ABSTRACT

The publishing industry is at a turning point. Facing the first major disruptive innovation in five centuries, its long-established structure and business model are at stake. Building on literature based on the pitfalls for incumbents, we interviewed key executives from the major publishers in Brazil to understand their perspective. We find that not only are they facing those pitfalls, but we also propose a new one, The Industry View Trap, concerning challenges created by convergence, the difficulty to deal with changes in the ecosystem and the fact that the very definition of the industry you’re part of might have changed.
INTRODUCTION

The publishing industry is facing the most significant change in its history since the 15th century, when Gutenberg unveiled the printing press to the world (Briggs and Burke, 2006). As new models of producing, distributing and consuming books emerge, standards and market practices that have been around for the past five centuries are currently being scrutinised (Bradley and Bartlett, 2012). As this article will address, the ways in which we understand a book and the societal roles of the written word are only a few of the concepts that are being radically challenged by these innovations.

From a production perspective, new technologies now allow books to be written and produced in a fully digital process. By contrast, only a few years ago, paper was essential to the writing and publishing process. An entirely “born-digital” production changes the publishing business environment and its cost structure. Thus, basic principles, such as economies of scale, which used to be a mantra for this sector, no longer reign absolute. Many changes have occurred as the publishing process evolved from the copyist monks (who literally handwrote every single page of the Bible to create a copy), through modern authors (who took inspiration from their Remingtons and Olivettis and addressed their typewritten manuscripts with affection), to contemporary digital formats (Briggs and Burke, 2006).

From the distribution perspective, an industry reconfiguration process seems to pose a threat to a seemingly stable business ecosystem. New entrants are now taking the place of formerly entrenched players in the industry, such as distributors and bookstores, and are struggling to dominate the industry. This phenomenon is perhaps best exemplified by the rise of Amazon.com as a key player. In certain cases, these changes can cause the bankruptcy of traditional companies, such as Borders (Moss, 2012).

With respect to changes in book consumption habits, Amazon’s Kindle may easily be recognised as a pioneer. Kindle was the first successful commercial e-reader, and it revolutionised the way in which books are read and purchased. Several competitors have arisen since the Kindle (such as the Nook and the iPad), suggesting that electronic reading platforms are a major trend in the industry, instead of just a passing fad. These platforms might redefine the industry’s rules and boundaries (Eisenmann, 2007).

For all these reasons, the publishing industry is a rich object of study. Scholars have neglected it over the past years, especially in Brazil, where studies with a strategic approach on this industry are rare. The literature also reveals that disruptive changes tend to be harsher to incumbents that choose to adopt a defensive stance instead of embracing these changes and preparing appropriately for them (Day et al., 2000).

This study seeks to understand the perceptions of Brazilian editors with respect to the aforementioned changes in the publishing industry, which may have an enormous impact on the industry’s structure, business models, profitability and even survival of its incumbents. This industry at this very moment presents a unique opportunity for the analysis and understanding of the incumbents’ perception and reaction to emerging and potentially disruptive technologies, faced for the first time in centuries. Thanks to the delayed introduction in Brazil, incumbents had seen how those innovations had impacted key foreign markets (such as the US) and also knew in advance that the most relevant players of this new digital business, Amazon and Apple, are planning their entrance in the country. Motivated by this historical opportunity we strive to answer the following question: **how are the incumbents in the Brazilian publishing industry addressing and responding to those major potential changes?**
THEORETICAL BACKGROUND

According to Shapiro and Varian (1999), books are quite the perfect example of information goods: i.e., they may be transformed into bits and bytes, and they possess specific characteristics (e.g., their content can be replicated at a marginal cost that is close to zero). Moreover, information goods are experience-driven goods, implying that it is necessary to read a book to evaluate its quality. Reviews and summaries may help the reader generate a primary evaluation of a book’s content, but the final evaluation can only be formed after its consumption. Thus, companies are constantly facing the dilemma of whether they should fiercely protect their intellectual property and the potential gains that may rise from it or instead opt to maximise the propagation of this content, a process that could generate greater buzz and interest about the books (Shapiro and Varian, 1999).

