately take the current online environment into account. I will argue in this paper that social capital has become very important in the book trade field. The possibilities that social capital can offer have

¹⁴ Thompson, *Merchants of Culture*, p. 8.

¹⁵ F. Pault and B. Cassasus, 'Hachette Livre's Nourry discusses Amazon and e-books', *The Bookseller*, 2 April 2015.

¹⁶ Thompson, *Merchants of Culture*, p. 9.

grown significantly. Technology now allows gathering information on individual internet users and their behavioural patterns. All this information on consumers is very important for retailers, the data can be used to gain insight in their customers and how to best sell them books. It also allowed for new techniques (like personal recommendations) to improve sales, which I will further discuss in chapter two. Social capital thus became an important resource in the book trade.

1.2 The rise of Amazon

Legend has it that Jeff Bezos, Amazon's founder, had an 'eureka moment' in May 1994.¹⁷ He learned that internet usage was estimated to grow by 2300 percent annually. Filled with excitement about these numbers, Bezos quit his job and moved with his wife to Washington State, home of a lot of high-tech industry leaders. The website for 'Earth's Biggest Bookstore' went live in July 1995, though it was still based in Bezos's garage in Seattle at that time.¹⁸ The founder of Amazon started with selling books and this was not a coincidence. After listing twenty possible retail goods that he thought could be marketed well on the internet, Bezos decided to go with books for several reasons. He recognized that selling books online has a potential advantage over the physical bookstores: there are for example far too many titles to take in stock for a single bookshop.¹⁹ Bezos also thought that books would be relatively easy to integrate into his company's inventory and distribution systems.²⁰ The book industry at that time was already rather standardized, thanks to the International Standard Book Number (ISBN). ISBN is a code that contains detailed information about the particular book and is unique for every book. The introduction of the ISBN and the development of computer and database technologies, has enabled the different agents in the book field to better coordinate their activities with each other. Because every title now had its own, unique number that all companies and enterprises worked with.²¹

When the website of Amazon first went live in 1995, the company could only afford a small warehouse. Because the company could only stock a small number of books, Bezos located the company's headquarters close to a major book distributor (Ingram Book Company). During that time Amazon only had a small inventory of the most popular titles, due to the limited warehouse space. So the delivery time was not ideal, something Amazon wanted to improve. As the company grew and more economic capital came in, a bigger warehouse could be rented in 1996. This led to a better delivery time, but the distribution center lacked the ability to scan EAN barcodes, so the ISBN's of the books. Both this and the inventory of two hundred thousand titles, resulted in numerous amounts of

¹⁷ T. Striphas, *The Late Age of The Late Age of Print* (New York: Columbia University Press, 2009), p.81.

¹⁸ Idem.

¹⁹ S. Kotha, 'Competing on the Internet: The Case of Amazon.com', *European Management Journal*, 16:2 (1998), pp. 212-222.

²⁰ Striphas, *The Late Age of Print*, p. 102.

²¹ Idem, p. 92.

data entry by hand.²² It was not until the beginning of 1997 that the system became more efficient with the introduction of computer-controlled bar-code scanning systems. At the end of 1997 Amazon opened a second distribution center on the east side of the United States (US), improving delivery time there. Amazon added five new warehouses in 1999, all strategically located throughout the United States. And in 2000, a sixth distribution center was added.

The revenue that Amazon currently makes on its book sales, both paper books and e-books, is \$5.25 billion. The company's total revenue per year is \$75 billion, so book sales account for 7% of Amazon's total amount of revenue.²³ In comparison, the revenue of Barnes & Noble per year is \$6.2 billion and this includes their offline sales (in their department stores), their online sales and their sales in other categories than books.²⁴ Amazon however has websites in fourteen countries and delivers to even more countries. The countries include the United States, United Kingdom & Ireland, Canada, Germany, Italy, Australia, Brazil, China and India.²⁵ The amount of customers that bought products at Amazon grew exponentially over the years. In 1999 approximately 6.2 million people shopped at Amazon. By 2000 this number had grown to 20 million people.²⁶ And in the last fifteen years Amazon grew even bigger, and it currently has more than 244 million active users.²⁷

As said, only 7% of Amazon's yearly revenue stems from book sales.²⁸ So most of the company's money is earned from other product categories, like electronics. Amazon sometimes makes a loss on book sales, using cheap books to lure customers into buying products from other, more profitable categories like clothes. In 2003 for example, Amazon priced the new Harry Potter book extremely low, in order to attract more customers.²⁹ Supermarkets are another example of companies that successfully stimulate cross-category shopping among customers. By for instance pricing their bread very low, they attract customers that may also shop in the non-food department and buy books or magazines. Besides, it is not without reason that when Amazon starts in a new country, it starts with selling (e)books. An example is Spain, where Amazon.es was launched in 2011. Amazon.es at first only sold e-books, but now, four years later, the online retailer sells products in a wide range of categories.³⁰ This indicates that Amazon prefers books as the category to start with

²² Idem, p. 102.

²³ J. Bercovici, 'Amazon vs. Book Publishers, By the Numbers', *Forbes*, 2 October 2014.

²⁴ 'Barnes & Noble Inc.', *The New York Times*, <<http://topics.nytimes.com/top/news/business/companies/barnes-and-noble-inc/index.html>> (15 June 2015).

²⁵ 'Amazon.com', *Wikipedia*, <<https://en.wikipedia.org/?title=Amazon.com>> (15 June 2015).

²⁶ Striphos, *The Late Age of Print*, p. 103-104.

²⁷ T. Duryee, 'Amazon adds 30 million customers in the past year', *Geekwire*, 21 May 2014.

²⁸ Bercovici, 'Amazon Vs. Book Publishers'.

²⁹ L. J. Miller, *Reluctant Capitalists: Bookselling and the Culture of Consumption* (Chicago: University of Chicago Press, 2006), p. 148.

³⁰ G. Neill, 'Amazon launches in Spain', *The Bookseller*, 14 September 2014.

and thus is a category from which the retailer can expand to other categories. I will discuss this chapter further in chapter three and four.

Being an online shop instead of a physical one, has its benefits and challenges for Amazon. Online shoppers for example are less loyal customers. Attracting and retaining customers is therefore critical for the success of online retailers, in a field where consumers tend to shop 'convenience oriented'. The internet and search engines make price comparisons between different shops relatively easy.³¹ And once an online consumer does become a loyal customer, he tends to not only buy more products, but a loyal customer also more frequently refers new consumers to the preferred online retailer.³² Having both symbolic and social capital is important for an online web shop like Amazon, because it stimulates consumers to come back for more. Chapter two will discuss the importance of symbolic and social capital for online retailers further.

Amazon exploits the benefits that online retailing can offer for its customers keenly. These benefits include a large variety in products, low prices, convenience, original services, personal attention and easy access to information.³³ Amazon is always open, it offers a very large variety of titles and it offers services that physical bookshops cannot offer. Consumers can for instance receive e-mails with personal recommendations, based on what they bought or searched for on the website, or have their products delivered to their homes. The online retailer is also 'adapted to the culture of the internet'. It allows customers to review products and have discussions with each other on its forum. Amazon created an environment where consumers can interact with other consumers and with the company itself, answering to the social needs of consumers. This enables the company 'to build new and deeper relationships with customers',³⁴ adding to Amazon's social capital. The data gathered from the social interactions and behavior of consumers is important for Amazon's economic and social capital. It is information that helps Amazon with creating better services for its customers, being able to anticipate and provide for their needs and interests. It can help the website to provide personalized online shopping environments, which can potentially improve the online experience for consumers and enhance their loyalty.³⁵ Another part of Amazon's success are the technological innovations that Amazon has presented over the years.³⁶ Harvard Business School Professor Clayton Christensen, coined the term 'disruptive innovation'. A disruptive business

³¹ L. Zhou, L. Dai, and D. Zhang 'Online Shopping Acceptance Model - A Critical Survey of Consumer Factors in Online Shopping', *Journal of Electronic Commerce Research*, 8:1 (2007), p. 41, 48.

³² Zhou et al., 'Online Shopping Acceptance Model', p. 55.

³³ Idem, p. 41.

³⁴ Kotha, 'Competing on the Internet', pp. 217-218.

³⁵ Zhou et al., 'Online Shopping Acceptance Model', p. 56.

³⁶ S. Curtis, 'The Innovations That Took Amazon From Bookseller To Dominant Global Marketplace', *Business Insider*, 15 October 2013, <<http://www.businessinsider.com/the-innovations-that-took-amazon-from-online-bookseller-to-dominant-global-marketplace-2013-10>> (3 June, 2015).

'disrupts' the market by innovating at the bottom of the market and then relentlessly moving up in that market, to eventually displace established competitors.³⁷ Amazon is an example of such a disruptive business. It started at the bottom of the market with new technologies and offered new services to consumers that were 'cheaper, better and more convenient than ever before'.³⁸ An example is the 'recommendations-feature' of the website. On Amazon.com, personalized recommendations are displayed on the website and consumers can also receive e-mails containing these recommendations. They differ for every customer, because these recommendations are partly based on the items that the customer previously bought, reviewed or searched for on the website. This is a service that could not be matched by physical bookshops. Another example of a disruptive technology that Amazon launched in the field of publishing, is the Kindle e-reader. The first Kindle was launched in 2007,³⁹ which prompted the 'e-book revolution'. Chapter three will examine Amazon's role in the rise of e-books and e-readers more closely.

1.3 Structure of the thesis

Publishers rely on retailers for the distribution of their books. Amazon is the biggest online retailer in the field of bookselling and its position in the field of publishing is partly shaped by being a channel for publishers to reach consumers. In order to answer the research question, it is therefore important to first have a look at the circumstances around the rise of Amazon. How is it possible Amazon has grown into its dominant position in the book trade field? Internet was a 'new' channel for publishers to reach consumers and at the end of the 90s, online retailers had already grown into big players in the field of bookselling. Online retailing gives publishers new opportunities of reaching and encouraging consumers to buy their books.⁴⁰ Therefore the second chapter will also discuss the internet as a channel for publishers to sell books and reach consumers. What are these opportunities and benefits of online retailing for publishers? And what is the role of Amazon in this? The focus with both of these questions will lie on the exchanges of capital between Amazon and publishers. Which forms of capital are exchanged in online retailing?

The third chapter will discuss Amazon and its role in the e-book market. The company invested a lot into this sector of the field, which has helped Amazon obtain a uncommonly dominant position in this part of the book trade. Since the launch of Amazon's Kindle, the share of e-books in book sales grew exponentially. And by 2013, Amazon controlled about two thirds of the entire e-

³⁷ C. Christensen, 'Disruptive Innovation', *Claytonchristensen.com*, <<http://www.claytonchristensen.com/key-concepts/>> (12 October 2015).

³⁸ C. Christensen, T. Craig and S. Hart, 'The Great Disruption', *Foreign Affairs*, 80:2 (2001), p. 81.

³⁹ S. Levy, 'Amazon: Reinventing the Book', *Newsweek*, 11 July 2007, <<http://www.newsweek.com/amazon-reinventing-book-96909>> (3 June 2015).

⁴⁰ Thompson, *Merchants of Culture*, p. 333-334.

book market in America.⁴¹ This had a big influence on the position of Amazon in the field of publishing and is therefore important to analyse in this paper. So the third chapter will discuss the rise of e-books and what this meant for Amazon's position in the field of trade publishing. What forms of capital did Amazon exchange and gain in its rise to the top of e-book sales? I will give some examples of Amazon's tactics in negotiations on e-book prices to illustrate how Amazon uses its capital and its position in its relationship with publishers.

The fourth chapter will discuss how online retailing of books and e-books, and the accompanying power position of Amazon influenced the relationship between the retailer and publishers. What forms of capital has Amazon used and exchanged with publishers and how can and did the company use its dominant position during negotiations? This can differ per country, because each country has its own set of rules when it comes to the book and retail industry. Therefore, in this chapter I will discuss per country or region how Amazon can and has used its position during negotiations. I will study how Amazon can and has used its dominant position in the exchange of capital with publishers.

These chapters will be followed by a conclusion, where I will discuss the findings and the research question. It will be argued that Amazon grew into a dominant position and that it uses this dominant position to pressurise publishers during negotiations. At the same time, Amazon also innovated the book industry and publishers are very happy with the broad audience they can reach through Amazon. Besides, Amazon is not the only dominant player in the book trade field and is also not the only player that uses its position to pressurise others. Amazon is just one example of a dominant player in a field that uses its position to gain more from the other actors in that field. Supermarkets for example also use their powerful position to receive higher discounts from publishers. Other powerful players and how they 'bully' publishers will also be discussed in chapter four. The conclusion will be followed by some suggestions for future research.

⁴¹ K. Gessen, 'The War of the Words', *Vanity Fair*, December 2014.

