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Curiouser and Curiouser: Novelty-centred Business Models and Value Creation in Established Publishing Firms

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Abstract: The global publishing industry is in a period of turmoil. Established firms are accused of sticking to broken—and doomed—business models, while start-ups and new entrants are seen as the prime beneficiaries of the rapid pace of technological change. To survive, existing book publishers must find new sources of value creation, devoting resources to the development of new business models as much as the content and product innovations currently gaining attention. This study synthesizes research across the publishing and management fields, presenting a generic business model for the traditional book publishing industry, which is then used to identify and categorize nine novelty-centred business model innovations within established book publishing firms. An analysis of the methods used to create value—for publishers, content creators, and consumers—derives four distinct categories of novel business model innovation: developing new distribution mechanisms and sales transactions, breaking down barriers between publishers and consumers, capturing new revenue streams, and transforming into a service business. It is demonstrated that the innovative business models of established firms are in line with those that have been seen to deliver increased performance for start-up businesses. However, the impact on performance for these more long-running book publishers is, as yet, uncertain.

Keywords: Business Models, Publishing, Value Creation, Innovation, Future Directions, Technological Change

Background

Despite many announcements of the death of books or publishing, literary reading is on the rise (NEA 2009), as is reading on tablet computers and ereading devices (Rainie et al. 2012). Worldwide, the publishing industry is estimated to be worth EURO80bn, making it the second-largest creative industry after television (Publishing Perspectives 2011). In the UK it takes number one spot, contributing over £5bn to the economy (The Publishers Association 2009); in the US publishing employs over 78,000 people, generating $27bn revenue (IBISWorld 2012). Yet, like Lewis Carroll's eponymous heroine at the start of *Alice's Adventures in Wonderland*, the publishing industry now finds itself on the cusp of a world that is fundamentally different from the environment it has previously known (Hanna 2010).

The Publishing Industry Under Pressure

The global publishing industry has been under extreme pressure in recent years. Declining print sales at the start of the economic downturn were described at the time as "worse than 9/11" (Thompson 2010), the disruptive influence of the internet – and corresponding reader expectations of free or low cost access to content – caused "considerable angst" in some markets (Shelstad 2011), and publishers declared "war" on disruptive bookseller Amazon over ebook pricing (Jones 2008). Hardly a week passes without an article in the business or mainstream press predicting the death of the book, the death of publishing, or the death of old-fashioned inflexible publishing firms (e.g. Adams 2012, Charman-Anderson 2012 and Morrison 2011). In a comment worthy of a guest at the mad-hatter's tea party, author and new media scholar Clay Shirky has even declared that publishing is no longer a job, but "a button" (Curtis 2012).

Threats to publishers are, however, nothing new. Established houses have struggled for decades with declining sales, costly authors, poor supply chains and a "curious" business model

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(Lichtenberg 2010). But the speed and intensity of recent change has taken its toll on the entire publishing ecosystem and even the nature of the publisher's role (Mussinelli 2011), with many organizations debating what it now means to occupy the publishing space (Faherty 2013). Mussinelli (2011) describes the state in the twenty-teens as "a discontinuity"; others have appropriated the weather-beaten analogy of "the perfect storm" (Shore 2012).

In the maelstrom of debate around the future of publishing, business models are repeatedly accused of being broken (Thompson 2010) or under threat (e.g. Greco, Rodriguez and Wharton 2006). While existing publishers sat awaiting the appearance of effective business models in order to establish ebook markets (Bennett 2010), the business models of new entrants to the industry are those that drew the most attention (e.g. Guirey et al. 2012, Osterwalder and Pigneur 2010, and Shelstad 2011). This scenario is perhaps unsurprising since the majority of book publishers rely on a business model where the customer buys something once and the transaction is complete, an approach best avoided in times of rapid change and inter-industry competition (Cliffe 2011). Yet, established publishers must learn from others and create strong, innovative business models if they are to avoid falling down the rabbit hole of ever decreasing revenues created when physical book sales are replaced by lower-priced ebook transactions (Anderson 2011). In times of uncertainty organizations need to be less incremental (Nussbaum 2013). Rather than "cranking out more widgets and features", the focus should be on developing businesses that create value and drive growth (Ries 2011).