Another contemporary feature of books is that they are part of an industry in which boundaries are becoming fluid, a phenomenon that is generally known as convergence (Jenkins, 2006). Bestselling books have generated movies and games (for instance, this process has occurred for the Harry Potter and Twilight book series), and the converse path has also been observed. For instance, the *Assassin’s Creed* game sequel has been transformed into a literary bestseller. Convergence also enhances the development of transmedia environments, which allow the consumption of distinct parts of an imaginary universe through multiple media. From a business point of view, the exploration of these new markets and business models also creates business opportunities that occur simultaneously in otherwise different industries. In response to that, a business ecosystem perspective appears to provide an adequate analytical perspective for information based industries. In contrast to a traditional value chain approach, an ecosystem addresses “industries” that are in a dynamic and borderless environment, thereby enhancing the perception of convergence and connection between fields that would otherwise be considered to be separate or unrelated (Iyer et al., 2006; Iansiti and Levien, 2004).

An ecosystem analysis offers a comprehensive view of the links established between industries, allowing the perception of sources of value creation and destruction that were previously ignored by traditional strategic monitoring systems (Day et al., 2000). New technologies may also impact information-based industries, particularly if these technologies are considered disruptive (Christensen et al., 2002). They potentially alter current business models, creating entirely new markets or allow the creation of new business models. Day, Schoemaker and Gunther (2000) categorise these as emerging technologies and analyse their drastic impact upon industry incumbents (even in the presence of previous scale advantages and resources). Already locked into traditional business models and partners, incumbent companies typically perceive new technologies as threats rather than as opportunities. For the authors, risk and conflict avoidance from the established companies make them vulnerable to four traps:

- **Delayed participation**, which comes from a failure to consider broader applications and from prevailing mental models that reject emerging technologies.
- **Sticking to the familiar**: the tendency to avoid ambiguity, wars for standards and dominant designs, which leads to the maintenance of the status quo, preventing the detection of emerging opportunities.
- **Reluctance to fully commit**: the lack of engagement and the imbalance between prudence and risk, reflecting a modest initial investment, which can lead to a disadvantage in positioning. May be the fear of cannibalizing existing products, the organizational climate of uncertainty regarding the expected profits; lack of capabilities; underestimation of the potential of emerging technologies and new
market needs, the difficulty of balancing the demands in the markets already known and requests for emerging technologies.

- **Lack of persistence**: mainly occurs due to the sunk cost fallacy and the pressure for short-term results that end up affecting the ability to cope with negative results.

According to the authors, those pitfalls can be avoided by widening the peripheral vision and creating a culture of learning and sharing information. Flexibility and organizational autonomy are also cited as essential in strategic decision making.

These perceived threats tend to generate passivity or mild reactions from incumbent companies, allowing the entry and rise of new participants in the ecosystem. Those new competitors are typically free from the ties that suffocate innovation, leading to an innovation process that dramatically affects the industry’s nature and profitability. Recent history shows us examples of these inadequate managerial reactions in industries such as music (Rivkin and Meier, 2000) and newspaper (Anand and Hood, 2007).

The concept of a publishing industry encompasses the entire process of providing content that is traditionally offered via printed media, such as newspapers, magazines, books and instructional material, among other sources, to the general public. The last significant innovation in this industry may be traced to 1450 (Briggs and Burke, 2006), when Johannes Gutenberg invented the movable type printing press. The innovation that occurred in the publishing industry during the subsequent five centuries may be regarded as purely incremental in nature. However, at the end of the twentieth century, significant shifts began to occur as a result of the Internet and its propagation to the wider public. Changes that not only offer new and challenging business opportunities but also constitute threats to the incumbents. The Internet represents a critical sales medium that allows global access, scalability and the potential for exponential growth. Digital content distribution is possible through a simple download process, which overcomes traditional industry limitations, such as inventory and logistics, which previously restrained publisher’s offerings bounded by the value chain perspective. With the advent of the Internet, books may easily be sold online and delivered physically, or the entire process of purchasing, delivering and reading a book may occur online (Sá Earp and Kornis, 2005).

The publishing industry may view the Internet as a continuous source of threats, particularly because it transformed it into a dynamic and competitive marketplace. Amazon may be regarded as the symbol of this transformation. Since its foundation by Jeff Bezos in 1995, Amazon became the largest virtual bookstore in the world and the market leader in the publishing industry (Collura and Applegate, 2000). A new chapter has been recently added to this imbroglio, in which the main actor is the digital book (or e-book). A digital book can be broadly defined as the electronic version of a printed manuscript. Digital books can be read in desktops, laptops or electronic devices that have been designed for reading purposes (e-readers), thereby eliminating the need for printing the content (Bradley and Bartlett, 2012). It is worth mentioning that the idea of an e-book is not clear to all consumers. The word book can mean both the message that is conveyed (words and images) and the medium that is used for this conveyance (paper brochure or hardcover) because it is acceptable to state that there would be no book as we know it without the combination of both of these meanings. Therefore, the term ‘e-book’ is used to describe content, format, software and reading hardware (Rao, 2003).