2. Online retailing

In *The Late Age of Print*, Ted Striphas argues that Amazon is not just the result of one man, but that Amazon's starting point originates from certain 'conditions' that stimulated the rise of online booksellers.⁴² He claims these conditions were changes in the norms and protocols for inventorying, warehousing, and communicating about books in America. An example is the introduction of the ISBN, mentioned earlier. These changes both originated from and further stimulated the arrival of large-scale retail bookselling in the second half of the twentieth century.⁴³ Publishers usually did not sell to consumers directly, but had to depend on booksellers for the distribution of their books to consumers. Because of the rise of large retail chains in the United States, a small set of key retailers 'has come to wield enormous power in the field of trade publishing'.⁴⁴ Amazon is an example of one of those key retailers. It has a dominant position in the field of the book trade and holds a large market share of online bookselling. How did Amazon get there? What were the changes and conditions that Striphas mentions, that enabled Amazon to rise to this powerful position? In this chapter I will examine the rise of the internet as a new channel for booksellers and publishers. First the polarization of the book trade and the rise of large retail chains in the United States will be discussed. America is where Amazon was founded and grew into a key player in the field of books. Knowing the conditions and circumstances around the rise of Amazon is important to be able to understand how the company gained its powerful position. Second, online retailing will be discussed. When the online retailer first started in 1995, it made clever use of the several advantages it had over the physical bookshops. Important examples are its infinite shelf space, its personal recommendation services, the convenience of home shopping and its ability to cater to audiences that are thinly spread in the US. The company found a void in the book trade which it could fill and exploit. It is important to examine the opportunities and benefits Amazon offered, in order to understand how the online retailer could grow into the large company it is now.

2.1 Rise of the big publishing companies and the large retail chains

At the beginning of the twentieth century, bookselling in the US was primarily done by independent bookstores and a variety of 'non-book retailers' like newsstands, drugstores and department stores.⁴⁵ The bookstores focused on the more educated consumers, whilst the non-book retailers tended to provide for a wider range of the public.⁴⁶ After the Second World War, 'Wall Street' discovered the

⁴² Striphas, *Late Age of Print*, p. 93.

⁴³ Thompson, *Merchants of Culture*, pp. 50-51.

⁴⁴ Idem, p. 51.

⁴⁵ Miller, *Reluctant Capitalists*, p. 23-24.

⁴⁶ Idem, p. 37.

publishing industry and this caused thorough changes in the organizational structure of the field.⁴⁷ Large companies became interested in publishing at a time when several owners of publishing houses took an interest in selling their businesses. This led to 'a wave of mergers and acquisitions' in the publishing industry.⁴⁸ From the 1960s until the early 1980s, selling their company was interesting for several of the great trading houses. Many of them were founded in the early twentieth century by entrepreneurial individuals and selling their companies was a way of retirement. It secured the future of the businesses that the entrepreneurs had built.⁴⁹ From the beginning of the early 1980s, the selling and merging of publishing houses became interesting for another reason. Due to the growth of retail chains, the potential sales that could be accomplished with bestselling titles grew enormously. The achievable volume of sales of a title increased significantly when all the shops in a chain paid a lot of attention to it, giving it a lot of visibility to consumers. However the risks and the costs that were involved, grew as well. Literary agents had become key players in the field and they were able to play the publishing houses off against each other to earn the biggest advances for their authors. Symbolic capital had become less important than economic capital in acquiring new novels. The advance that a publisher could offer became more important than the prestige and reputation of a publisher. Because of this, it became hard for the small independent houses to rival with the large publishing companies. This was one of the factors that made it interesting for independent houses to sell out to, or merge with, other companies.

Besides, the companies that were interested in buying the publishing companies, gradually changed from Wall Street companies to large international media conglomerates. Conglomerates like Lagardère from France or Bertelsmann from Germany saw the US and the UK as a way of expanding their businesses, for their language areas are much smaller than the English-language market. And for large English companies that operated outside of the US (like Pearson), it was interesting to expand to the States because of the large scale of the market and its significance as a creative centre.⁵⁰ All these mergers and acquisitions led to the outcome that at the end of the 1990s, around the time Amazon started, there were four large and powerful publishing houses in the trade publishing field of the US: Random House, Penguin, HarperCollins and Simon & Schuster.⁵¹ This has not changed much since. Penguin and Random House merged in 2013,⁵² and the now three

⁴⁷ Miller, *Reluctant Capitalists*, p. 40.

⁴⁸ Thompson, *Merchants of Culture*, p. 103.

⁴⁹ Idem, p. 104.

⁵⁰ Idem, p. 108-110.

⁵¹ Idem, p. 113.

⁵² J. Bosman, 'Penguin and Random House Merge, Saying Change Will Come Slowly', *The New York Times*, 1 July 2013.

companies are still on the current list of the biggest trade publishing houses in the US. Together with Hachette and MacMillan they are called 'the Big Five' in publishing.⁵³

Large corporations like Hachette have an advantage of scale over the medium-sized and smaller publishing corporations.⁵⁴ These benefits of scale include various practical issues, like organising the back office, investing in IT and dealing with suppliers such as typesetters and printers. Another important benefit of scale is the increase of economic capital. This allows publishing houses to compete for top-notch authors, because literary agents ask for big advances. About 20% of the top authors generate 80% of the revenues of many trade publishers,⁵⁵ so it is important for publishing companies to support such money-generating authors. Having more economic capital also allows a corporation to 'take a hit', which is convenient because it cannot always be foreseen which books will be bestsellers and which will not. Large corporations are better able to deal with the risks, because they have more economical capital to fall back on.

Most importantly in light of this paper, large corporations benefit from scale during negotiations with retailers. Convincing the largest book chains and retailers to carry certain titles is vital for publishing companies, because of their dependence on retailers for the distribution of their books.⁵⁶ This was especially the case at the beginning of the twenty-first century. Publishers did not yet have their own websites to sell books through,⁵⁷ and the largest part of their sales came from a small set of key retailers. Large publishers are in a much stronger position to resist pressure for better terms from key retailers like Amazon. Thompson even claims that the continued growth of large publishing corporations is a defensive reaction to the growing power of the retail chains: to be able to resist a big player, you have to be a big player.⁵⁸ In an article of *The New York Times*, this claim is supported in a report on the merger between Penguin and Random House. The reporter points out that the two companies combined would make up for 25% of the book trade market and thus have become 'the biggest and most dominant publisher in the business, one that has unmatched leverage against Amazon.com'.⁵⁹

Being a large publishing house is a big advantage in negotiations with large retailers, but it is not the only reason for the growth of the large publishing corporations. Next to the previously

⁵³ A. Quinn, 'Book News: 'The Big Five' Publishers Absent from Amazon's New E-Book Service', *NPR*, 21 July 2014, <<http://www.npr.org/sections/thetwo-way/2014/07/21/333549534/book-news-big-5-publishers-absent-from-amazon-s-new-e-book-service>> (15 July 2015).

⁵⁴ Thompson, *Merchants of Culture*, p. 147-152.

⁵⁵ A. N. Greco, 'The Economics of Books and Magazines', in A. Alexander, J. Owers, R. Carveth, C. A. Hollifield and A. N. Greco (eds), *Media Economics, Theory and Practice* (New Jersey: Lawrence Erlbau, Associates, Inc, 2004), p. 134.

⁵⁶ Greco, 'The Economics of Books and Magazines', p. 128.

⁵⁷ Some publishers, like HarperCollins, also sell their books through their own websites. 'HarperCollins Tries Direct Sales', *Publishers Weekly*, 8 July 2014.

⁵⁸ Thompson, *Merchants of Culture*, p. 147-152.

⁵⁹ Bosman, 'Penguin and Random House Merge', *The New York Times*.

mentioned examples of advantages like scale, the growth of the large publishing companies is also partly due to the fact that many of these large companies are publicly owned. Many of these publicly owned publishers have to make a profit and a year-on-year growth, which can be accomplished easiest by buying smaller publishing houses.⁶⁰ The book market however has been declining: book sales decreased significantly over the past years,⁶¹ and the number of people who read books has shrunk as well.⁶² So not just the growing power of retailers was an incentive to merge and grow for large publishing companies. The expectation of growth in a 'flat' market can also be seen as an important stimulus for the growth of the big publishing corporations.

Along with the rise of the large publishing houses, bookselling chains also grew. Until the 1960s America did not have many large bookselling chains, only a few that were modest in size. The 'traditional' pattern of bookselling in the US gradually began to change in the 1960s, due to the rise of shopping malls. The shopping malls 'became the new locus of the American retail trade',⁶³ as a result of the suburbanization of the middle class. Bookstores were opened in these malls and they were very successful throughout the 1970s. A lot of these bookshops were part of a chain, like B. Dalton Booksellers and Waldenbooks.⁶⁴ Real estate in malls was rather expensive, so the bookshops that were situated there had to organize their shops in such a way that they maximized their sales and stock turnover. The small shops in malls and shopping centers thus focused on the bestselling titles and emphasized self-service. They used discount marketing techniques and smart placements in the front of the shops to sell as many copies of popular titles as possible.⁶⁵ With the help of computerized stock systems, the bookshops made sure that the bestsellers were never out of stock and that books that were not selling could be returned.⁶⁶ At that time, books were also being sold through supermarkets, which had a focus on bestselling titles as well. The success of bookselling in malls and supermarkets showed that American consumers were willing to give up the (independent) bookstores' 'dignified and knowledgeable' presentation of books, in favor of 'outlets that emphasized self-service and that sold books out of bins'.⁶⁷ This significant change was one of the conditions that helped Amazon become successful: self-service is a vital aspect of shopping on Amazon.com and its promotions focus on discounts and bestsellers.

⁶⁰ Thompson, *Merchants of Culture*, p. 393-395.

⁶¹ A. Flood, 'Sales of Printed Books Fall By More Than £150m in Five Years', *The Guardian*, 13 January 2015.

⁶² 'Decline Reading in the US', *EBSCO Host Connection*, <<http://connection.ebscohost.com/literature/literacy/decline-reading-us>> (7 July 2015).

⁶³ *Idem*, p. 27.

⁶⁴ *Idem*.

⁶⁵ Miller, *Reluctant Capitalists*, p. 49.

⁶⁶ Thompson, *Merchants of Culture*, p. 34.

⁶⁷ Miller, *Reluctant Capitalists*, p. 40.

At the end of the 1980s the construction of new malls slowed down. The popular malls were becoming increasingly expensive for the booksellers to rent a shop in and the smaller malls were losing their appeal for consumers.⁶⁸ The small bookshops in malls and shopping centers were gradually obscured by the rise of book superstores like the chains of Barnes & Noble and Borders.⁶⁹ The superstores were new formats of bookselling chains. They incorporated the same practices as their predecessors, with computerized stock management and the focus on bestselling titles. However, they had much more space than the bookshops in the malls, which gave them more room in terms of the range and depth of their stock.⁷⁰ This meant inventories of over 30,000 titles, sometimes even over 100,000 titles.⁷¹ Their large and diverse stock gave the superstores the opportunity to not only cater the masses with popular titles, but to also tend to the needs of the higher-educated customers who sought the literary depth that independent booksellers were known for. The superstores grew over time and by 1995 the average superstore carried around 125,000 book titles and other sorts of media. Towards the end of the 1990s, the two largest companies, Barnes & Noble and the Border Group, accounted for nearly half of the bookstore sales.⁷² At that same time online retailers had become players in the field of bookselling, with Amazon entering the bookselling market in 1995.⁷³ It started immediately with an enormous catalogue of books and a focus on bestsellers, much like the characteristics of the superstores. However, where the superstores carried up to 150,000 titles, Amazon listed millions. This enormous range of titles was a big advantage for the online retailer compared to the physical stores. Besides an enormous catalogue, internet retailing offered even more benefits, which I will discuss below.

2.2 The book trade and online retailing

Every year more new titles are being published, creating a marketplace that is overflowing with books. Amazon lists newly released titles, which contain new titles and new editions of existing titles. In 30 days time 180,779 books were newly added to Amazon's new releases list,⁷⁴ and in 90 days time, almost half a million were added. Besides all the new releases, old titles remain longer available, competing with all the new ones. This results in an enormous catalogue of books that consumers can choose from. For example, Amazon currently holds 3.2 million titles in its category 'Literature & Fiction'.⁷⁵ These millions of titles also include self-published titles. Amazon offers

⁶⁸ Miller, *Reluctant Capitalists*, p. 49.

⁶⁹ Thompson, *Merchants of Culture*, p. 27.

⁷⁰ Miller, *Reluctant Capitalists*, p. 21.

⁷¹ *Idem*, p. 50.

⁷² *Idem*, p. 49-52.

⁷³ Thompson, *Merchants of Culture*, p. 333-334.