Theory

Business Models

While there are numerous definitions of the concept of a 'business model', this study uses that of Amit and Zott (2001): "the content, structure and governance of transactions defined so as to create value through the exploitation of business opportunities". As a unifying description capturing value creation across multiple sources, it is especially useful in the context of publishing, an industry that relies on strong business relationships for commercial success (Guthrie 2011). Amit and Zott derived their definition from a study of ebusiness firms (defined as companies that generate more than 10% of their revenue from online sales), which realize value not only by reconfiguring their value chain, but from developing innovative exchange mechanisms and transaction structures. Publishers could also be categorized in this way, since most will derive more than 10% of their revenues from digital sales. However, publishers' ability to create value from business models is a hitherto unresearched area.

Business Model Innovation

King and Anderson (2002), calling on the work of West and Farr (1990) and King and West (1987) describe innovation as intentional products, processes or procedures, which are new to the work group or organization in which they are introduced *and* which have the aim of producing benefit for the organization or wider society. Innovation can be focused at the level of individual products, or it can lead to substantial change in the way a company operates. This split mirrors Smith, Binns and Tushman's (2010) categorization of strategies that enable organizations to compete in the marketplace into *exploitative* or *exploratory* approaches. Exploitative initiatives improve products and services operating in an existing marketplace while exploratory ones introduce products and services that have the potential to define new marketplaces.

In business model terms, innovation can also be categorized into two similar approaches (Zott and Amit 2007). *Efficiency-centred* business models deliver products or services similar to the company's current offer, but in more efficient ways. It is these models that gain the most exposure when looking at reported innovation within established publishing firms. However, it is *novelty-centred* models – which introduce new ways of conducting economic exchanges – that delivered the greatest performance boost to the entrepreneurial firms in Zott and Amit's study. These exchanges are usually overlooked in showcases of exemplary publishing innovation (e.g. The Publishers Association 2011), which instead focus on technology or content developments.

Business Models as Analytical Tools

There is a growing body of literature discussing the use of business models as analytical tools and the methods of their interpretation. For example, Lambert and Davidson (2012) suggest that new perspectives on an industry or group of organizations can be found by classifying enterprises according to their business model. Further, generic industry or organization business models provide benchmarks from which individual initiatives can then be classified into different kinds of behaviour (Baden-Fuller and Morgan 2010). In terms of interpreting business models themselves, Chesbrough (2010) considers visual mapping to be a useful tool.

Hypothesis

At the turn of the twenty-first century, publishers' early responses to potentially disruptive new technology were a mixture of "bravado, reluctance, and confusion" (Overdorf and Barragree 2001). Despite this inauspicious start, established publishers *are* now innovating their business models. In 2007 the president of Wiley stated that the company had experimented with more business models over the previous decade than in its entire 200 years of operation (Clark and Phillips 2008). As Dame Marjorie Scardino stepped down from the helm of Pearson in 2012, she was lauded for scaling back well-worn business models and moving into new markets and services (Rushton 2012). In the same year, the annual FutureBook awards selected Stephen Page, CEO of Faber & Faber, as their "most inspiring digital person of the year" (Bookseller 2012). Combined, these three companies 'clock up' almost 600 years of experience in book publishing.

This suggests that, contrary to the image presented in the popular press, established publishing firms are, in fact, using a range of novelty-centred business models to create additional value for their organizations, their authors and consumers. This study aims to identify and categorize the types of novelty-centred models currently in use, and to explore the attributes and implications of these new initiatives.

Methodology

The initial section of this study (titled The Generic Publishing Business Model) proposes a new definition of the fundamental publishing business model. The definition is derived from the publishing literature and is based on the concept of modelling transactions that create value. The result provides a summary both of the various activities that create and capture value within a typical publishing product and of value generation within entire publishing companies (as well as their associated content providers, intermediate customers and end-consumers). As a scale model, this creates a benchmark allowing comparison with individual initiatives, which is then used to classify publishing innovations into different typologies.

To ensure a focus on 'established' firms, the example cases were all sourced from organizations that had been involved in publishing for more than 50 years. An initial scan of company websites, corporate announcements and the trade press led to a 'long list' of potential case examples. These were each explored in order to remove any initiatives that could be considered to be wholly efficiency-centred. This resulted in the loss of some projects that might be considered purely as marketing activities (rather than complete economic transactions) and a number of ‘new’ initiatives that were focused only on the development of new publishing formats, without any changes to the fundamental business model. Cases where there was insufficient information available to draw effective conclusions about the underlying business model were also weeded out at this stage, as were any exact duplicate business models.

Although the over-fifty-years-old requirement tended to bias company selection to large conglomerates, two small independents made it into the final listing. An effort to balance the initiatives across the consumer and academic markets (where businesses often act quite differently) and both sides of the Atlantic (to reflect the global nature of the industry) was also made.