Rao (2003) and Long (2003) note clear advantages of e-books relative to physical books: a faster and global publication process, lower costs, greater convenience (because there is no need to store or to physically locate a product in order to sell it), simpler processes of content updating, and greater access to additional functionalities, such as manuscript searching and reader participation. Mobile e-reader devices are attractive to the consumer
because they fulfil the same purpose of physical books and allow a large title storage in an object that weighs no more than a single book. The category of mobile e-readers is typically divided into two types of devices: e-book readers, which primarily offer the ability to read e-books, and multipurpose devices, such as Apple’s iPad. It may be said that the combination of novel content (e-books), interface software (the app or website where this content will be downloaded from) and hardware (the e-reader) has created an entirely new platform (Eisenmann, 2007) that has been transforming the industry and may be regarded as a point of no return (Bradley and Bartlett, 2012).

Several impacts of this innovation are evident in the North American market: during the 2009 Christmas season, e-book sales surpassed their physical counterparts. Although digital books represented less than 5% of total book sales in 2009, current estimates project that they will account for 25% to 50% of total book sales in the near future (Bradley and Bartlett, 2012). The most significant players in this ecosystem are: a) Amazon, which provided great impetus to the e-book market with its Kindle launch in 2007 and is the market leader in book sales (both digital and physical), b) Apple, which entered the market in 2010 with the iPad, a device that brings the concept of convergence to consumers, and c) Barnes & Noble, a traditional bookstore chain in the US that has recently made the physical-digital transition with the introduction of the Nook e-reader.

Certain threats to the traditional business model may be inferred from these recent changes: Online merchants are replacing traditional brick-and-mortar vendors. In the US market, this trend is most evident if one considers Borders’ recent bankruptcy and Amazon’s current hegemony. Purely online companies possess advantages over traditional firms, such as lower marginal costs, greater operational efficiency, greater flexibility, increased swiftness and the better understanding of their customers (Collura and Applegate, 2000; Sá Earp and Kornis, 2005). The problems of traditional vendors that were exacerbated by the advent of the Internet include marketing channel conflicts and technological ineptitude. A multichannel approach has become a burden for many major traditional players. However, as Sá Earp and Kornis (2005) suggest, online sellers may be restricted with respect to their growth strategy, as only a handful of these merchants appear to be able to succeed, and it is therefore highly unlikely that small and medium-sized companies will survive as Internet retailers. Accordingly, e-commerce is a platform-mediated market that tends to present winner-take-all-dynamics (Eisenmann, 2007), with room for only a few players.

Digital books are normally sold at a lower price than physical books. This phenomenon primarily reflects the pricing schemes that were established by the new market creator (Amazon) set digital book prices below their physical equivalents. In addition, the publishing industry normally releases several versions of the same book: first a highly priced hardcover version and months later a cheaper paperback release (Shapiro and Varian, 1999). The increased availability of digital books led consumers to demand the simultaneous release of the digital version, which may jeopardise the traditional skimming strategy and the consequent profitability strategy (Bradley and Bartlett, 2012).

Third, control over a book’s distribution becomes greatly compromised in a virtual environment. Free public domain books are widely available now, and this availability may further threaten the traditional business model of the publishing industry.

Fourth, the editor’s role in this new publishing ecosystem may be questioned because of the recent developments that have broken the traditional structure of the publishing process. At the present time, bestselling authors have the ability to directly address vendors. The advent of on-demand book printing and self-published titles force the editors to reassess their role in the publishing ecosystem and to innovate to remain relevant (Bradley and Bartlett, 2012).
Finally, e-book adoption by schools (and, in certain cases, government-sponsored schools) may drastically change the ways in which books will be consumed, allowing the emergence of disruptive scenarios in which editors are no longer necessary (Schoemaker, 1995).

