Publisher Wins Fight With Amazon Over E-Books

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After a weekend of brinksmanship, Amazon.com on Sunday surrendered to a publisher and agreed to raise prices on some electronic books.

The Kindle 2 reader. Amazon.com surrendered to Macmillan and agreed to raise prices on some electronic books.

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Amazon shocked the publishing world late last week by removing direct access to the Kindle editions as well as printed books from Macmillan, one of the country’s six largest publishers, which had said it planned to begin setting higher consumer prices for e-books. Until now, Amazon has set e-book prices itself, with $9.99 as the default for new releases and best sellers.

But in a statement Sunday afternoon, Amazon said it would accept Macmillan’s decision. On Friday, Amazon removed “buy” buttons from thousands of titles published by Macmillan, including recent best sellers like “Wolf Hall” by Hilary Mantel and “The Gathering Storm,” by Robert Jordan and Brandon Sanderson. Customers who wanted to buy print editions could do so only from third-party sellers. Digital editions made for Amazon’s Kindle device disappeared. In a strongly worded message on its Web site on Sunday, Amazon said that while it disagreed with Macmillan’s stance, it would bow to the publisher’s plan. “We have expressed our strong disagreement and the seriousness of our disagreement by temporarily ceasing the sale of all Macmillan titles,” Amazon said. “We want you to know that ultimately, however, we will have to capitulate and accept Macmillan’s terms because Macmillan has a monopoly over their own titles, and we will want to offer them to you even at prices we believe are needlessly high for e-books.”

The face-off had set the already anxious publishing industry on edge. “I think everyone thought they were witnessing a knife fight,” said Sloan Harris, co-director of the literary department at International Creative Management. “And it looks like we’ve gone to the nukes.” As of Sunday evening, the “buy” buttons had not yet been restored to Macmillan titles on Amazon. In a statement to Publishers Marketplace, an online industry newsletter, John Sargent, chief executive of Macmillan, said: “We are in discussions with Amazon on how best to resolve our differences. They are now, have been, and I suspect always will be one of our most valued customers.”

Under Macmillan’s new terms, which take effect at the beginning of March, the publisher will set the consumer price of each book and the online retailer will serve as an agent and take a 30 percent commission. E-book editions of most newly released adult general fiction and nonfiction will cost $12.99 to $14.99. Those terms mirror conditions that five of the six largest publishers — Hachette Book Group, HarperCollins Publishers, Macmillan, Penguin Group and Simon & Schuster — agreed to with Apple last week for e-books sold via the iBookstore for the iPad.

For more than a year, publishers have been fretting about the price of digital books, which Amazon, as the dominant player in the fast-growing market, had effectively been able to set. Last Thursday, Mr. Sargent flew to Seattle to explain the pricing and new sales model to Amazon. He said Amazon could continue to buy e-books on
the same terms it does now — allowing the retailer to set consumer prices — but that the publisher would delay the release of all digital editions by several months after the hardcover publication. Amazon buys and resells e-books in the same way it handles printed books, by paying publishers a wholesale price that is generally equivalent to half the list price of a print edition. Because Amazon has discounted the price of most new and popular e-books on its Kindle e-reader to $9.99, it loses money on most of those sales.

Amazon’s goal has been strategic: it aims to establish a low price for e-books that will have the ancillary benefit of helping it sell more Kindle devices. Amazon’s decision is also a victory for Apple’s chief executive, Steven P. Jobs, who first pitched the idea of selling e-books under the agency model to book publishers earlier this year. Now Apple, whose iPad tablet is due in March, can compete on fairly equal footing with Amazon. Book publishers, meanwhile, are volunteering to limit their digital profits. In the model that Amazon prefers, publishers typically collect $12.50 to $17.50 for new e-books. Under the new agency model, publishers will typically make $9 to $10.50 on new digital editions.

Apple’s stance in allowing publishers to set their own e-book prices (albeit within a limited range) is also a bit of a reversal. That is precisely the kind of arrangement it declined to offer TV networks and music labels, which have long railed against the 99-cent price of songs in iTunes. Analysts say Amazon, which accounts for 15 to 20 percent of domestic book sales, probably realized it could not compete with Apple if it wasn’t offering the same range of content. “Amazon figured out pretty quickly that this was a battle they could not win,” said Mike Shatzkin, the chief of the Idea Logical Company, a consultant to publishers.

Amazon may still hope to play one asset to its advantage. Loyal Kindle users routinely give low ratings to books they perceive as too costly, or whose digital editions are delayed past the publication of the hardcover edition. These consumers could ostensibly reject costlier e-books.