⁷⁴ 'Books at Amazon', *Amazon.com*, < http://www.amazon.com/books-used-books-textbooks/b/ref=nav_shopall_bo?ie=UTF8&node=283155 > (7 July 2015).

⁷⁵ *Idem*.

authors a way of producing and distributing their books, without the help of publishers.⁷⁶ This not only excludes publishers from the publishing chain of books, but these self-published books are also a competition for traditionally published books when it comes to the attention of readers. Furthermore, all of these books not only compete with each other, but also with other media products for the attention of consumers.⁷⁷ Partly because of these other media products, there is a decline in people who read and buy books.⁷⁸ Children's books for instance have to compete with all sorts of videogames, television shows, movies and other media products. Publishers also have to compete with each other for the time, attention and money of a declining number of readers.⁷⁹ They have to make an effort to let their books stand out and not get lost in the large flood of books that appear every season.⁸⁰ However, 'standing out' has become harder to do. Ways to get noticed by consumers have changed. Due to the decline in mass media, like television and newspapers, the marketing focus of publishers has shifted from traditional mainstream media to online channels.⁸¹ Books are not discussed in TV-shows as often anymore and newspapers devote increasingly less space to book reviews.⁸² So in the internet age, online marketing has become 'more and more decisive in shaping the visibility of books and their fate'.⁸³

In the early days of Amazon, the recommendations-feature of the online retailer was a big advantage over physical bookshops, which could not match an online data driven service like this. Many readers are looking for a form of guidance to decide what to read from the enormous number of books that are available. A trusted and disinterested source of advice to help them choose is therefore more than welcome.⁸⁴ This is where part of the strength of Amazon's recommendations-feature lies. An algorithmic-driven recommendations-feature appears to be objective and perhaps even trustworthy. I argue that the recommendations-feature can be viewed as a form of social capital, because it is based on the behavior of other, similar customers. Consumers can also view Amazon itself as a 'disinterested' source. It may seem to customers that the website does not care which particular books are sold, as long as there are books being bought. It could be that the recommendations-feature favors some books over others though, certain titles that publishers have paid for to appear more often in the recommendations-feature. Even though consumers do not really know how the recommendation-feature works, many still perceive it to be trustworthy. Partly

⁷⁶ 'Take Control with Self Publishing', *Amazon*, <<http://www.amazon.com/gp/seller-account/mm-summary-page.html?topic=200260520>> (30 September 2015).

⁷⁷ Thompson, *Merchants of Culture*, p. 241.

⁷⁸ 'Decline Reading in the US', *EBSCO Host Connection*, (7 July 2015).

⁷⁹ *Idem*.

⁸⁰ Thompson, *Merchants of Culture*, p. 11.

⁸¹ *Idem*, p. 251.

⁸² *Idem*, p. 245.

⁸³ *Idem*, p. 258.

⁸⁴ *Idem*, p. 272.

because they trust the brand Amazon (symbolic capital) and partly because the algorithm is based on the behavior of previous customers. This element of social capital also enhances Amazon's trustworthiness as an impartial player (symbolic capital), with its recommendation-feature only functioning as a 'vessel' through which the choices of the people are made visible.

In chapter 1.2, some of the general benefits of internet retailing for consumers have been discussed. These included personalized services like Amazon's recommendations, and the low prices that large web shops like Amazon are able to offer due to the discounts they receive from publishers. The internet has created new ways for companies to devise and add value for consumers.⁸⁵ Amazon actively invests its human and economic capital to develop techniques that can add value to the online shopping process. In turn, the company may gain more satisfied and loyal customers, adding to its social capital. This form of social capital can be turned further into symbolic capital. Satisfied and loyal customers add to the perception of Amazon as a trusted and reliable retailer, which in turn gains more customers and purchases and thus leads to more economic capital.

An example of where Amazon can add value is the search activities of consumers. The company excels in making its products easy to find and its website simple to navigate. Searching and gathering information on products has become very easy to do because of the internet. When you search for a book title in a search engine, most of the times Amazon will appear in the top three results. It is also easy to search on Amazon's website and to compare products with each other. Customers can search for a title or author and immediately view a list of all the available books that match the search query. This gives the customer an overview of all the different editions of a title or all the books of an author, which the customer can then easily compare to each other. Searching for a book in a physical bookstore limits the searcher to the books that the store has in stock. Amazon however has infinite shelf space, there is theoretically no limit to the amount of books that could be presented on the internet. The website of the retail giant does not only show the books that the company itself has in stock, but the books that Amazon's suppliers have in stock are also for sale on the website. Amazon's enormous catalogue makes it very likely that the web shop can deliver the book a customer is looking for. It is also less time-consuming to type in some keywords in a search engine, than browsing a bookstore until you find the right book. Even if a customer only remembers some of the words of the title or just the last name of an author, it is possible to find the book they are looking for through the Amazon's search engine. This has been a big advantage for Amazon especially in the earlier years, when bookstores did not yet have searchable digital catalogues.

Adding reviews and ratings on the product pages is another way of adding value to the shopping process, something Amazon does actively. The company gave customers the opportunity to review

⁸⁵ G. T. Lumpkin and G. G. Dess, 'E-Business Strategies and Internet Business Models: How the Internet Adds Value', *Organizational Dynamics*, 33:2 (2004), pp. 161-173.

products right from the start in 1995.⁸⁶ Reviews by others help consumers with the searching and evaluating of products and they are one of the key factors to entice consumers online.⁸⁷ It is a service that physical bookshops cannot match and it has been a big advantage for Amazon over other booksellers.

Internet retailing can also be beneficial for publishers. The mentioned personal recommendations-features on Amazon's website are an example of the more fine-grained ways of reaching specific consumers that the internet made possible. Publishers want to reach the customers that they specifically think are part of the readership of a particular book.⁸⁸ The internet has opened up new channels for this, with targeted advertising, blogs, new media, e-mails lists and so on. An example is placing an advertisement for a new detective novel on Amazon's homepage, that will only be shown to customers who have previously bought thrillers. With it, the publisher only targets the audience of known 'crime readers'. Targeted advertising on the internet not only enables companies to reach specific consumers, it also allows them to measure how many consumers actually clicked on the advertisements. This is valuable information for publishers that can only be obtained online. It is also possible to link an advertisement to a webpage where the product can immediately be bought, lowering the threshold to buy a product after being prompted by an advertisement. This is something that cannot be done with traditional advertising like posters or advertisements in newspapers, where consumers still have to make an effort to go into a shop and buy the product.

Next to the marketing benefits that the internet offers publishers, internet retailers are an ideal outlet for older, backlist and more specialized titles. These are books that are not bestsellers, that do not get marketing attention and are unlikely to be stocked by physical bookshops.⁸⁹ Search engines and online retailers disclose and make available titles that otherwise would not or could not be exploited. As a result niche markets flourish and the sales of 'obscure books' have grown significantly.⁹⁰ Online retailing is thus ideal for 'long tail' sales.⁹¹ As opposed to the short tail, which contains the bestselling titles, long tail consists of a large number of books that sell in small numbers. These small numbers combined often make up for a considerable part of the overall sales volume. The 'infinite shelf space' that is possible on the internet enables Amazon to cater to niche audiences. Being able to reach audiences that are just too thinly spread for physical bookstores, was a significant

⁸⁶ S. E. Ante, 'Amazon: Turning Consumer Opinions into Gold', *Bloomberg Business*, 15 October 2009.

⁸⁷ Laing and Royle, 'Bookselling Online: An Examination of Consumer Behaviour Patterns', p. 110.

⁸⁸ Thompson, *Merchants of Culture*, p. 247.

⁸⁹ Thompson, *Merchants of Culture*, p. 222.

⁹⁰ T. Hillesund, 'Reading Books in the Digital Age subsequent to Amazon, Google and the long tail', *First Monday*, 12:9 (2007), n.pag., <<http://firstmonday.org/ojs/index.php/fm/article/view/2012/1887>> (13 July 2015).

⁹¹ C. Anderson, 'The Long Tail', *Wired*, 12:10 (2004), n.pag. <<http://archive.wired.com/wired/archive/12.10/tail.html>> (13 July 2015).

advantage that Amazon had over the bookshops. This is a big factor in the success of Amazon in its earlier years. The average superstore holds approximately 130,000 titles in stock, yet more than half of Amazon's book sales come from titles that are outside of its top 130,000 titles.⁹²

Because of the millions of book titles that are available, it is sometimes said that the 'real battle in publishing' taking place nowadays, is the struggle to get books seen, heard and talked about, to be made visible in an increasingly packed and noisy marketplace.⁹³ To this intent, publishers regularly have good relations with other players in the book trade, however they do not have this with consumers. Publishers traditionally rely on (online) bookshops for the distribution of their books and so they are usually not in direct contact with consumers. Bookshops and chains therefore play a vital role in the connection between publishers and readers. The dominant position of the major book chains and retailers gives them strong influence over what the public reads. Through their selection and marketing decisions, they play a large role in which books are widely available and which get the most attention.⁹⁴ So to get the attention of consumers, publishers frequently have to rely on the social and symbolical capital of key retailers. By offering for instance discounts to book chains or by paying a marketing fee to newspapers, publishers exchange their economic capital to use the social or symbolic capital of the other party. This can be a prestigious newspaper that is widely trusted by its readers to promote a good book or this can be a retailer like Amazon, where the publisher offers Amazon for instance a discount in exchange for one of their books to be featured on Amazon's homepage.

Trying to create word-of-mouth and a 'buzz' around a book, even before it gets published, is important in today's book business. One of the reasons why publishers partake in pre-publication marketing is to try to get their books on the bestseller list, which is for instance published in *The New York Times*. The weekly bestseller list is compiled of the titles that have sold the most copies in the previous week. The list is closely watched by media and consumers; most of the time conventional media only start paying attention to a book when it appears on the bestseller list.⁹⁵ A book can gain a lot of visibility and therefore the attention of consumers, if it can make it onto the list. Amazon is a key player when it comes to getting books on the bestseller list, because on Amazon it is possible to pre-order a book, something that cannot be done or is less easy to do in a physical bookshop. This is an advantage for Amazon, early adaptors can buy a book before it is even released and have it delivered to their homes the moment that it is available. All the books that are pre-ordered count as sales of the first day that the book is actually published, so this number is a large part of the first

⁹² Anderson, 'The Long Tail'.

⁹³ Thompson, *Merchants of Culture*, p. 238.

⁹⁴ Miller, *Reluctant Capitalists*, p. 226.

⁹⁵ Thompson, *Merchants of Culture*, p. 249-254.

week's sales. If a title will make it onto the bestselling list is thus highly influenced by all the pre-orders made in the weeks, sometimes even months before publication.

Next to the 'normal' bestseller list, Amazon's bestselling list is also important in the book trade. In an interview with Thompson, a publishing publicity manager explained that pre-publication publicity is important namely 'to drive pole position on Amazon'.⁹⁶ Being on Amazon's top list helps creating a 'buzz' around a book and it gives it more visibility and thus leads to more orders. The top list of Amazon also helps publishers overcome initial resistance that they might face with other retailers, like Barnes & Noble. If a book chain's sales department first thinks that the book will not be as successful as the sales representative of a publisher predicts, there is a good chance they will change their minds when they see the book on the Amazon top list, which will then make them order more books.⁹⁷ This shows how important book sales via Amazon are for publishers, because the top list is driven by sales made on the company's website. The success of Amazon's top list also illustrates the power of Amazon's ability to gain from the social capital of consumers. The list contains the books that apparently many people support and in some cases even early adopted through Amazon by pre-ordering it. So, like the recommendation-feature, the list 'shows what the people want' and thus can be viewed as a form of social capital.

Adding to the power of the pre-order phenomenon is 'the six-week' rule. The increasingly chain-dominated retail marketplace created pressures that have compressed the period during which new books are given an opportunity to succeed. A book now has six weeks to either 'take off or die'.⁹⁸ Creating attention and visibility even before publication is vital for the survival of a new book, because it only has a short window to succeed. And with the pre-order phenomenon, Amazon now has a position where its top list can help determine a book's fate.

So Amazon grew into a powerful player in the book trade field, in which it found a niche where it could grow into the large company it is now. The online retailer distinguished itself from other retailers, using its (then) unique features like infinite shelf space and home delivery. Next to this, Amazon also invested in the book field, helping it grow and strengthening its position. The most important example of this is Amazon's role in the rise of e-reading and e-books, which I will discuss in the next chapter.

⁹⁶ Thompson, *Merchants of Culture*, p. 251.

⁹⁷ Idem.

⁹⁸ Idem, p. 266-267.

3. Amazon and e-books

The first two chapters discussed Amazon's rise to success: how the company developed into the powerful player it is today and how it benefited from its differences with regard to its 'offline' competitors. From this chapter onwards however, the focus will lie more on how Amazon operates in its role as a powerful player. This third chapter in particular will focus on how Amazon's dominance in the e-book market has influenced its position in the field of publishing and its relationship with publishers.