In this challenging environment, alliances forged within the current publishing ecosystem may be paramount to the survival of the incumbents. Doz and Hamel (1998) describe how alliances may be useful for companies that face urgent needs, as they enables learning about innovations and the creation of core competences. Alliances are also important for the establishment of standards and the management of complementary offerings (Shapiro and Varian, 1999), which are critical aspects of making the final product interesting to consumers. Adner (1996) states that innovation in ecosystems involves negotiation and collaborative agreements in which companies combine their individual offerings into a coherent consumer-oriented solution.

With respect to the Brazilian market, few researchers has addressed how these new technologies affect readers and how editors are coping with the changes that have arisen in this new business environment (Salgado et al., 2007). At the present time, this topic is relevant and practical to the Brazilian context, primarily because of both the recent entry of Amazon.com and the cultural and historical relevance of the publishing industry to the Brazilian nation.

In 2010 the Brazilian editorial industry generated R$ 4.2 billion (approx. US$ 2 billion), Industry revenues grew 13.12% in 2010, although this growth was only of 8.3% if government and not-for-profit segments are excluded (CBL, Snel and Fipe, 2011). Considering the specific通胀率 index for this industry (IPCA Books, which for 2010 was 5.35%), the actual market grew only 2.63%. Furthermore, if government and non-profit contributions were excluded, revenues would decrease by 2.24%. Also the average book price tag fell by 4.37% in 2010 (CBL, Snel and Fipe, 2011).

Tablets and digital books constitute major sources of uncertainty within this context. As of the first semester of 2011, there were only 196,000 tablet users in Brazil, and digital books figures were even lower. As an example, in the last semester of 2011, the Canadian bestseller “The Shack” (“A Cabana”, in Portuguese) had one thousand downloads, in comparison to the 200,000 printed books sold. “Eat pray love” (“Comer, amar e rezar”, in Portuguese) had just 75 downloads in April 2010, whereas 10,000 paper versions of this book were sold. By comparison, in the US, there were 13 million tablet users in 2010 (roughly 4.2% of the country’s population), and this figure was predicted to rise to 33.7 million users in 2011, or 10.8% of the population (eMarketer, 2011). The share of digital books in the US market jumped from 0.6% in 2008 to 6.4% in 2010, which accounted for US$ 878 million in sales revenues and 114 million e-book sales (AAP, 2012).

From the literature review, one can see that editors face a new reality fraught with uncertainty about the future. Moreover, it is noticed the scarcity of studies on this issue, configuring a gap in understanding the relationship of two critic elements, who are the subject of this study: the perception of current Brazilian publishers about the ecosystem dynamics and changes, and their strategic responses.

**METHOD**

The most common purposes of social research are exploratory, descriptive and causal (Babbie, 2001). Costa Filho (2002) notes that exploratory studies are recommended when the researcher wants to become familiar with a theme or when this is a relatively new field of study, allowing insights about a particular subject. The current study focuses on a recent and on-going phenomenon that has rarely been studied in the Brazilian context. It is essentially
exploratory and uses a qualitative approach to comprehend a social phenomenon, its characteristics and its intrinsic meanings (Denzin and Lincoln, 2006). It provides hints and information about interviewees’ motivations, beliefs and values with respect to the chosen topic and also fosters an intense relationship with the field allowing the emergence of a holistic and deep visualisation of the observed phenomena (Miles and Huberman, 1994; Stebbins, 2008). The researcher should listen and conduct the interview towards the proposed theme (Mann, 1975). The script thus acted as a guide to ensure the coverage of the relevant issues highlighted by literature review (Patton, 2002). Data collection was accomplished through in-depth interviews supported by a semi-structured script (Aaker et al., 2004).

The participants were executives in key positions at major Brazilian book editors that specialise in mass market publications. Table 1 shows the list of interviewees as well as where the editor stands in the 2012 Brazilian biggest publishers ranking according to PublishNews. (2012). The in-depth interviews lasted in average one hour, allowing the pertinent issues to emerge spontaneously throughout the sessions.