As shown in Table 1, the final group of case examples amounted to nine projects from nine established publishing firms. Data on each of these initiatives was obtained from a range of sources, including corporate websites, trade publications, scholarly research and mainstream media coverage. Due to the fast-moving and contemporary nature of some initiatives, authoritative industry blogs and online publications were also utilized; these were especially useful as sources of publisher opinion.

Table 1: Novelty-centred Business Model Case Examples from Established Publishing Firms

Business model case example	*Publishing firm*	*Date Founded*	*Publishing sector/s*	*Ownership/location*
Faber Factory client–publisher service	Faber & Faber	1929	Literary fiction	Independent. Head Office: London.
Carina digital-first imprint	Harlequin	1908 (as Mills & Boon)	Trade (romance)	Owned by Torstar Corporation. Head Office: Toronto.
Authonomy writers’ community	HarperCollins	1817 (as Harper Brothers company)	Trade	Owned by NewsCorp. Head Office: New York.
Bold in-app purchasing	Kogan-Page	1967	Professional	Independent. Head Office: London.
Scitable science community	Macmillan	1843	Trade, academic, schools, journals	Owned by Georg von Holtzbrinck publishing group. Head Office: Stuttgart.
Pearson Developer service	Pearson	1724 (as Longman)	School, higher education, professional, assessment	Owned by Pearson plc. Head Office: London.
Author Solutions self-publishing service	Penguin	1935	Trade	Owned by Pearson plc. Head Office: London.

iPulse teen reader community	Simon & Schuster	1924	Trade	Owned by CBS. Head Office: New York.
Academic Complete ebook subscription	Wiley	1812	Academic, professional, journals	Independent. Head Office: Hoboken.

By visually mapping the business model of each case example on to the generic publishing business model, key differences between the 'norm' and the case examples were highlighted. These differences were then grouped together to identify common approaches to new value creation across the entire group of cases.

Results

The Generic Publishing Business Model

Despite lively discussion about business models within industry and academic groups, there is limited documentation of the fundamental mechanism that underpins business transactions in the sector. Recent studies have focused on the specific issues of Open Access within scholarly publishing (e.g. Bird 2009 and Björk 2012) – no doubt fueled by the fear instilled in publishers about the issue (Oppenheim 2008) – and models of ebook distribution and pricing (e.g. Tian and Martin 2011 and Kenny 2011). There are also reports of business models developed by new entrants into the sector (e.g. Horne 2011 and Guirey et al. 2012), including specific analyses of the crowd-sourced funding platform Unbound (Osterwalder and Pigneur 2010) and Flat World Knowledge's open source textbook program (Shelstad 2011). Yet, the basic model of book publishing has been almost overlooked.

Clark and Phillips (2008) define the primary business model of publishing as the sale of copies of books, or – in the scholarly sphere – the sale of subscriptions to journals. This is also the inherent assumption in Davies and Balkwill's (2011) representation of the "current" publishing business model as a profit and loss statement built around book sales. However, Clark and Phillips' secondary business model, the licensing of authors' rights to others, is often the key factor in making a book project profitable (Davies 2004). It is also an area that has recently risen in importance for publishers (Alexander 2010). In fact, Bide (1999) describes publishing as fundamentally "a rights business", while Thompson (2010) identifies owning the right to use and exploit intellectual content as the distinctive feature of publishing firms. In a broader context, The Department for Culture, Media & Sport also categorises publishing as part of the creative industries, which it defines as those industries having "potential for wealth and job creation through the generation and exploitation of intellectual property" (DCMS 2001). The Clark and Phillips model is therefore a less than optimal approach to modelling the essence of how publishers create and capture value. Given the collaborative nature of publishing endeavours, their model also omits participants who play key roles within the process.

Figure 1 presents an alternative approach, which defines the publishing business model as *the acquisition of content rights and the exploitation of those rights, delivering value for content creators, publishers, customers and consumers*. As the figure illustrates, even in this relatively straightforward definition there are many variations and complexities. Although the model omits third-parties involved in the physical creation of books (whether print or digital), such as freelance designers and editors, typesetters, printers and software developers, it still highlights the multiple transactions publishers make to source content and reach consumers.