When Amazon expands its business to new countries, it often starts with selling only e-books. Digital files do not need warehousing or local transport and can be managed from outside the country. This makes e-books a relatively simple way to enter the market in a new country, creating brand awareness before launching other categories. An example is Brazil, where Amazon started selling e-books through the Kindle store in December 2012. Physical books followed only two years after.⁹⁹ In September 2011, Amazon.es was launched in Spain, selling only e-books then. However, the online retailer sells all sorts of products now, ranging from music to clothes.¹⁰⁰ A more recent example is the Netherlands: the company launched Amazon.nl in November 2014, selling only e-books.¹⁰¹ Time will tell if Amazon.nl will add more categories in the coming years. Several national newspapers do think so. *De Volkskrant* said that Amazon 'will provisionally only sell e-books' and *NRC.next* said that 'for the time being it will only sell e-books, but paper books and other products will certainly follow'.¹⁰² In any case, Amazon has already claimed the name 'Amazon Fashion',¹⁰³ a clear sign that it might have intentions of expanding after it first probed the Dutch market with e-books.

Amazon first started selling e-books on Amazon.com in 2007, in its 'home country' America. Currently e-books make up for 30% of all book sales in the United States.¹⁰⁴ This makes e-reading an important part of the US book trade and thus important to research in this paper. Figure 1 shows Amazon's varying market share in the US, the UK, Germany and France.¹⁰⁵ It is clear that Amazon has the highest market share in the UK, a staggering 95%. This is less in the European countries France

⁹⁹ S. Shaffi, 'Amazon starts physical book sales in Brazil', *The Bookseller*, 22 August 2014.

¹⁰⁰ G. Neill, 'Amazon launches in Spain', *The Bookseller*, 14 September 2014.

¹⁰¹ L. Campbell, 'Amazon launches Kindle in Holland', *The Bookseller*, 12 November 2014.

¹⁰² 'Nu ook webwinkel voor markt Nederland', *de Volkskrant*, 12 November 2014, p. 6.

H. Chin-A-Fo and T. Jaeger, 'Amazon begint ook hier. Oppassen dus', *NRC.next*, 12 November 2014, p. 5.

¹⁰³ 'De Amerikaanse e-reus zet voet op Nederlandse bodem', *Trouw*, 13 November 2014, p. 17.

¹⁰⁴ Bercovici, 'Amazon vs. Book Publishers'.

¹⁰⁵ Sources of the data in the diagram:

Bercovici, 'Amazon vs. Book Publishers'.

M. Kozlowski, 'Amazon Controls 95% of the eBook Market in the UK', *GoodEreader*, 27 March 2015, <<http://goodereader.com/blog/electronic-readers/amazon-controls-95-of-the-ebook-market-in-the-uk>> (10 August 2015).

C. Eyre, 'Amazon less dominant in e-book market outside UK', *The Bookseller*, 10 April 2014.

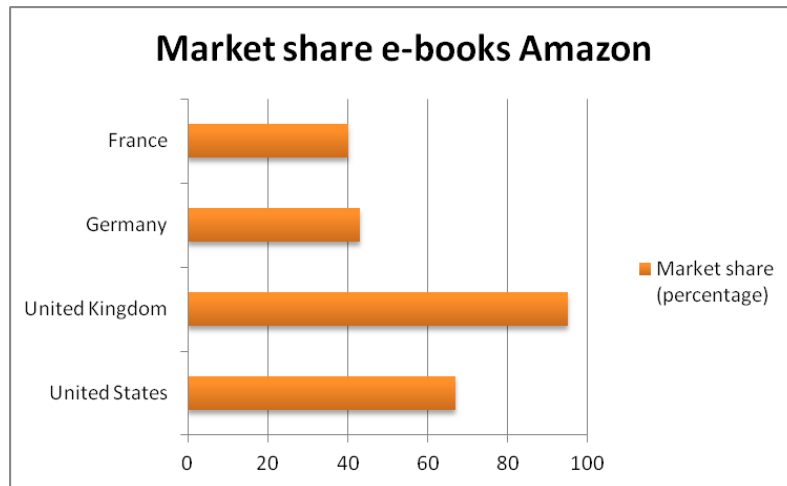


Figure 1: Amazon's market share in the e-book markets of four countries.
 Source: US: Bercovici, 'Amazon vs. Book Publishers'.
 UK: M. Kozlowski, 'Amazon Controls 95% of the eBook Market in the UK', *GoodReader*, 27 March 2015, <<http://goodereader.com/blog/electronic-readers/amazon-controls-95-of-the-ebook-market-in-the-uk>> (10 August 2015). France and Germany: C. Eyre, 'Amazon less dominant in e-book market outside UK', *The Bookseller*, 10 April 2014.

and Germany, but 40% is still a large part of the market. Though it has to be kept in mind that the e-book uptake of the total of book sales differs greatly per country. In 2014, 3,8% of the total revenue of book sales in the Netherlands came from e-books and only 4% of all books sold in Germany were digital books.¹⁰⁶ However, Amazon's market share within these e-book numbers is very big and with these large market shares Amazon has a dominant and powerful position with respect to publishers when it comes to selling e-books to consumers. In 2014 e-book sales accounted for a total revenue of 5.69 billion dollars in the US market and it is predicted this number will rise to 6.47 billion dollars in 2015, a number that illustrates the importance of e-book sales for publishers.¹⁰⁷ These sales go predominantly through Amazon.

In 2012 Thompson voiced concerns over Amazon's dominance, saying 'the more powerful Amazon's position is in the e-book marketplace, the greater the danger to the publisher.'¹⁰⁸ He predicted that if Amazon gains a dominant position in the e-book marketplace, 'it will use its muscle to put pressure on publishers to reduce their e-book prices and/or increase their discounts'.¹⁰⁹ I will argue in this chapter that this is exactly what happened. In order to understand how Amazon has

¹⁰⁶ 'Kerncijfers Algemene Boeken', *Koninklijke Vereniging van het Boekenvak*, <<http://www.kvb.nl/feiten-en-cijfers/kerncijfers>> (29 July 2015).

M. Bisschoff, 'German Book Industry in a State of Flux', *Goethe Institute*, <<https://www.goethe.de/en/kul/lit/20468494.html>> (29 July 2015).

¹⁰⁷ 'Revenue from e-book sales in the United States from 2008 to 2018', *Statista*, 2015, <<http://www.statista.com/statistics/190800/ebook-sales-revenue-forecast-for-the-us-market/>> (30 June 2015).

¹⁰⁸ Thompson, *Merchants of Culture*, p. 370.

¹⁰⁹ *Idem*.

been able to rise to its powerful position in the field of e-books, the (slow) upcoming of e-books and e-readers will be examined. Thompson claims the 'e-book revolution' took longer than expected and he names four reasons why: difficulties with hardware, formats, rights and prices.¹¹⁰ How Amazon handled these difficulties and how this helped the company to gain its powerful position will be discussed. It will be argued that Amazon's symbolic capital was essential in the adopting of the Kindle by consumers. The company then used its economic capital, by pricing e-books very low, to gain more social and symbolic capital, strengthening its position in the field of e-reading. The chapter will be concluded with an example of how Amazon has used its powerful position to pressurise some publishing companies about e-book pricing and a discussion of Amazon's Kindle Unlimited program.

3.1 The e-book revolution

During the 1990s the music industry was shaken up by 'the digital revolution' and publishers feared that digital developments would cause similar disruptions in the book trade. So at the end of the twentieth century, publishers were investing millions of dollars into electronic publishing projects, as they were convinced that the publishing industry was on the edge of some fundamental changes. This belief was strengthened by reports of several management consultancy firms, that were predicting that e-books were the future and would soon be a substantial and growing part of the market.¹¹¹ However, these predictions were too optimistic: the 'e-book revolution' took longer than expected. In the early 2000s the uplift in e-book sales turned out to be much lower than the reports had been projecting and publishing firms became more cautious with e-projects. By 2002 many large publishing companies 'privately de-emphasized the e-book channel of distribution',¹¹² because of the lack of profits in the e-books business.

The Kindle e-reader was one of the most important factors in Amazon's success in the e-book market.¹¹³ Before the launch of the Kindle in 2007, one of the foremost problems with the rise of e-books were the reading devices on which consumers could read them. Reading from a computer screen is not very appealing for consumers, a reading device would be more attractive. An e-reader is an electronic device that is primarily designed to use for reading digital books or periodicals.¹¹⁴ E-readers make use of e-ink, a method that allows a device to display words without emanating blue light (unlike smart phones and tablets). It looks similar to traditional ink on paper and it minimizes battery use. E-ink was first discovered in the late 1970s, by the document management company Xerox. Pioneers in Cambridge, Massachusetts have rediscovered the technique and have improved it

¹¹⁰ Thompson, *Merchants of Culture*, pp. 335-338.

¹¹¹ *Idem*, p. 313.

¹¹² Greco, 'The Economics of Books and Magazines', p. 135.

¹¹³ Thompson, *Merchants of Culture*, pp. 318-319.

¹¹⁴ R. Burk, 'E-book devices and the marketplace: in search of customers', *Library Hi Tech*, 19:4 (2001), p. 326.

in the late 1990s.¹¹⁵ The first reading devices at the start of the 2000s were too expensive and not very easy to use.¹¹⁶ The screens were too small and had a low resolution, which made the e-reading experience not very pleasant and not appealing in contrast to reading on paper. This made many people reluctant to spend a lot of money on these dedicated reading devices.¹¹⁷ In 2004 Sony produced its first line of e-readers, first in Japan, and in 2006 in the US as well.¹¹⁸ They were relatively successful and this caused a small upturn in the sales of e-books. But the uncertainty of the role e-books continued through 2006 and 2007, because the sales of titles by large trade publishers remained low and there was no sign of substantial growth.¹¹⁹

The real e-book revolution did not take off until the launch of Amazon's Kindle in November 2007, a year after Sony introduced its e-reader in America.¹²⁰ Sony had paved the way for other companies to start producing digital reading devices.¹²¹ Amazon followed Sony in what they did best, by using e-ink and vital metaphors like page turns and bookmarking. But Amazon had several advantages, namely ten years of market knowledge of the book trade and a built up customer brand loyalty for books.¹²² As opposed to Sony, customers had already come to trust Amazon as a reliable retailer of books. Amazons symbolic capital helped to lower 'the threshold of anxiety' that had discouraged many readers in the past to switch to e-books. With 'the most trusted retailer of books' actively promoting e-reading and producing its own e-reading devices, it became more attractive for customers to try and experiment with e-reading and e-books.¹²³ Kindle was the first reader that made it possible to buy and download a book via a wireless network, something that was not possible with the earlier devices. The use of a computer to put e-books onto an e-reader was no longer necessary. This made the Kindle very user-friendly as opposed to its predecessors. At first the Kindle was priced rather high, \$399,-. But it quickly was lowered in price (second generation Kindle was priced at \$139,-).¹²⁴ After the release of the Kindle, the sales of e-books immediately surged and this growth continued throughout 2009 and 2010. In 2009 Barnes & Noble launched their own e-reader as well, the Nook. Apple launched the iPad in 2010, followed by the introduction of the book reading app iBook. After Apples first tablet, other electronic companies also started to produce

¹¹⁵ Merkoski, *Burning the Page*, p. 11.

¹¹⁶ Greco, 'The Economics of Books and Magazines', p. 135.

¹¹⁷ Thompson, *Merchants of Culture*, p. 336.

¹¹⁸ Merkoski, *Burning the Page*, p. 12.

¹¹⁹ Thompson, *Merchants of Culture*, p. 315.

¹²⁰ Thompson, *Merchants of Culture*, p. 318-319.

¹²¹ J. Jung, S. Chan-Olmsted, B. Park and Y. Kim, 'Factors affecting e-book reader awareness, interest, and intention to use', *New Media & Society*, 14:2 (2011), p. 205.

¹²² Merkoski, *Burning the Page*, p. 12-13.

¹²³ Thompson, *Merchants of Culture*, p. 338.

¹²⁴ Idem, p. 336.

tablets, which is now a popular reading device among consumers.¹²⁵ Smartphones are also on a rise as a popular device for reading, with nearly half of British consumers having read an e-book on their smartphone.¹²⁶ With all these types of e-reading devices that were developed from 2007 onwards, the hardware no longer formed an obstruction for the rise of e-books.

Another problem that occurred at the start of e-books, were intellectual rights. Old publishing contracts did not take into consideration the exploitation of the intellectual content in a digital form. Agreements were made on the exploitation in print form only. This was a problem with the text of the books, as well as pictures or images that might be inserted in the book. When e-books were still very new, no norms had yet emerged and publishers would rather wait and see how others handled this issue, than risk copyright infringement.¹²⁷ This slowed the advance of e-books considerably. It is hard to make e-reading successful if there are not many titles available for consumers to choose from. Sony's small success in e-reading caused that publishers were already making more books available in a digital form when Amazon entered the e-reading market a year later in 2007.