Table 1. List of Interviewees

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<th>Interviewee</th>
<th>Position</th>
<th>Publish News Ranking</th>
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<td>1</td>
<td>CEO</td>
<td>Top 5</td>
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<tr>
<td>2</td>
<td>Director</td>
<td>Top 10</td>
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<tr>
<td>3</td>
<td>CEO and Founder</td>
<td>Top 5</td>
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<tr>
<td>4</td>
<td>Director</td>
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<td>8</td>
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<tr>
<td>9</td>
<td>CEO</td>
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Source: Authors

With respect to an adequate number of interviews, Eisenhardt (1989) suggests that four to ten should be sufficient for gathering data in this instance (especially due to industry’s size and structure) and that field research should be stopped if there are signs that the marginal contribution of each new interview has begun to significantly decrease. This viewpoint represents a perspective that is known as theoretical saturation. During the last interviews, the discourses became increasingly similar, which suggested that saturation had occurred and implied that the search for new interviewees was unnecessary (Yin, 1989). With the participants’ authorisation, all interviews were recorded, and the resulting body of work comprised more than 12 hours and 200 transcribed pages. Those contents were further assessed using computer-aided qualitative data analysis software, producing micro-categories that were then merged into higher-order categories using the content analysis technique (Miles and Huberman, 1994).

RESULTS AND DISCUSSION

The analysis is presented around the four main topics that emerged both from the literature review and the content analysis, according to Day, Schoemaker and Gunther Incumbents’ Traps: Delayed Participation, Sticking to the Familiar, Reluctance to Fully Commit and Lack of Persistence. Also, a new trap that emerged from the analysis will be proposed.

Delayed Participation
The emergence of the e-books technology was no surprise for the publishing industry. However, accordingly to the theory that describes the incumbents’ traps, most of the companies adopted a “wait and watch” approach. This behavior is called **Delayed Participation** and is motivated by two groups of distinct factors, as follows.

The first factor to be considered is **Mental Models**. The research is plenty of rich testimonies that show how people tend to reject something new and unknown that it is hard to choose. As stated by interviewee 4: “That’s a world I don’t know, I must confess, and I don’t even want to think about it”.

The publishing industry in Brazil is a unique case for the study of how incumbents perceive new technologies, because it has been for centuries a virgin territory for disruptive innovations. As stated by one participant:

> “Brazilian editors are family businesses that still use the same production methods of 30 years ago. The conception that productivity enhancements are not compatible with quality is entrenched in their minds. Processes tend to be handcrafted. These are low-efficiency companies – and they’ve never really worried about that. The outcome is an expensive book, a luxury good. As the digital world forces prices down, these companies will have to change a lot. I think that’s the great threat: being unable to cope with these changes.”
> (Interviewee 7)

In this sense, all the companies interviewed believe that printed books will remain important for years to come.

> “I don’t believe editors will perish, otherwise everyone would self-publish. (…) In Brazil, digital books are not even 1%. How can the 1% lead the change process for the other 99%? It just can’t be.”
> (Interviewee 2)

On the other hand, some participants recognize the potential market changes brought with the e-books. Still, they depict themselves as unable to influence those changes, which are not perceived as opportunities, but rather as disasters.

> “It’s sort of like asking a dinosaur: if you think there’s an asteroid on a collision course, what are you going to do? In my case, I’ve said to my family that ‘there’s an asteroid coming, and I don’t know what’s going to happen.’”
> (Interviewee 4)

Some interviewees acknowledged the disruptive changes ahead, while suggesting a desire to slow down the e-books adoption rate. Some mention that they are trying to “buy some time”, postponing the major changes until their retirement. The testimony from interviewee 1 is very illustrative.

> “Once upon a time, there was a rich and lonely caliph in Arabia. His only friend was a camel… but the camel didn’t speak. So he called a vizier to teach the animal how to speak. The vizier said, ‘That’s impossible, Majesty, it’s an irrational being!’ The caliph became outraged and ordered his vizier to be executed. After executing some of his viziers, the caliph summoned a wise man, who spent two years studying the animal before reaching a verdict: ‘For a basic conversation a camel would need to know at least 300 words. It can be done, but it will cost a million rupees and would take 10 years’. The caliph was amused, thanked the wise man and said goodbye. When the sovereign left the room, some of his closest aides asked the wise man, ‘How are you going to do it?’ And the wise man answered, ‘In 10 years I might be dead, or the caliph might be dead, or the camel would be dead.’ For me, the e-book is my camel, and what I really want is to get ten extra years.”
> (Interviewee 1)

The second factor is **Failure to Consider Broader Applications**. In the research, most of the interviewees, although familiar with the e-book technology, considered it less important
than the current technology (printed paper). None of the companies in the research have created business models based on the e-book and they don’t seem open to the opportunities that might come from that.