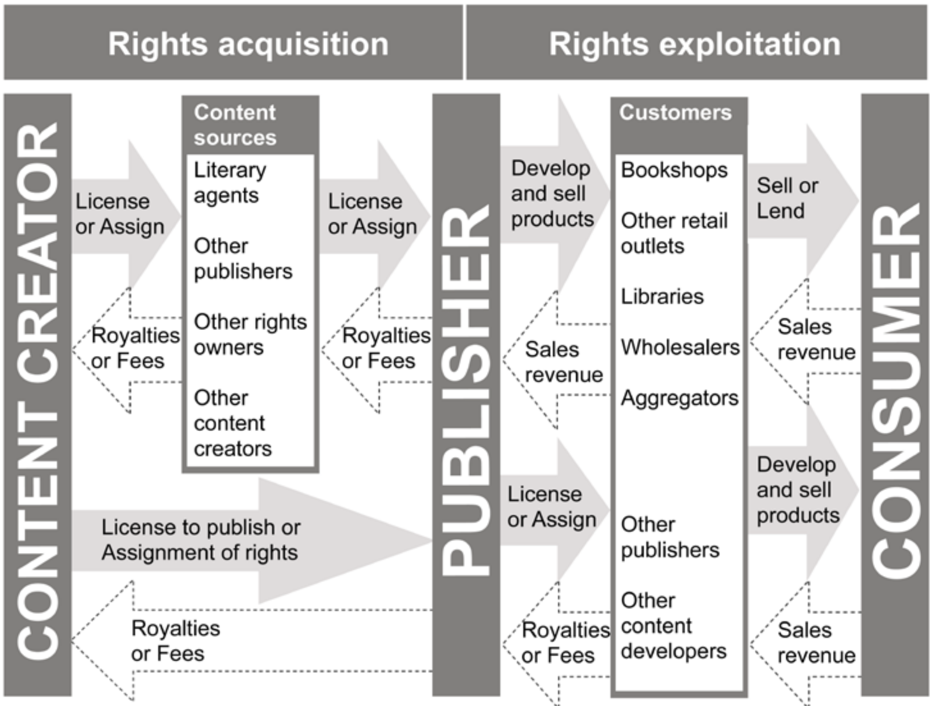

Figure 1: The generic publishing business model involves acquiring and exploiting content rights. Dotted arrows demonstrate the value delivered to participants.

Sourcing Content

While most trade publishers (those who produce and sell books to mass-market consumers) negotiate an exclusive licence to publish content from contracted authors in book form, those developing resources for academic markets tend to negotiate full transfer of copyright (Owen 2010), thereby opening up opportunities for organizations to reformat, bundle, or ‘slice and dice’ content in a variety of forms. Given the mooted benefits of moving away from a one-size-fits-all model of selling single formats to multiple consumers in favour of developing tailored formats for specific customers (Horne 2012), this distinction has important consequences. In return for either of these agreements, authors are usually recompensed with a percentage of the publisher’s sales revenue, paid as an annual royalty and sometimes involving an upfront advance against future earnings.

Publishers may also buy or license rights from other content owners, for instance games developers, film producers, picture libraries or museums, or they may commission content directly from jobbing writers, illustrators and photographers. A single illustrated book may involve the exclusive license of content rights from an author, the out-right purchase of copyright from a photographer commissioned to capture specific images for the publication and the non-exclusive license to reproduce images obtained from other sources. These additional content providers derive value through payment by the publisher, usually via a one-off upfront fee, as well as securing the benefit of the publisher’s expert production skills and wide distribution networks. Literary agents also act as intermediary brokers between some authors and publishers, taking a cut of around 15-20 per cent of the author’s earnings (Blake, 1999).

Reaching Consumers

The most stark attribute of Figure 1 is the disconnect between publishers and consumers. In general, publishing companies either sell and license their content rights on to third parties, such as movie producers and foreign language publishers (who then develop them into appropriate products to deliver value to their own customers) or they turn them into products themselves. Even in this most familiar scenario, where publishers focus on the business of developing, producing, packaging and selling content, books traditionally reach the end consumer through one or more intermediate channels (Altbach and Hoshino 1995). In trade publishing, it may be the dwindling high street bookstores, the supermarket chains or the massive e-retailers; in scholarly publishing it is likely to be wholesalers, aggregators and libraries. The fact that some of these third parties can – and do – return unsold stock creates one of the most difficult aspects of the print publishing business (Woll 2010); it is also the reason Lichtenberg (2010) describes the fundamental business model of publishing as “curious”. While print sales pervade, this obviously has consequences for the creation of value, since publishers are forced to repay monies previously received for ‘sold’ stock, as well as accepting physical books back into their warehouse.