In line of this problem with intellectual copyright was the fear publishers had (and still have) of pirating,¹²⁸ which is a consequence of the technical nature of e-books. A file is very easy to copy and share. Publishers try to overcome this problem by sending customers encrypted e-books, trying to safeguard their content. Some publishers also monitor the internet for illegal copies,¹²⁹ a time-consuming and never-ending task.

3.2 Amazon and e-books

The above-mentioned examples of the Sony e-reader and the Kindle show that the success of e-books was closely linked to the success of e-readers: it was not until Amazon's e-reader came to the market that the sales in e-books grew. The success of the Kindle guaranteed a success in e-book sales for Amazon, because it uses a closed system when it comes to the e-reading.¹³⁰

The formats of e-books were problematic for the rise of digital reading. Initially, the wide range of e-book file formats were not applicable to all the different devices and some devices used proprietary formats. This was confusing and off-putting for consumers: why invest a lot of money in a

¹²⁵ J. Greenfield, 'Kindle Most Popular Device For Ebooks, Beating Out iPad; Tablets On The Rise', *Forbes*, 30 October 2013.

¹²⁶ 'Nearly Half of UK Consumers Have Read Ebooks on Mobiles', *The Telegraph*, 7 October 2014.

¹²⁷ Thompson, *Merchants of Culture*, p. 337.

¹²⁸ Striphas, *The Late Age of Print*, p. 41-44.

¹²⁹ Thompson, *Merchants of Culture*, p. 361-363.

¹³⁰ M. MacDonald, 'TEDBooks and Kindle Singles: Spreading ideas in a closed system?', *BookNet Canada*, 27 January 2011, <<http://www.booknetcanada.ca/blog/2011/1/27/tedbooks-and-kindle-singles-spreading-ideas-in-a-closed-syst.html#.VZPcafntmko>> (1 July 2015).

device that might be outrun by technology in a few years time?¹³¹ And even now formats continue to be a problem. There are still different proprietary formats for different hardware. Consumers are confronted with a choice of e-readers, which often locks them into the proprietary format of a particular brand. There have been attempts to standardize the e-book format.¹³² First the 'Open eBook Standard', followed in 2007 by the ePub format that was established as a standard by the International Digital Publishing Forum. But not all devices support this format, like the Kindle.

Amazon has its own proprietary e-book format,¹³³ that can only be read on a Kindle or in the Amazon App. A closed system like this is also known as 'vendor lock-in'. Online shopping reduces 'search and switching costs' compared to physical shopping. Customers can easily browse another website for better offers and 'switch' to another shop for their purchases. So it is important for web shops to make the costs to switch as high as possible, a vital element of vendor lock-in.¹³⁴ Even though customers switch more easily to other shops on the internet, online shopping does not eliminate switching costs entirely. Browsing and searching a website is not costless, consumers still have to make an effort and it is easier to browse a previously used website than a new one. Learning to use a website or opening an account, which is necessary on most web shops, also increase switching costs. This is probably why Amazon tried to patent its '1-Click' shopping system. This system makes it possible to buy a product on Amazon with one click of a button. The website will use the preferred address and payment method of the customer. This makes online shopping very fast and easy to do and adds value to the online shopping experience of customers.¹³⁵ Furthermore, having such a fast and easy method for (loyal) consumers to pay, increases the switching cost and makes it less likely customers will switch to another online web shop for their purchases, where they have to make more effort to buy a product.

At Amazon the vendor lock-in is further strengthened by the company's e-reading strategy. Because Amazon uses its own proprietary format, customers with a Kindle are locked-in Amazon's closed system. It is not possible to read e-books with a different format on a Kindle and e-books bought on Amazon can usually not be read on for instance a Sony e-reader. By using a closed system, Amazon ensures that customers use Amazon's own device and read e-books bought on Amazon. Already 67% of all e-books in America are bought on Amazon.com,¹³⁶ something that is partly due to Kindle's closed system. Once a customer is 'in', it is unlikely that he will switch to another device very soon, because the switching costs are very high. The high market share of Amazon also means that

¹³¹ Thompson, *Merchants of Culture*, p. 336.

¹³² Idem.

¹³³ Merkoski, *Burning the Page*, pp. 28-30.

¹³⁴ P. Pereira, 'Some Implications of Search and Switching Costs for the Price Dynamics of Electronic Markets', *International Journal of the Economics of Business*, 11:3 (2004), p. 306.

¹³⁵ Curtis, 'The Innovations That Took Amazon From Bookseller To Dominant Global Marketplace'.

¹³⁶ Berovici, 'Amazon vs. Book Publishers'.

publishers for a large part depend on Amazon for the sales of their e-books and that this is not likely to change very soon because Amazon locks-in its users as much as possible.

As argued above, Amazon was the one that ignited the e-book revolution. It has changed the e-book market and has expanded it greatly. In a time when e-books were not very popular and profitable, Amazon was the one that took the risk and invested a lot of economic and human capital in developing the Kindle. Publishers have benefited from this, the e-book market has expanded and they sold a lot more e-books than before. A similar development can be seen in the music industry, where Apple (and not the music production companies) took the lead with creating a platform where it is more attractive and easy for consumers to obtain music in a legal way. It is easier to put a song on your iPod by buying a song in the iTunes store than by illegally downloading it. Amazon created a similar easy-to-use platform with its Kindle program. It is easier to buy an e-book, which will be immediately updated onto your Kindle, than illegally downloading one, hooking the device onto the computer and dragging the illegal e-book onto the e-reader. So Amazon was the one that ignited the e-book revolution, not the publishers. They could have responded to the market changes and new technologies more swiftly, investing in digital reading like Amazon did, but they did not. And because of this, the publishers are 'a step behind' Amazon when it comes to e-books.

3.3 Pricing and Amazon's e-book strategy

Prices were also an issue at the start of e-reading. Publishers first priced e-books almost the same as print books, or at most 20 percent below the print edition. From the publisher's point of view, this is justifiable because the costs related to the production of a print book are actually a relatively small part of the publishers cost: acquisition, editorial and development costs make up the larger share. These costs still have to be made, whether the book is printed or just in a digital form. However, consumers view the value of an e-book significantly lower than that of a print book, essentially because an e-book lacks the physical traits of a printed book.¹³⁷ The pricing of e-books at the same level as physical books played a role in the slow rise of e-books, because it did not stimulate consumers to make the transition to digital reading. Amazon recognized the difficulties of high priced e-books, and lowered the price of its digital books dramatically. The Kindle capitalized on the company's success in the bookselling market and it did not have to make an immediate profit.¹³⁸ This gave the company the latitude to price its e-books low, in order to make shopping e-books at Amazon.com more attractive for consumers. The internet retailer promised a fixed price of \$9.99,- for all the e-book versions of the titles on the bestsellers list and for new releases. In order to offer the customers these low prices, Amazon sold a lot of e-books with an enormous discount, sometimes

¹³⁷ Thompson, *Merchants of Culture*, p. 337-338.

¹³⁸ Merkoski, *Burning the Page*, p. 13.

even making a loss on the sale.¹³⁹ These low prices were an investment of economic capital by Amazon. It attracted consumers to buy books on Amazon and the closed system of the online shop has motivated these consumers to become loyal customers, adding to Amazon's social capital. The additional reputation of a 'cheap retailer', inclined even more people to endow Amazon the same kind of loyalty, increasing its social capital further. When Amazon then succeeded in obtaining a large market share in e-books sales, the company started making demands for lower wholesale prices or price control, so the losses Amazon made on e-book sales could be reduced. Thus Amazon's clever use of vendor lock-in allowed its initial economic investment (the low prices for customers), to eventually lead to a stronger position in the field, which in turn could be used to negotiate for lower prices and the gaining of more economic capital.

An example of this strategy can be found in the 'Hachette dispute' that Amazon had in 2014. When it was time for a renewal of its contract with Amazon, the large publisher Hachette (part of the French publishing corporation Lagardère), refused to give Amazon 'pricing control' of its e-books. Amazon wanted a bigger part of the revenue of e-books and it wanted lower wholesales prices, discounting the books to less than \$10,- a book.¹⁴⁰ During negotiations with the publisher, Amazon used its position as largest retailer to pressurise Hachette: the online retailer removed the pre-order button from books published by Hachette. This had a big impact on sales, due to the importance of the pre-order phenomenon as explained in chapter two. Amazon also lowered the discounts it offered on titles of Hachette and delayed shipment of some of the publisher's titles for up to a month. After months of acrimony, the two companies eventually came to an agreement in November. Hachette could still set the consumer prices for its e-books as high as it wants, but it would benefit from better terms like 'specific financial incentives' if it lowered the prices.¹⁴¹ What these terms were was however never made public.

At the same time of the disagreement with Hachette, Amazon used similar negotiation tactics in a dispute it had in Germany. The company had a disagreement with the publishing corporation Bonnier Media Group over 'how to share the earnings of its electronic books'.¹⁴² Amazon delayed shipment on backlist titles of publishers owned by Bonnier, like Ullstein Buchverlage and Piper Verlag. Amazon and Bonnier reached an agreement in October 2014, after several months of bickering, protests of authors and even involvement of the German minister of Culture.¹⁴³ Whether Amazon received the demanded 50% share of e-book profits is not known. It was only revealed that

¹³⁹ Thompson, *Merchants of Culture*, p. 369.

¹⁴⁰ H. Ellis-Peterson, 'Amazon and publisher Hachette end dispute over online book sales'.

¹⁴¹ Idem.

¹⁴² M. Eddy, 'Amazon Strategy Raises Hackles in Germany', *The New York Times*, 26 May 2014.

¹⁴³ H. Haq, 'Germany's Culture Minister Speaks Out Against Amazon', *The Christian Science Monitor*, 21 August 2014, <<http://www.csmonitor.com/Books/chapter-and-verse/2014/0821/Germany-s-culture-minister-speaks-out-against-Amazon>> (3 August 2014).

an agreement was reached that all parties were happy with.¹⁴⁴ In both examples Amazon used its dominant position in the e-book market to pressurise publishers, in order to increase its economic capital by demanding a higher discount or lower wholesale prices. Thompson's fear became true shortly after he predicted the threat that Amazon would pose if it gained too much market share.

One of Amazon's newest endeavours in the field of e-reading is the Kindle Unlimited program. Customers pay \$9,99,- per month to be able to read an unlimited number of e-books, which they 'loan' from Amazon. Only ten books can be loaned at a time, so if a customer wants to try an eleventh book, it has to remove one of the Unlimited books out of its account. Customers are licensed to read all the books that are in the program, as long as they are a member of Kindle Unlimited. So when Kindle Unlimited is cancelled, all the e-books loaned through the program will disappear from the customer's account.¹⁴⁵ The subscription model is a new way of consuming books, in the same way music streaming was a new way of consuming music. It is a way of experimenting with new business models in a declining market. In the music industry music streaming has become the mainstream method of music consumption,¹⁴⁶ so it can be viewed to be in publishers' best interest to experiment with this new way of media consumption. When a publisher partakes in the Unlimited program, its e-books are presented on Amazon's platform, where it profits from Amazon's social capital. In turn the publisher receives a certain amount of money for the books that are loaned through the program. However, revenues stemming from Unlimited loans are less than the revenues that are generated by 'normal' e-book sales.¹⁴⁷ So the publisher in a way hands in some economic capital in exchange of the use of Amazon's social capital to reach a broader audience with their e-books.

The Unlimited program was launched July 2014 in the US and from September on the UK, Germany, Italy, Spain, France, Brazil and Canada followed.¹⁴⁸ When Kindle Unlimited was first launched, only 600,000 titles could be loaned by customers, of which 500,000 titles were self-

¹⁴⁴ 'Vereinbarung wird allen Parteien gerecht', *Boersenblatt.net*, 20 October 2014, <<http://www.boersenblatt.net/820762/>> (3 August 2015).

¹⁴⁵ P. Kowalczyk, 'Kindle Unlimited ebook subscription – 9 things to know', *Ebook Friendly*, 20 August 2015, <<http://ebookfriendly.com/kindle-unlimited-ebook-subscription/>> (26 August 2015).

¹⁴⁶ B. Rosenblatt, 'Subscription Services for E-Books: Like Netflix, Like Spotify, or Not at All?', *Forbes*, 24 April 2015.

¹⁴⁷ N. Statt, 'Kindle Unlimited: Good for customers, not so good for authors?', *CNET*, 19 July 2014, <<http://www.cnet.com/news/amazon-kindle-unlimited-good-for-customers-not-so-good-for-authors/>> (11 August 2015).