“Digital history itself in Brazil is still new, I mean, irrelevant. If you look at the Brazilian books sales ranking you’ll see one of our products occupying the second place. That book sells 152 e-books per month.” (Interviewee 4)

“Amazon has got working capital, know-how, and also some undecided issues, such as where to assemble e-readers and the price they can sell these e-readers in Brazil. (...) The problem is that, sometimes, people don’t realize that there are technologies that destroy an industry instead of building one. Then you’ve got several situations where a business model is not working anymore, but there are no alternatives on the horizon.” (Interviewee 1).

It was interesting to perceive that even the single company with a solid digital initiative was still operated with a paper-based mindset. All investments regarding digital technologies were made to develop the company’s print-on-demand facilities, aiming at inventory cost reduction. As a result, many other possibilities that emerge from digitalization seem to be neglected.

“A book’s sales margin is, in theory, huge. A book costs R$ 5,00 [approx. US$ 2,40] and sells for R$ 30,00 [approx. US$ 14,40]. See how much is wasted along the way?… That’s freight, returning goods, a lot of stuff (...) For many years, I have perceived this working capital problem. This is the main issue, in my opinion. So on-demand printing is a solution that I’ve been monitoring, Amazon implemented this strategy as of approximately 7 or 8 years ago. Amazon has 2 or 3 million files… you think they’ve got the book, but they don’t. They print one book and deliver it.” (Interviewee 5)

**Sticking to the Familiar**

Managers facing disruptive innovation tend to have doubts regarding which technology will become the prevailing one, around which new opportunities and threats will emerge. Such behavior usually fosters inertia among managers and is described by Day, Schoemaker and Gunther (2000) as the **Sticking to the Familiar** trap, composed by two major aspects: War for Standards and Dominant Designs.

The research suggests that there is a **War for Standards** being waged in Brazil’s publishing industry. The market has long ago established the current standards, throughout decades of practice and consolidation. Thus, the upcoming perspective of a new technology coming and changing not only the pricing structure, but also the business model as a whole, seems really frightening for incumbents.

In this sense, the major publishing companies in Brazil have created a strategic alliance, denominated DLD (Digital Books Distributer). According to some interviewees, DLD was created to help Brazilian incumbents protect their business, leveraging their position in negotiation processes with global players, such as Amazon, Apple and Google.

“Amazon wants to rule the world? So, what do you think Brazilian natives would do, if they knew in advance that Portugal was going to invade Brazil? Maybe they would create an alliance to negotiate. These guys will come here, and they want to break the traditional business model. So, the idea is to protect our industry from this new entrant.” (Interviewee 2)

On the other hand, companies who do not participate in this alliance showed a more critical view about this initiative. Here, interviewees describe a reactive mindset thrusting DLD strategy.
"DLD is a bunch of big publishers that gathered with a clear intention of holding the changes. They do not want to 'surf' this 'wave' of change… In fact, what they are really doing is telling to the market 'hold it!'" (Interviewee 1)

On the Dominant Design perspective, one can analyze all the issues involved in a new production paradigm. Book printing and delivering is an expensive and intricate process, controlled by the incumbents. But, when they think about the digital process, it is plenty of uncertainties because none of those companies control this new process and its aspects. As described by Day, Schoemaker and Gunther (2000), a new technology has immature processes that might seem quite uncouth when compared with the established processes of the old technology.

“Right now, if there’s a new book, I have to create a spreadsheet and send it to the bookstores – only then is the book listed on its website. This must come to an end, this whole process must be fully integrated in databases (…). And I’m sure they won’t be able to upload 500,000 Excel spreadsheets manually, but that’s the current practice. (Interviewee 6)

Reluctance to Fully Commit

Managers dealing with new technologies usually face a tough decision: reduce risk by making small investments with smaller and slower return of investment; or bet wholeheartedly in an unproven novelty to secure its leadership in the market? Day, Schoemaker and Gunther (2000) describe an incumbent’s tendency to underestimate the potential improvements of disruptive technologies, discouraging managers to fully invest in innovations; enabling newcomers to quickly dominate the market. The authors named this behavior Reluctance to Fully Commit, and try to explain this behavior. The first possible reason is Risk Aversion. In our research, all of the interviewees recognized that their current business model is threatened by the e-book technology. Some have even cited the battered music industry as an example of what not to do. However, it is possible to perceive many common mistakes committed by both music and book industries and we might see a similar course of events in the future.