Publishers usually attempt to exploit all the rights available in their contracts (Guthrie 2011). For example, physical copies of a mass-market novel may be sold to bookstores and supermarkets, ebooks may be sold via e-retail services and additional stock may be supplied to wholesalers and library suppliers. At the same time, serial rights may be licensed to a newspaper or magazine, translation rights may be sold to foreign-language publishers, and TV or film rights may be licensed to media producers. As the sales of print and digital products fall and grow respectively, publishers increasingly use what Smith, Binns and Tushman (2010) term an ambidextrous model, using two paradoxical strategies: one for print and one for digital.

Novelty-centred Business Models within Established Publishing Firms

The case example analysis identified four key categories of novelty-centred business models used within the featured established publishing firms:

Category A: Developing new distribution mechanisms and sales transactions
Category B: Breaking down barriers between publishers and consumers
Category C: Capturing new revenue streams
Category D: Transforming to a service business

Category A: Developing New Distribution Mechanisms and Sales Transactions

When mapped onto the generic publishing business model in Figure 1, Category A models show few differences on the left hand side of the diagram. Publishers still acquire content in a number of different ways, using traditional transactions to deliver value to content creators. However, a number of different approaches are used to create value for the publisher and other business model participants, as shown in Table 2.

Table 2: Category A Business Models: Developing New Distribution Mechanisms and Sales Transactions

Case example	*Novelty-centred approach*	*Added value for publisher*	*Added value for other participants*
Bold in-app purchasing (Kogan-Page)	Offering targeted book chapters for sale via in-app purchasing.	• Additional revenue streams through in-app sales	For consumers: • Personalized content experience • Flexible purchasing options
Academic Complete ebook subscription (Wiley)	Selling ebooks on subscription to institutional libraries. Includes usage statistics, granular access options and patron-driven acquisition models.	• New transaction mechanisms that harness usage statistics and offer automatic sales	For libraries: • Low investment access to flexible quality content • Detailed usage statistics • Patron-driven acquisition
Pearson Developers Community (Pearson)	Making content available for third-party software developers as APIs.	• New customer relationships with software developers • New transaction mechanisms that reduce rights administration	For developers: • Easy access to quality content from recognizable brands • Low opportunity costs

With the *Bold* iPad app business publisher Kogan-Page has moved away from the concept of the book as a single item, intending to change how readers interpret the value of parts of a book; the recommended chapters are cheaper than the whole book, but more expensive than they would be on a pro-rata basis (Klopstock 2011). This granular approach to content provision is also being explored by other publishers (Wood 2011). However, it is the in-app purchasing aspect of this initiative, along with the personalized approach to delivering content, that makes the business model truly novel. Similarly, while Wiley and many other scholarly publishers' use of Ebrary's Academic Complete ebook subscription service allows customers (in this case institutional libraries) to access content in a number of different forms, the true innovations come in the form of usage statistics and patron-driven acquisition models. These allow end-users to view catalogue records for not-yet-purchased digital content as if the titles were already part of the library collection. If accessed, a seamless transaction takes place to register the usage, charging the institution for its use. In some versions of patron-driven acquisition, an outright purchase is made once a certain level of usage has been reached.

The Pearson Developers Community also makes content available to customers (in this case external software developers) before any purchase actually takes place. Offering easy online access to application programming interfaces (APIs), the project encourages third-party software developers to experiment with Pearson content. Costs only kick in – on a sliding scale – when a developer brings a finished product to market. Pearson are therefore creating new revenue streams for existing content as well as connecting with new customers through new transaction mechanisms. This may provide Pearson with what Itami and Nishino (2010) call "learning" benefits, enabling the organization to gather information about patterns of use and evaluate current and future service concepts. In the context of similar projects within news organizations, Aitamurto and Lewis (2013) go further, considering this 'open innovation' approach to deliver "mutually reinforcing benefits" for the news organization and its outside partners while accelerating the research and development process. Horne (2011) also suggests that product innovation resulting from the Pearson Developers Community will benefit the wider publishing industry.

Category B: Breaking Down Barriers between Publishers and Consumers

Category B models are all about creating new value through building direct relationships with consumers, as shown in Table 3.