¹⁴⁸ L. Campbell, 'Amazon launches Kindle Unlimited in US', *The Bookseller*, 18 July 2014.

S. Shaffi, 'Amazon launches Kindle Unlimited in the UK', *The Bookseller*, 24 September 2014.

J. Farrington, 'Kindle Unlimited launches in Germany', *The Bookseller*, 6 October 2014.

B. Page, 'Kindle Unlimited launches in Spain and Italy', *The Bookseller*, 4 November 2014.

J. Farrington, 'Kindle Unlimited launches in France and Brazil', *The Bookseller*, 12 December 2014.

J. Farrington, 'Kindle Unlimited launches in Canada', *The Bookseller*, 13 February 2015.

published works.¹⁴⁹ The rest of the titles included e-books from publishers owned by Amazon (like Montlake or 47 North), titles that were opted-in by publishers, or books that Amazon had added without the publishers consent.¹⁵⁰ A year after the launch, the Unlimited program contains 800,000 titles,¹⁵¹ with the majority still being self-published works. Most of these titles are self-published through Amazon and together with titles from Amazon imprints, they form the bulk of the Unlimited program.¹⁵² This is partly because many publishers do not want to participate in the Kindle Unlimited program,¹⁵³ a problem that Amazon does not encounter when negotiating about Kindle Unlimited with its own publishers and its own self-publishing service.

As said, many large publishers are not part of the Kindle Unlimited program.¹⁵⁴ This is not just because the publishers or their authors do not like or see merit in a subscription model. Since at least one of 'the big five',¹⁵⁵ did have books available in a subscription model when Amazon launched Kindle Unlimited. Last year HarperCollins added 10,000 backlist titles to the Oyster database in May.¹⁵⁶ A year later, April 2015, the other four big publishers followed and added a lot of their front- and backlist titles. Oyster's subscription model is similar to that of Amazon. It currently holds over a million different titles, which customers can loan for a subscription fee of \$9,95,- per month.¹⁵⁷

The launch of the Unlimited program came at an unfortunate moment for Amazon: the company was in the very open dispute with Hachette at that time. To further deepen their relationship with, and their dependency on Amazon was not very tempting for publishers. A spokesman at Amazon said that the online retailer 'is willing to play the waiting game' with the 'Big Five'.¹⁵⁸ This implies that Amazon knows very well it has a powerful position with regard to the publishers when it comes to e-books and e-reading. Perhaps choosing not to partake in the Kindle Unlimited program is a way of trying to undermine Amazon's power in the e-book world. In any case, it is clear that the 'Big Five' have made the choice to support Oyster over Amazon. So there are signs that some agents in the field put up resilience towards Amazon and its negotiation tactics. Whether it are incidents like

¹⁴⁹ Campbell, 'Amazon launches Kindle Unlimited in US'.

¹⁵⁰ M. Sullivan, 'Kindle Unlimited's Two-Tier System Makes Some Authors Second Class Citizens', *Digital Book World*, 21 July 2014, <<http://www.digitalbookworld.com/2014/kindle-unlimiteds-two-tier-system-makes-some-authors-second-class-citizens/>> (15 July 2015).

¹⁵¹ 'Kindle Unlimited', *Amazon.com*, <<https://www.amazon.com/gp/kindle/ku/sign-up?ie=UTF8>> (15 July 2015).

¹⁵² Sullivan, 'Kindle Unlimited's Two-Tier System Makes Some Authors Second Class Citizens'.

¹⁵³ Quinn, 'Book News: 'The Big Five' Publishers Absent from Amazon's New E-Book Service'.

¹⁵⁴ Idem.

¹⁵⁵ As explained in chapter two, the 'Big Five' are the five biggest publishers in the US: Penguin Random House, HarperCollins, Simon & Schuster, Hachette and MacMillan.

¹⁵⁶ C. Reid, 'Oyster Adds 500 Publishers', *Publishers Weekly*, 8 May 2014.

¹⁵⁷ A. Griswold, 'The "Netflix for Books" Has Started Selling Books You Might Actually Want to Read', *Slate*, 8 April 2015, <http://www.slate.com/blogs/moneybox/2015/04/08/oyster_adds_e_book_store_to_subscription_book_model_watch_out_amazon.html> (15 July 2015).

¹⁵⁸ R. Mac, 'With New E-Book Service Amazon Plays Waiting Game With Publishers, Competition', *Forbes*, 22 July 2014.

Hachette not agreeing to Amazon's demands or tactical decisions like the 'Big five' supporting a different e-book subscription service. It shows that the relationship between Amazon and publishers has changed over time. This changing relationship between Amazon and publishers will be further discussed in the next chapter.

4. Amazon and publishers

The previous chapters discussed the rise of Amazon in the book trade and the retailer's position in the field of e-reading. In this chapter I will examine the relationship between Amazon and publishers more closely. Amazon has become the main trading party for almost every publisher in the US and the UK,¹⁵⁹ two of the countries where Amazon has the largest annual turnover.¹⁶⁰ When Amazon first started in 1995, online retailing was new and exciting. Publishers were happy with the new possibilities it offered, like the ability to offer customers a wide range of backlist titles. But as Amazon grew and gained more power in the field, publishers became more wary of the company. The relationship between Amazon and publishers changed, to the point where Amazon had public fights with publishers. This chapter will discuss the development of this changing relationship. What forms of capital has Amazon used and exchanged with publishers? And how did Amazon use its increasingly dominant position in these exchanges? The pressure publishers receive during negotiations with retailers differ per region, because of regulations and market conditions that are different in each country. This chapter is therefore divided in three subchapters, each discussing a type of regulation and how retailers and publishers work underneath it.

4.1 The US' Robinson-Patman Act

Publishers in the US are restricted by the Robinson-Patman Act, which obliges them to offer the same discounts to all retailers who occupy a similar market position.¹⁶¹ So if a publisher offers Amazon a certain discount, they have to offer this same discount to for example Barnes & Noble as well. But there are subtle ways of working around the rules. Large retailers can use their size as leverage for better terms, like more favourable credit terms. Better cooperative advertising deals are also a way of circumventing the rules to receive an indirect discount from publishers.¹⁶²

Cooperative advertising (also known as co-op agreement) is a cost-sharing agreement between a publisher and a retailer, in which the publisher pays a share of the retailer's promotion costs.¹⁶³ Amazon started to use co-op agreements to charge publishers for the prominent display of titles on its website from 1998 onwards. Prices could range from \$5,000 to \$10,000 for advertising on Amazon, like a placement on the homepage or a spot in the e-mail alert that Amazon sends out to its customers.¹⁶⁴ With co-op deals publishers exchange economic capital for the social and symbolic

¹⁵⁹ J. Greenfield, *UK Publishers and Amazon: Keep Calm and Carry On*, Forbes, 16 April 2014.

¹⁶⁰ I. Bollinger, 'Top 10 eCommerce Markets by Country', *Trellis*, <<http://growwithtrellis.com/blog/top-10-ecommerce-markets-by-country/>> (23 August 2015).

¹⁶¹ E. Ansell, 'Some Effects of the Net Book Agreement', *New Library World*, 99:1144 (1998), p. 249.

¹⁶² Thompson, *Merchants of Culture*, p. 299-300.

¹⁶³ R. Yang, 'Cooperative advertising, pricing strategy and firm performance in the e-marketing age', *Academy of Marketing Science*, 38 (2010), p. 510.

¹⁶⁴ Miller, *Reluctant Capitalists*, p. 100.

capital of a retailer, in the hope of an increase in book sales and thus more economic capital. They pay for example to have their books prominently placed in front of Barnes & Noble book shops or to have a book presented on Amazon's homepage, making use of the retailers symbolic capital as a trusted seller and its good relationship with its customers (social capital).

When Amazon was just new in the book trade, publishers were excited about the opportunities internet and online advertising could offer and the new consumers they could reach through the web. The decision to do cooperative advertising with an online retailer like Amazon was primarily based on the covet of more exposure for their books and the hopefully accompanying upturn in sales. But as the retailers became more dominant, publishers started to fear that if they declined a promotional opportunity that the chain or retailer would 'lose interest' in carrying many of their books.¹⁶⁵ Because these chains and retailers own such a large part of the market, this could be devastating to a publisher and its authors. An online web shop like Amazon could for instance remove books from its website, or a book shop chain like Waterstone could decide to stop carrying certain titles. An example is the dispute between Barnes & Noble and the large publishing house Simon & Shuster in 2013. During a standoff over financial terms, Barnes & Noble ordered a substantially smaller number of titles from the publisher and abated display space for titles from Simon & Shuster.¹⁶⁶

Big retailers like Amazon can also use their position in the co-op agreement to pressurise a publisher into paying them more money, arguing for instance that the co-op money should be based on next year's sales instead of those from last year. With a fast growing company like Amazon, this can make a big difference in the amount of co-op money and such a proposition is hard to turn down because of the large market share the online retailer represents. So nowadays, the decision of a publisher to do a co-op agreement with a retailer is not only made on a desire to gain more economic capital by selling more books, it is also influenced by the power position of the retailer that is suggesting the co-op agreement. For the large publishing houses this lead to the fact that their total amount spent on co-op has grown enormously in the last couple of years. It now represents a significant proportion of their overall marketing budget, sometimes even more than 50%.¹⁶⁷

Amazon can also play publishers off against one another, for access to the limited number of high-visibility spots on its website.¹⁶⁸ It is for instance very lucrative to have a book highlighted on Amazon's homepage a week before Christmas. A lot of publishers want this slot, and are willing to pay for it. They are prepared to invest their economic capital to make use of Amazon's social capital, which in turn will hopefully lead to more sales and more economic capital for the publisher. Amazon

¹⁶⁵ Miller, *Reluctant Capitalists*, p. 101.

¹⁶⁶ L. Kaufman, 'Orders Cut, as Publisher and Retailer Quarrel', *The New York Times*, 22 March 2013.

¹⁶⁷ Thompson, *Merchants of Culture*, p. 261.

¹⁶⁸ *Idem*, p. 312.

can use this to demand more money from the eager publishing houses, by for instance giving the slot to the highest bidder. As a result it is hard for small publishers to obtain such marketing slots, because they cannot compete with the large publishers when it comes to economic capital.

Next to co-op advertising there are still other means that large retailers can use to pressurise publishers in the US. Big retail chains may receive better credit terms, for instance 90 days instead of 30 days, which can make a big difference for a retailer's cash flow.¹⁶⁹ Another means of pressure for better terms results from the Amazon-Hachette dispute. Last year Amazon used its dominant position to coerce Hachette into giving the online retailer a bigger cut of e-book proceeds. This is possible under the Robinson-Patman Act, where a change of the wholesale price would have to be done for all retailers, but where a bigger cut of the proceeds could be given to just one retailer.

4.2 Discounting in the UK

As opposed to the US, the UK currently does not have any kind of legislation comparable to the Robinson-Patman Act.¹⁷⁰ Hence, publishers in the UK are under enormous pressure to increase discounts for the largest and most powerful retailers. Up until the early 1990s the UK had the Net Book Agreement (NBA), an informal arrangement between publishers and booksellers. Publishers would set a fixed retail price for each book and booksellers would agree to sell their books at the net price in return for a discount that would enable them to make a fair margin.¹⁷¹ It prevented discounting, which in the late 1880s bankrupted booksellers and squeezed all but the bestselling books out of the marketplace.¹⁷² Nevertheless, several publishers wanted to break up the NBA in the 1990s. They wanted to be able to offer discounts, in order to reach a broader audience. These publishers assumed that the increase in sales that would be generated by discounting books would compensate for the loss in margins.¹⁷³ The NBA eventually collapsed in September 1995 and was legally discarded in 1997, just before Amazon launched its website in the UK in 1998.¹⁷⁴

After the NBA was abolished, it became possible for large retailers to use their position to negotiate for bigger discounts and other benefits from publishers. Whilst high discounting in supermarkets and other 'new' retail outlets was beneficial for publishers in terms of reaching a broader audience, it was also harmful in the long run. The low prices of books on Amazon and in supermarkets influenced the price perception of consumers.¹⁷⁵ If consumers only see (e)books priced

¹⁶⁹ Thompson, *Merchants of Culture*, p. 300.

¹⁷⁰ Idem, p. 302.

¹⁷¹ Ansell, 'Some Effects of the Net Book Agreement', p. 248.

¹⁷² J. Rose, 'Moderniy and Print I: Britain 1890-1970', in S. Elliot and J. Rose (ed), *A Companion to the History of the Book* (Oxford: Wiley-Blackwell, 2009), p. 341.

¹⁷³ Thompson, *Merchants of Culture*, p. 302.

¹⁷⁴ Ansell, 'Some Effects of the Net Book Agreement', p. 248.