“E-books are a reality, and our major concern is that we’d face the same risks and make the same mistakes that the music industry did. So, we think we’ve already had an example of failure and we don’t want to make the same mistakes.” (Interviewee 3)

The fear of Cannibalization may explain the current course of actions. Respondents know that there is something new coming. Something with the potential to replace their main product.

“Editors have been influencing book value chains for a long time. But business models, objectives, and new players’ concerns are not always in line with authors’ and editors’ concerns. In the US, that (e-books) had a huge impact on the market. Some bookstore chains went bankrupt as a direct consequence of how digital books were implemented there.” (Interviewee 3)

“Some will say that printed editions would never disappear. And I agree, some categories won’t disappear, art books will not end. But what about those book categories that have already vanished? Are there any encyclopedias? They were gone even before Amazon! (…) I think they won’t disappear, but in ten years, printed editions will be just 5% of the whole market. Everyone has to go digital, there is no other option. But it’s amazingly hard to manage physical and digital models at the same time.” (Interviewee 6)

Thinking about the difficulties in dealing with digital technologies, a new set of reasons emerges. First, companies perceive their Lack of Capabilities to deal with the digital world.
Something they must know, but they don’t. Respondents have cited capabilities, such as e-commerce, digital rights management (to minimize piracy), the adaptation of files to digital format and the knowledge required to think what a book should be in its digital form. The potential convergence of books, games and movies into an enhanced experience is taking place and editors perceive their absolute lack of capabilities to deal with this challenge.

“We’ve just released our first app, which is child-oriented, and we paid R$ 140,000 (US$ 70,000) for it. And we’re talking about a market where people usually download free or US$ 1.00 apps. Once I saw an app for a fairy tale book, a beautiful book. Then, I contacted the guy and asked, ‘Can you license it for us in Brazil?’ He said, ‘So license me your translation rights and I’ll sell it on iTunes’. I have no interest in this deal. We must learn how to do it here. And I won’t sign this.” (Interviewee 8).

Unclear Profits might be another reason of the low investment in digital books by the incumbents. Nearly all respondents mentioned that, while profits are none, costs involved in dealing with this new technology are high.

“There’s a very high cost to digitize a book, beginning with adapting files. Rights management is also a costly issue. While revenues are near zero, that becomes an issue. Another problem is: you release an e-book… how much will you charge for it? That certainly influences physical books’ price. Will I charge the same? If I charge less, will it cannibalize sales?” (Interviewee 6).

Another concern mentioned in all the interviews is the new price structure. In this sense, Amazon is perceived as the major threat, mostly because its price policy significantly reduces editor’s margins. In the words of interviewee 6, “Amazon is kind of the market’s Darth Vader.”

“There’s a factor that alters the rules of the game, and that factor is Amazon. It has consolidated as the biggest book retailer in the US due to its exceptional service standards and also due to a significant price reduction. With Amazon, book prices became a huge problem for the current value chain, for bookstores.” (Interviewee 7).

Lack of Persistence

The last incumbent trap pointed by Day, Schoemaker and Gunther (2000) is the Lack of Persistence. It means that even when incumbents try to explore a new technology, they might give up when the first problems arise. And they sure will.

In our research, we have identified in all the interviews something that is called by the cited authors as the Sunk Cost Fallacy. Editors have a huge list of titles ready to be printed or reprinted as physical paper books. However, they do not have those books ready in the digital format, because of rights management and logistics. So, again, there is a huge perception that the extra investment is too high and that they will “miss” everything that they already have and already know how to deal with.

“The first impact on an editor is much more related to rights management than production itself. And that’s because contracts signed twenty, ten or just three years ago didn’t even mention electronic publishing rights (…). That creates a burden on legal departments that will have to deal with complex negotiations, in which each and every item has to be debated and may even have different royalties rates.” (Interviewee 7)

“There are lots of books that need to be scanned in order to become e-books… There could be some exceptions, but I don’t know them.” (Interviewee 6)
The Industry View Trap

The last trap is a proposition from this study, which emerged from both the field analysis and the literature. We have been working with an ecosystem perspective for many years, perceiving in many studies that the blur of industries’ boundaries and the convergence of once distinct fields create great challenges for established companies.