Table 3: Category B Business Models: Breaking Down Barriers between Publishers and Consumers

Case example	*Novelty-centred approach*	*Added value for publisher*	*Added value for other participants*
Carina Press (Harlequin)	DRM-free direct sale of ebooks to consumers.	• Additional revenue streams from direct sales	For consumers: • Flexible content (for use across different devices) For authors: • Increased royalty rates and flexible contract terms
Pulse It (Simon & Schuster)	Free teen reading social network offering free online access to a book a month.	• New transaction mechanisms that leapfrog intermediaries • New customer relationships with readers	For consumers: • Free content • Direct relationships with other readers
Authonomy (HarperCollins)	Free writers' social network.	• New transaction mechanisms that leapfrog intermediaries • New customer relationships with authors and readers	For consumers: • Free content • Direct relationships with other readers and writers For authors: • Exposure and feedback

Romance publisher Harlequin's Carina Press is a digital-first publishing imprint whose ebooks are unhindered by digital rights management (DRM) and whose strategy delivers value to both consumers and content providers. Consumers may download their ebooks (directly from the publisher) multiple times and transfer them between devices; authors receive higher royalty rates than in traditional print publishing, on contracts that tie them in to the publisher for shorter periods of time. The imprint sells direct to consumers via a dedicated ecommerce site, but also promotes titles through third-party retailers, such as those listed in Figure 1. It also sells foreign-language rights to overseas publishers. This ambidextrous approach therefore continues to fit the generic publishing business model, while also creating added value through additional consumer revenue streams. The DRM-free direct sale model for ebooks has also been adopted by a number of other publishers including Macmillan fantasy imprint Tor and Wiley's technology list, which is sold DRM-free through OReilly.com.

While the Pulse It and Authonomy websites build direct links with readers, their focus is more on the community concept – and the offer of free content – rather than the sale of content in flexible form. Pulse It allows teen members to read a free Simon & Schuster young adult title online every month. Readers have the opportunity to discuss books with other members and enter competitions to gain access to additional content. Simon & Schuster report that members gain value from the availability of an accepting and safe online space, where they talk not only about books, but also about their general feelings and concerns (Publishing Trends 2011). Although not monetized for the publisher, the greater potential value-add for Pulse It – and for similar sites run by Penguin, Random House and Hachette – is likely to be in fostering a keen and social group of readers into adulthood. The concept of free online access, without the option to download or print, is also used in a very different market by Bloomsbury Academic, who offer free online access to their otherwise high-priced research monographs

HarperCollins' Authonomy takes things a step further, by also opening up links between consumers and writers. The free-to-use online service links writers and their unpublished work with readers. Although it is a zero-revenue model, the intangible value-adds for all parties are potentially high: writers gain exposure for, and feedback on, their writing, as well as new connections and relationships; readers discover and obtain access to writing that might otherwise not be widely distributed, and have the opportunity to build direct relationships with authors. In the central spot, the publisher builds a network of keen readers, who may provide opportunities for future direct sales, alongside a network of writers who may become customers for self-publishing services.

Category C: Capturing New Revenue Streams

Like Category A models, Category C models are all about making changes to the right hand side of the generic business model. In this case, not only is there a new relationship between publisher and consumer, but new revenue streams are captured in order to monetize a free-to-the-end-user service, as shown in Table 4.

Table 4: Category C Business Models: Capturing New Revenue Streams

Case example	*Novelty-centred approach*	*Added value for publisher*	*Added value for other participants*
Scitable (Macmillan Publishing Group)	Science social network providing sponsor-funded access to authoritative learning resources while linking students with professional scientists.	• New revenue streams from advertisers/sponsors • New customer relationships with students	For consumers: • Free access to quality content • Relationships with peers and leaders in their specialist field For sponsors: • Targeted brand exposure to student market

While Macmillan's Scitable community could possibly be considered a category A or B model, the move to find new revenue streams outside the sale of content to consumers or sales intermediaries led to it being given a category all of its own. It is unsurprising that this advertiser-funded approach came out of Macmillan, a publisher whose *Nature* magazine already draws on advertising revenues. This approach bucks the current trend of news media moving to pay-wall business models, where consumer revenues are predicted to surpass those from advertising (Yang 2012). However, given the vitriolic debates around access to academic and scholarly content (e.g. Monbiot 2011), it is unlikely that pay walls would be well-received in this market. Furthermore, the project's Publishing Director Vikram Savkar attributes some of the site's success to satisfying the demand from students, teachers and scientists for easy (and ideally free) access to rigorous scientific content (O'Dell 2009). In return, Macmillan gains access to students to whom it may be able to sell other content and products.