¹⁷⁵ F. Christandl, D. Fetchenhauer and E. Hoelzl, 'Price perception and confirmation bias in the context of a VAT increase', *Journal of Economic Psychology*, 32 (2011), pp. 131-141.

at five dollars or pounds, their value perception of a book decreases,¹⁷⁶ to the point where they will not buy books that are priced over ten dollars. This is harmful for the book market as a whole, because the low margins that Amazon and supermarkets maintain for some titles are so low they need to be sold over a million times to breakeven. These sales numbers are impossible to reach for independent bookstores and small publishers, because a lot of titles just do not sell in this big numbers. Furthermore, consumers have grown to expect discounts, and sometimes may even feel they are 'being cheated' if they have to buy books at full price.¹⁷⁷ Consumers rarely consider the effects that high discounting can have on other parts of the book trade.¹⁷⁸ For instance, authors receive a declining amount of royalties, because they are based on ever-higher discounts.¹⁷⁹ But discounts appear to be what 'captures readers' hearts' most successfully, and are therefore sometimes used a strategy to reach new customers.¹⁸⁰ For example, *Harry Potter and the Order of the Phoenix* was one of the biggest books in 2003. Amazon priced the book very low and the company broke even only when it sold 1.4 million copies, due to the high discount it gave. Amazon however saw this as an investment to gain new customers.¹⁸¹ By investing its economic capital, Amazon hoped to gain more customers and to increase its social capital.

In 2003 an article in the *Publishers Weekly* appeared as a reaction to the *Harry Potter* discounts. Concerns were voiced over the 'furious level of price slashing' that occurred, accusing the large retailers of focusing too much on competing with each other for market share through discounting, instead of trying to expand the market.¹⁸² This is another way that high discounting can be harmful for publishers. When retailers are not expanding the market, publishers' sales will not increase. A reason to discard the NBA was the hope of reaching a broader audience by market expansion.¹⁸³ The market was expanded, but there is a limit to its growth and it hardly grows anymore. With the high discounts, the publishers' margins are not only being squeezed because of the low prices, but also because these low prices are not compensated by more customers.

The abolishing of the NBA gave powerful players like Amazon the opportunity to use their dominant position during negotiations. As seen in for instance the Hachette dispute, Amazon is not afraid to use its position to do so. Because of the absence of legislation such as the Robinson-Patman Act, the pressure that Amazon can put on publishers in the UK is higher than in the US. The strain for higher discounts began around 1997 in the UK, when the NBA was discarded and supermarkets

¹⁷⁶ Thompson, *Merchants of Culture*, p. 309, 371.

¹⁷⁷ Miller, *Reluctant Capitalists*, p. 146-150.

¹⁷⁸ Idem.

¹⁷⁹ J. F. Baker, 'UK Publishers are Soldering Out', *Publishers Weekly*, 3 March 2003, p. S4.

¹⁸⁰ Miller, *Reluctant Capitalists*, p. 222-223.

¹⁸¹ Idem, p. 148.

¹⁸² Baker, 'UK Publishers are Soldering Out', p. S4.

¹⁸³ Thompson, *Merchants of Culture*, p. 302.

started to use their position to pressurise publishers for higher discounts, drifting up to 60%. But the pressure to go along with these kind of discount deals did not just come from the supermarkets: the authors and their agents would be outraged if their publisher walked away from important deals, because it might prevent a book from doing as well as it could have done. Partly because supermarkets could represent a large share of the sales when it came to commercial books: 30-40 percent or higher. Supermarkets had become a crucial gatekeeper in determining which books end up on the UK bestseller list.¹⁸⁴ This is not unlike the bestselling-determining role Amazon gained with the pre-order phenomenon that was explained in chapter two. As explained in chapter three, removing the pre-order button was a tool Amazon used to pressurise Hachette during their dispute. This was possible because pre-orders could have a big effect on the first week sales of a title and thus the titles rank in the bestselling list. Making it onto the bestselling list is important for publishers, due to the visibility it gives their titles and the extra sales it creates.¹⁸⁵ Supermarkets in the UK play a similar role in determining which books make it onto the bestselling list. This gives supermarkets, like Amazon, a tool to use during negotiation on discounts. How supermarkets can pressurise publishers is an example of how a large retailer can use its power position in negotiations for its own benefit, whether it is about a co-op deal in the US or discounts in the UK.

4.3 Fixed book prices in continental Europe

A lot of countries in Europe (besides the UK) have a fixed book price. In most of these countries the fixed book price was introduced in the second half of the nineteenth century.¹⁸⁶ Books became cheaper and competition in price between booksellers and kiosks became more prevalent.¹⁸⁷ The fixed book price was seen as a solution to combat this. In several countries, publishers have set up agreements with booksellers that fixed the price at which books were to be sold to the public.¹⁸⁸ Price competition between retailers was prohibited this way, because the publishers determined the price of books, not the retailers.

Germany is an example of a country that still maintains a fixed book price. In 2014 Germany's government even emphasized its ongoing support of the fixed book price law, because it is considered 'essential for delivering diversity of books and bookshops', underlining the importance of protection against extreme discounting.¹⁸⁹ It is sometimes said that because of the fixed price law,

¹⁸⁴ Thompson, *Merchants of Culture*, p. 307-308.

¹⁸⁵ See chapter 2.2 for further information on the pre-order phenomenon and bestseller lists.

¹⁸⁶ 'Global Fixed Book Price Report', *International Publishers Association*, 23 May 2014, p. 2.

¹⁸⁷ A. van der Weel, 'Modernity and Print II: Europe 1890-1970', in S. Elliot and J. Rose (ed), *A Companion to the History of the Book* (Oxford: Wiley-Blackwell, 2009), p. 358.

¹⁸⁸ 'Global Fixed Book Price Report', *International Publishers Association*, p. 2.

¹⁸⁹ *Idem*, p. 4.

books could never be a truly profitable line for Amazon in Germany,¹⁹⁰ because it is not possible for the online retailer to demand discounts from publishers (adding to its economic capital) or to offer discounts to customers to expand its social capital. But Amazon found a way around the protection of the fixed book price law in Germany. As mentioned in chapter three, Amazon tried to pressurise several German publishers during negotiations. Amazon wanted a bigger cut of Bonnier Media Groups e-book proceeds.¹⁹¹ Whenever a (e)book is sold on Amazon, part of the revenue goes to the online retailer and the rest goes to the publisher, who in turn pays the author royalties. So instead of a demand for higher discounts or lower e-book prices, Amazon pressurised Bonnier to receive a larger part of the revenue. Amazon is the largest online platform for bookselling in Germany and so it is 'indispensable to be listed on Amazon' for publishers.¹⁹² Amazon thus had a powerful position in the book field, which it used to try to gain more economic capital from the publisher.

Amazon's negotiation tactics led to a large protest of several authors in Germany, who were supported by a lot of readers and other artists. They wrote an open letter to Amazon, accusing the online retailer of manipulating its recommended reading lists and lying to customers about the availability of books, as retaliation of the dispute Amazon had with Bonnier over e-book prices. One of the reasons for the letter was to 'raise readers' awareness about the issue'. In their letter, the German authors suggested to their readers to send a note to the head of Amazon Germany, to urge the company to 'stop using books and authors as hostages and instead ensure a lively and honest book culture'.¹⁹³ They claim their aim was not to attack Amazon, but to raise awareness of the effect that price wars can have on authors. In other words, the German authors tried to use their social capital, their readers, to protect their own interests.

One of the Austrian authors that was a part of the German authors' protest, pointed out that publishers in Austria also have difficulties with Amazon. The recent dispute over e-books only exacerbated an already strained relationship, because Amazon would have demanded special conditions 'that squeezed the publishers' already from the beginning.¹⁹⁴ So even when there is a fixed book price, Amazon can still use its position to pressurise publishers in order to increase its economic capital.

¹⁹⁰ M. Nauman, 'How Germany Keeps Amazon at Bay and Literary Culture Alive', *The Nation*, 18 June 2012, <<http://www.thenation.com/article/how-germany-keeps-amazon-bay-and-literary-culture-alive/>> (12 August 2015).

¹⁹¹ M. Eddy, 'Amazon uses delay tactics to bring German publishing group to book', *The Irish Times*, 29 May 2014.

¹⁹² M. Eddy, 'German Publishers Seek Amazon Inquiry', *The New York Times*, 24 June 2014.

¹⁹³ M. Eddy, 'German Authors Join Protest Over Amazon's Tactics in E-Book Dispute', *The New York Times*, 17 August 2014.

¹⁹⁴ Idem.

During the dispute Amazon had with Hachette in 2014, authors in the US also organised a protest against the retailer. 'Authors United' was founded by the novelist Douglas Preston, who felt that authors and their books were 'collateral damage' in the dispute.¹⁹⁵ In an interview with CBS news, Preston declared that his sales on Amazon were down 50 to 90 percent due to the argument between Amazon and his publisher.¹⁹⁶ Authors United wrote several letters, approved and signed by almost a thousand authors, to the press and to Amazon's board. Not all the authors that signed the letters were authors signed to Hachette, and Authors United was not an initiative from the publisher. In their letters, Authors United asked Amazon 'to put an end to the sanctioning of books' and leave authors out of the dispute.¹⁹⁷ Like the German authors, they remained seemingly neutral during the dispute and just asked to be left out of the argument. With the letter, signed by several big authors like Stephen King, the authors tried to use their symbolic capital, their status as authors, to protect their own interests. As a reaction to Authors United, Amazon launched 'Readers United'.¹⁹⁸ In a letter, Readers United urged readers to write a letter to Hachette's CEO to insist on lowering e-book prices.¹⁹⁹ By asking readers to e-mail and plead for lower prices, Amazon tried to use its social capital to put more pressure on Hachette.

In the letter they send during the dispute Authors United said that 'since its founding, Amazon has been a highly regarded and progressive brand' and that it has a 'fine reputation'.²⁰⁰ This neutral position however disappeared months after the Hachette-Amazon dispute ended. Authors United collaborated with the Authors Guild, the American Booksellers Association and the Association of Authors' Representatives, asking the United States Department of Justice (DoJ) to examine Amazon for antitrust violations.²⁰¹ In an interview Douglas Preston, the coordinator of this collaboration, explained why they wrote to the DoJ: 'We believe Amazon has used its power in ways that harm the interests of authors, readers, booksellers, and the publishing industry as a whole.'²⁰² It seems that Authors United had changed its mind about Amazon.

¹⁹⁵ J. Rosen, 'Douglas Preston on Amazon, Authors United, and What's Next', *Publishers Weekly*, 5 December 2014.

¹⁹⁶ J. Axelrod, 'Authors Take Action in Amazon vs. Hachette E-book Battle', *CBS News*, 17 October 2014, <<http://www.cbsnews.com/news/authors-take-action-in-amazon-vs-hachette-e-book-battle/>> (24 August 2015).

¹⁹⁷ 'Letter to Amazon.com, Inc. board of directors', *Authors United*, 19 September 2014, <<http://authorsunited.net/>> (16 August 2015).

¹⁹⁸ D. Streitfeld, 'In a Fight With Authors, Amazon Cites Orwell, but Not Quite Correctly', *The New York Times*, 10 August 2014.

¹⁹⁹ 'A Message from the Amazon Books Team', *Readers United*, <<http://readersunited.com/>> (16 August 2015).

²⁰⁰ 'Letter to Amazon.com, Inc. board of directors', *Authors United*.

²⁰¹ D. Streitfeld, 'Accusing Amazon of Antitrust Violations, Authors and Booksellers Demand Inquiry', *The New York Times*, 13 July 2015.

²⁰² S. Timberg, 'Authors United founder says Amazon's control of the book industry is "about the same as Standard Oil's when it was broken up"', *Salon*, 14 July 2015, <http://www.salon.com/2015/07/14/authors_

If the DoJ chooses to pursue Preston's claim, they will not be the first government agency to investigate Amazon. The German Publishers and Booksellers Association submitted a complaint to the German antitrust authority in June 2014. They claimed that Amazon's monopoly position in the e-book market violates competition law.²⁰³ A year later, the European Commission began, at its own initiative, an antitrust investigation into whether Amazon used its dominant position in the European e-book market to favour its own e-books over the e-books sold by rivals. They will evaluate the legality of certain clauses in contracts that Amazon used with European publishers. These clauses obligated the publishers to inform Amazon when they offered another digital retailer better terms for their books.²⁰⁴ So it seems Amazon is facing more resistance to the business practices where the company uses its powerful position as leverage.

united_founder_says_amazons_control_of_the_book_industry_is_about_the_same_as_standard_oil%E2%80%99s_when_it_was_broken_up/> (16 August 2015).

²⁰³ Eddy, 'German Authors Join Protest Over Amazon's Tactics in E-Book Dispute', *The New York Times*, 17 August 2014.

²⁰⁴ D. Streitfeld, 'Amazon's E-Books Business Investigated by European Antitrust Regulators', *The New York Times*, 11 June 2015.