Category D: Transforming to a Service Business

Category D models are the most radical of all those identified. They defy being mapped on to the generic business model and transform the activities of publishers from product development, manufacture and distribution to the delivery of a service. Two key case examples demonstrate this, as shown in Table 5.

Table 5: Category D Business Models: Transforming to a Service Business

Case example	*Novelty-centred approach*	*Added value for publisher*	*Added value for other participants*
Faber Factory (Faber)	Digitization, ebook conversion, distribution and direct-to-consumer services for client publishers.	• New revenue streams from service fees • New transaction mechanisms • New customer relationships with client publishers	For client publishers: • Low opportunity costs • Increased brand awareness through direct-to-consumer activities
Author Solutions (Pearson)	Self-publishing services for authors.	• New revenue streams from service fees • New transaction mechanisms • New customer relationships with client authors	For client authors: • Effective publishing and distribution channels

As a founding member of an alliance of ten independent publishers, for which they also provide a sales team, Faber & Faber are already familiar with the concept of client publishers. Faber Factory, however, substantially extends the concept by providing a one-stop shop to over 100 publishing accounts in both the UK and US. In order to deliver the full gamut of text digitization, ebook conversion, global distribution and direct-to-consumer services, Faber partnered with two other organizations, ensuring a raft of value benefits for their clients.

When Penguin's parent group Pearson bought Author Solutions Inc. for $116m in summer 2012 it was the first major acquisition of a large self-publishing company by a traditional book producer (Sonne and Trachtenberg 2012). At the time, Pearson's CEO John Makinson said the acquisition would enable Penguin to participate in "perhaps the fastest-growing area of the publishing economy" while also gaining skills in customer acquisition and data analytics (Williams 2012). Like Faber Factory, this initiative turns the traditional publishing business model on its head. As authors and publishers become paying customers the acquisition and exploitation of rights is nowhere to be seen…

Discussion

As Chesbrough (2010) reports, new technologies will only deliver value to existing organizations if a suitable business model can be found. New entrants to the publishing industry who find more appropriate business models than established firms may therefore realize far more value from the opportunities presented by developments in digital technology. Established publishing companies run the risk of being trapped by their traditional business models unless they make a conscious effort to develop innovative business models.

The novelty-centred business models used by the featured established publishing firms show that companies are experimenting with more than new technologies and formats. They are also creating value through new transaction mechanisms, new revenue streams, new distribution methods and new direct relationships with consumers. Some are even utilizing their competencies and capabilities to create entirely new service offerings. Despite multitudinous predictions about the future, it is unclear which – if any – of these models will prevail. Some publishers, such as O'Reilly's Andrew Savikas, consider that there will be a general move away from purchase-based models to access-based ones, where the price of the unit is irrelevant (Owen 2011). This is consistent with approaches seen in Category A, B and C business models. On the other hand, moves to create service models, such as the case examples in Category D, are more in line with Overdorf and Barragree's (2001) view that organizations must seek out opportunities to build new markets.

Esposito (2010) suggests that publishers will ultimately fragment into either demand-side or supply-side organizations. Demand-side publishers will stick largely to the generic publishing business model, acquiring rights to content for which there is already a market and then charging customers to read the resulting published works. They may also stray into Category A or B business models as they create granular products or execute a "channel pivot" (Ries 2011) to explore opportunities to sell direct to consumers. Given that Ries (ibid) attributes the disruption within publishing industries to the internet's destructive effect on traditional sales channels, it is no surprise that this is an imperative; the CEOs of HarperCollins and Random House have both demanded moves towards direct consumer relationships (Jones 2007; Shatzin 2010).

Supply-side publishing is more aligned with the Category D case examples. Here, the author becomes a client customer. This applies not just to offering self-publishing services, as in the Author Solutions case example, but also to the Open Access fees charged by academic and scholarly journal publishers. The success of such service ventures will be linked as much to business model redesign as to the creation of the services themselves (Kindstrom, 2010). As organizations move from transaction-based models to relationship-based ones, managerial and financial resources will be diverted away from book production and new product development, raising questions about how established firms can leverage their advantages within their new service operations (Oliva and Kallenberg 2003). Such radical innovations also require the development of new technological and commercial skills (Sørensen 2012).

Of course publishers may follow both demand- and supply-side strategies, positioning themselves as ambidextrous organizations, as they already do in trying to walk the line between maintaining their print revenues while developing new revenue streams from digital products and services. Indeed, despite its acquisition of Author Solutions, it is hard to imagine a company such as Penguin becoming a solely supply-side company. Similarly, Faber may not describe themselves as a publisher anymore (Faherty 2013), but their focus on the space between author and reader ensures they are likely to pursue both traditional demand-side business models and new service-centred ones.

Ultimately, the case analysis suggests publishers are pursuing two distinct routes to business model innovation. One tinkers with the myriad mechanisms and transactions within the generic publishing business model illustrated in Figure 1. The other rips that model apart and rebuilds it as a service model, as shown in Figure 2. The 'publisher' role in this approach is presented in inverted commas to reflect the move away from the traditional publishing function.

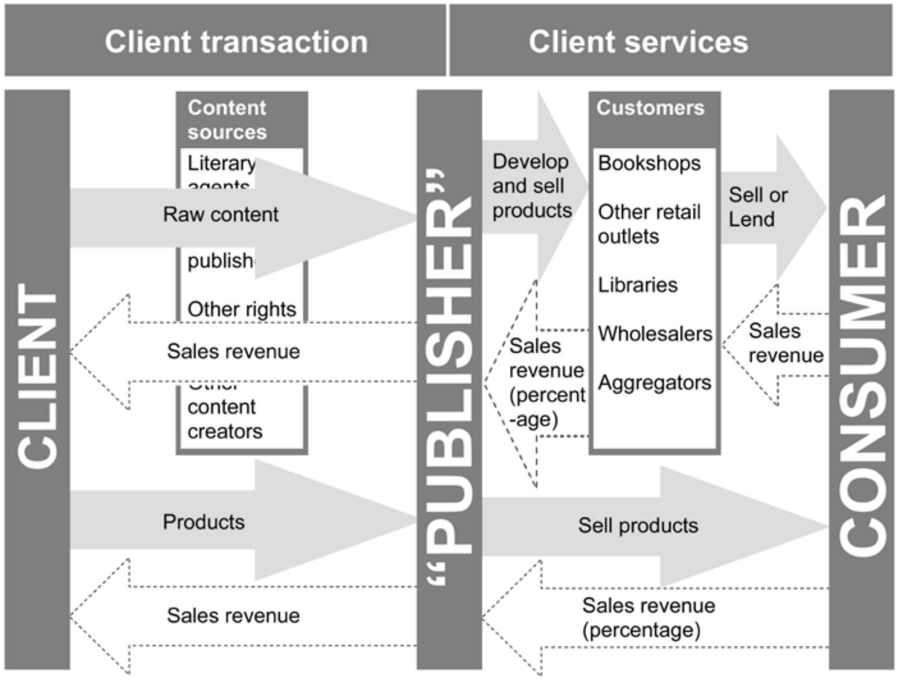

Figure 2: The service publishing business model involves supporting content-creator and publisher clients for a percentage of sales revenue. Dotted arrows demonstrate the value delivered to participants.

Conclusion

This study is deliberately focused on one specific industry sector, which is likely to limit its application elsewhere (Lambert and Davidson 2012). However, the generic publishing business model presented in Figure 1 provides a fundamental tool that can be used for identifying and categorizing innovative business models within the publishing industry. Given its focus on rights acquisition and exploitation it may also have application to the analysis of other creative industries, such as computer-game development or TV and film production.

From this study it is clear that some established publishing firms have ventured through the looking glass into a world full of different novelty-centred business models, each of which creates value for the organization and/or its authors and readers. However, the extent to which these efforts will affect the future success of these companies – and the industry as a whole – is unclear. Amit and Zott's (2001) work linking novelty-centred business models to increased firm performance focuses solely on start-up firms, while Neely (2008) reports that large firms pursuing innovations like those within category D may find it particularly difficult to achieve the financial benefits that might be expected. As if to reinforce this, the financial performances of many of the publishers featured in the case examples were poor in the twelve months leading up to this study. This unresolved issue is an area worthy of rapid scholarly investigation, since any evidence of financial growth or company stability is likely to encourage other established firms to take up further novelty-centred models.

A related area for urgent research is the exploration of barriers to – and enablers for – business model innovation within established publishers. As Chesbrough (2010) points out, the key aspects of business model innovation may often conflict with traditional organizational configurations, while the dominant logic of a company may blind it to the potential of technologies that do not fit its current model. How, then, are some 'traditional' publishing firms managing to drive innovative new models and create new value, like those in this study? Clear answers to this question would have valuable practical implications for the future of the entire publishing industry, for the global economy it fuels and for the cultural wonderland it underpins.

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