5. Conclusion

When Amazon went live twenty years ago, Jeff Bezos wanted it to become 'Earth's Biggest Bookstore'.²⁰⁵ With \$5.25 billion revenue in book sales and with tens of millions of books for sale on Amazon.com,²⁰⁶ it is safe to say that Bezos has accomplished his goal. Amazon has become one of the biggest players in the book field, with publishers becoming more and more dependent on the online retail giant for the sales of their books and e-books. The aim of this paper was to research Amazon's position in the book field and the relationship between the online retailer and publishers, according to Thomson's interpretation of the Field theory. According to the theory, the position a player has in the field influences the relationship it has with other players. Thompson emphasized the importance of symbolic and economic capital for players in the book trade field. In this paper however, social capital emerged as another key factor to explain Amazon's position in the field. As a retailer, Amazon fulfils a big part of the distribution function for publishers. This gave Amazon the opportunity to build a relationship with customers in a way that publishers had not done yet. Next to this, technology now allows gathering information on individual internet users and their behavioural patterns. Amazon exploits this data extensively, which gives the online retailer an advantage over other players in the book trade field. As argued in this paper, this form of social capital has been very important for Amazon, using the data for example for its recommendations-feature and its top lists. The use of social capital has been a key to Amazon's success and should not be underestimated.

As argued in chapter two, Amazon has developed into a mighty and dominant player. The online retail giant currently operates in fourteen countries, with the United States as its biggest and most profitable market. When the online retailer first started in 1995, it made clever use of the several advantages it had over the physical bookshops in the US. Important examples are its infinite shelf space, its personal recommendation services, the convenience of home shopping and its ability to cater to audiences that are thinly spread in the US. The company found a void in the American book trade, which it could fill and exploit. Next to this, the US does not have a fixed price law, unlike many European countries. This allowed Amazon to stunt with prices, attracting more customers. There is also the fact that America is important in the global arena of publishing, a lot of works are translated and the US is often seen as a creative centre in this regard.²⁰⁷

Before Amazon became a powerful player in the US' book trade field, there were already other players that had a dominant role. In the 1970s the book chains in malls were successful, like Waldenbooks, which used discount and marketing techniques to improve sales. At that time, they

²⁰⁵ Striphas, *The Late Age of The Late Age of Print*, p.81.

²⁰⁶ 'Books at Amazon', *Amazon.com*, <http://www.amazon.com/books-used-books-textbooks/b/ref=nav_shopall_bo?ie=UTF8&node=283155> (17 August 2015).

²⁰⁷ Thompson, *Merchants of Culture*, p. 109.

were the ones who had enough leverage to ask publishers for lower wholesale prices and more money for front-store marketing places. After this the book chains like Barnes & Noble were the ones with the dominant position, they accounted for nearly half of the bookstore sales at the end of the 1990s.²⁰⁸ This gave these chains the opportunity to ask large sums of money for cooperative advertisement and discounts. The supermarkets came into the field next, selling a small amount of titles in very big numbers. While the overall market share of supermarkets may only be around 17%, their market share for the bestselling titles is much bigger than this and so the power they have to put titles on the bestseller list is much bigger than that of other retail channels.²⁰⁹ Supermarkets therefore have a lot of leverage in negotiations, something they use to get bigger discounts or receive better co-op agreements. Amazon is thus not the only, nor the first and probably also not the last to use its dominant position during negotiations with other players in the field. There is however an interdependency in the relationship between publishers and retailers. Retailers depend on publishers to supply them with books to sell. Normally, they do not produce the books themselves. So a retailer cannot 'squeeze' a publisher too hard, because it will not benefit from a bankrupt supplier. This interdependency is also the reason why it is beneficial for a retailer to have a healthy relationship with publishers, for they are the retailer's main suppliers of books. Amazon's aggressive negotiation tactics have the drawback that they could negatively influence the online retailer's relationship with the publishers. As a result of this, publishers could be less inclined to give discounts or do co-op agreements with Amazon, something that is not beneficial for the online retail giant.

Amazon played a big role in the rise of e-books, which strengthened the position of the retailer in regard to publishers. E-reading became broadly popular after Amazon started with the Kindle program. Amazon has a closed system when it comes to e-reading, so customers with a Kindle can only buy e-books for their device on Amazon. Because Amazon was one of the first successful entrepreneurs in e-reading and because of its closed system, the online retailer obtained enormous market shares in the e-reading markets of the US (67%), the UK (95%), Germany (43%) and France (40%). This has given Amazon a very dominant position with regard to publishers and e-book sales. As discussed in chapter three, Amazon used this dominant position in several disputes it had with publishers. These disagreements mostly resulted a little more in favour of the publishers. The most prominent example is the Amazon-Hachette dispute, where the two companies argued publicly with each other over e-book prices. In the end the two companies agreed that Hachette would keep the right to price its e-books to itself, but that the publisher would receive better terms from Amazon if it lowered the prices. This seems as though Hachette 'won' the dispute. However, it was not made public what these better terms from Amazon would be and how the proceeds of e-books were

²⁰⁸ Miller, *Reluctant Capitalists*, p. 49-52.

²⁰⁹ Thompson, *Merchants of Culture*, p. 308.

divided between the two companies. Also, the contract between the publisher and Amazon entails paper books as well, and it has not been made public what kind of agreements were made on this front. So it is not altogether clear who really 'won' the dispute and who gained most out of it. It is however made clear that Amazon knows it has a dominant position with regard to e-books and it is not afraid to use this position in negotiations.

In an interview with *The Bookseller*, Hachette-frontman Arnaud Nourry talks about the dispute his company had with Amazon in the US. Nourry emphasized the importance of large companies like Amazon. He explained they contribute to the market of books and enable publishers to reach different customers, calling Amazon 'a driving force' in the book trade.²¹⁰ It is remarkable that the publisher is still praising Amazon after their month long dispute, but reasonable all the same. Amazon sells a lot of books, bringing in money for the publishers. With Amazon's infinite shelf space, publishers can offer and sell a lot more titles than in physical bookshops or supermarkets. Next to this, the online retail giant also invests money in the book trade, which is beneficial for publishers. The Kindle has ignited 'the e-book revolution', causing an enormous uplift in e-books sales. So calling Amazon 'a driving force' is not unjustified.

In terms of their relationship with Amazon, Nourry explains that even if Amazon is infinitely larger than Hachette, the publisher's intellectual capital and symbolic capital give it strength and bargaining power.²¹¹ In a way, Nourry is right: the rights to sell a book, lies with the publisher and this gives it leverage in negotiations with retailers. But it should be taken into account that books are no longer Amazon's primary sales category: only 7% of Amazon's yearly revenue comes from book sales.²¹² Amazon's growth in other categories, like clothing and electronics, could cause a decreased need for books for the online retailer. Amazon may sometimes even make a loss on book sales, using cheap books to lure customers into buying products from other, more profitable categories like clothing.

Not only during e-book negotiations did Amazon use its position to pressurise publishers. There are other ways large retailers can coerce publishers for better terms, like co-op agreements and discounts. Large retailers have a lot of influence on what will sell best and so they have a lot of leverage over the publishers. Large publishers like Hachette have enough capital to resist or disagree with certain demands, hence the public disputes. But small publishers have a lot less bargaining power. January 2015 an article appeared in *The Guardian*, accusing Amazon of abusing its position when it comes to small indie publishers, misleading them with hidden charges in a service they need

²¹⁰ F. Piault and B. Casassus, 'Hachette Livre's Nourry discusses Amazon and e-books'.

²¹¹ Idem.

²¹² Bercovici, 'Amazon Vs. Book Publishers'.

to be able to sell their books online.²¹³ The large houses have enough capital to disagree with Amazon on these types of things, but for small publishers this is much harder or even impossible to do. They for example do not have enough economic capital to miss even a month's worth of Amazon sales. Going into a month long dispute like Hachette did, is just not an option for them.

The fight Amazon had with Hachette was very public and it was reported on frequently and extensively by news outlets. If Amazon continues with the kind of negotiation tactics it has used last year, this could lead to even more public arguments with publishers. The retail giant should consider the impact of the negative publicity that accompanies such disputes. It might decrease the company's symbolic and social capital. A lot of the reporting on disputes portrays Amazon as 'the villain' and they are often not very positive on Amazon. This negative communication is enhanced by other negative reporting on Amazon, like the 2014 warehousing strike in Germany or the critique Amazon has received about how it 'mistreats' its office employees in the summer of 2015.²¹⁴ This negative discourse can have an impact on the company's symbolic and social capital: Amazon's status and prestige as a 'trusted' retailer could decrease. Customers could start viewing Amazon in a less positive way, sometimes even choosing not to buy at Amazon anymore because they have lost faith in the retailer.

For future research it would be interesting to examine the effects of other dominant players in the book trade field. The US' book trade is currently dominated by several large players, not just by Amazon. Retailers like Barnes & Noble and large publishing houses like Hachette and Penguin Random House, are also key players in the book trade field. Next to these traditional outlets, supermarkets are a key player in the field and sell a lot of books. Large publishing companies are also interesting to research in this light. The US is for example dominated by five big publishers. These large publishing corporations are often part of an even bigger media conglomerate. Hachette is for example part of Lagardère, a French media conglomerate, and Penguin Random House is owned by Bertelsmann and Pearson, a German and an English conglomerate.²¹⁵ These large corporations are listed companies that aspire to grow each year, even though the book field has a flat or even declining market.²¹⁶ They buy and merge with a lot of smaller publishers, maintaining their growth. It would be interesting to research the effect that these large companies have in the book trade field. Not just on a national level, but internationally as well. Lagardère for example has publishing houses

²¹³ L. Mitchell, 'Amazon, the greedy giant with small publishers in its grip', *The Guardian*, 2 February 2015.

²¹⁴ E. Thomasson, 'Amazon workers strike in Germany as Christmas orders peak', *Reuters*, 15 December 2014, <<http://www.reuters.com/article/2014/12/15/us-amazon-com-germany-strike-idUSKBN0JT0YS20141215>> (18 August 2015).

J. Kantor and D. Streitfeld, 'Inside Amazon: Wrestling Big Ideas in a Bruising Workplace', *The New York Times*, 15 August 2015.

²¹⁵ Bosman, 'Penguin and Random House Merge'.

²¹⁶ J. Milliot, 'Book Sales Dipped in 2013', *Publishers Weekly*, 30 June 2014, p. 7.

both in Europe and the US. What are the effects of such an international company on the book trade and are there any benefits or disadvantages for the field? These large conglomerates for a large part decide what gets published and they are leading companies in the book trade field, so it is important to research them. This is also interesting to research in light of the fact that it is beneficial for all the agents in the field, if they operate in a durable, healthy field. As mentioned above, bankrupting publishers for example is not beneficial for retailers, because they need the publishers as their suppliers. Due to this interdependency between all the players in a field, they all benefit to some extent of the health of the other agents. But how long can a dominant player keep trying to improve its position in the field without critically damaging other players? What are the effects of an aggressive player like Amazon on the durability and the health of the field as a whole? In chapter three, I have briefly mentioned that Amazon owns some publishing imprints and that it has several platforms through which authors can self-publish their works. Self-publishing eliminates the publisher from the publishing chain. This affects the interdependency between retailers and publishers, because with self-publishing, publishers are not necessary for the supplying of books. How this affects the relationship between Amazon and publishers is also interesting for future research.

Future research could also focus more on readers, who are an important factor in the book trade field. As argued in this paper, publishers feel the effect of a dominant retailer, but does this apply to consumers as well? Consumers are in a way being used by the large corporations, they are for instance essential for Amazon's social capital. The online retailer's loyal customers and all the data that the company gathers from consumers are important for Amazon and it strengthens the retailer's position. It would be interesting to research what position consumers can hold in the book trade field. Perhaps consumers actually could have a strong position as well, Amazon not only gains a lot of information and social capital, the company also depends on customers for economic capital. Customers thus hold a lot of power, but because this power is spread over a lot of different people it is almost negligible. If consumers bundled their powers, they could have a lot more influence. It is therefore remarkable that Amazon initiated Readers United, because if readers really united their power they could pose a threat to Amazon's position and power.

Last year Amazon also had a disagreement with Disney. During its negotiations with Disney, Amazon used the same tactics as it did during the dispute with Hachette: preventing customers from pre-ordering products that were yet-to-be released.²¹⁷ So it is not just in the book trade where Amazon is using its position to squeeze suppliers. It is happening in different fields. This would be important for future research to examine. What are the effects of Amazon's dominance in other

²¹⁷ Streitfeld, 'In a Fight With Authors'.

fields and what are the consequences for the markets that Amazon operates in? Amazon is probably not the only dominant player in these fields, so in a broader view: how do dominant players in a certain field control and effect that field and its other players?

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