So, we propose that the inability to perceive that the very definition of the industry you’re part of might have changed configures an important trap for incumbents. A helpful analogy is the already mentioned music industry. Back in 1999, BMG might be carefully analyzing its rival Universal’s strategic movements, but the real game was being played somewhere else, in Apple’s research centers, where the real rival was been created. Going back to the early 80’s we could see Steve Jobs at Apple aggressively aiming his guns at IBM instead of the real rival Microsoft that controlled with Intel the whole PC market for more than two decades.

We have seen many examples of that in this research that deal with two different aspects: The Convergence Denial and The Value Chain Idealization.

The Convergence Denial is a process by which the industry participants tend to ignore or minimize the opportunities or threats that arise from the fact that the industry boundaries no longer exist. It is important to state that we are not talking about the simply threat of new entrants (Porter, 1980), but a complete reconfiguration of an entire industry.

For example, what will define a book in 10, 20 years? Will there be different names for a hybrid of things that today we call books, movies, cartoons or games? It is interesting to realize that, although mentioned by some of the research participants, this is clearly something that they don’t want to deal with. Companies seem to be protecting their current territories and assets, ignoring the fact that the very nature of those is changing.

“If digital books become apps and flirt with cinema or other multimedia industries… that would be quite a threat. It would means that a book would be no longer a book. The big threat is a book becoming something more and more expensive with fewer titles and production values. Another huge threat concerns reading. Literature, particularly children’s literature, requires imagination. If you create real videogames, you just kill the imagination aspect of reading.” (Interviewee 6)

“Considering the surge of industries competing with books, like Internet, games, etc. I think big book competitors, mostly for children’s literature, are movie studios, cartoons, games, etc. From a production point of view, if retailers move on to be book editors, as Amazon has done…” (Interviewee 7)

So, although many participants already perceive those new movements, they still cloister themselves in the comfort zone of a once called publishing industry. It’s like playing chess with a familiar opponent, while an earthquake is destroying the building.

The Value Chain Idealization defines an incumbent perception that the current value chain must be preserved at all costs. As disruptive technologies emerge, opportunities abound and, one of the most common is the possibility to create the last mile and have seamless connection with the customer. This opportunity, technically feasible is, however, strongly reject by all the research participants – they don’t want to foster potential channel conflicts with the current partners in the value chain – distributors and retailers.

“So selling directly to our final clients is not an option. I’m sure that’s not what we want to do. We have to reinforce the chain, we have to support the bookstores.” (Interviewee 3)

The underlying principle seems to be - protecting the bookstore they will ensure the endurance of the current chain - Author > Editor > Distributor>Bookstore > Reader, thus assuring editor’s relevance in this business.
“The chain author, editor, distributor and bookstore is a strong one, made up of strong links. Why would you depreciate one of them? It’s not good. Why would you downplay a business partner? It’s selfish and stupid to do so, you’d kill your goose that lays the golden eggs.” (Interviewee 3)

The problem with this approach is that disruptive innovation usually comes from other players that do not take part in the current industry. If incumbents fail to deliver what customers want and someone else offers it, innovation will happen, despite the editor’s efforts.

“You can notice a clear book industry verticalization process. Amazon is no longer just a retail company, it is also publishing books, and this changes everything because Amazon would eliminate the editing process as a necessary stage for publishing... The chain is author, editor, distributor, retailer and final customer. Amazon would reduce this process. This raises the question: does an editor add value in this chain, or not? If the answer is no, then the editor will disappear. This will be the big battle.” (Interviewee 7)

“Authors come here and we tell them: ‘this character is not good, this chapter could be shorter’, that is something intangible. So, if you don’t have enough influence to do so, authors will deliver their books to Amazon and they will sell, but those certainly would be different kinds of book than they are now. (...) We’ve been editing books for several years, we know what may help the author, what may devalue the book. We also invest in author quality, we give him enough time to work, so the author may work at his pace. Retailers normally just don’t care about it.” (Interviewee 7)

Thus, what we observe is a discussion on the very nature of the editor’s job. What is the value of these players and what will it be in the future. We might not have the answer, but editors will surely benefit themselves from a broader view of the phenomenon and the ecosystem in which they are now.

CONCLUSION

The publishing industry is currently experiencing a disruptive process that is affecting market paradigms and business models for the first time in centuries. The literature review indicated a gap in studies about the strategic challenges and implications faced by the publishing industry players and, so, this study aims to fill this gap, helping both academics and managers to better understand the publishing ecosystem in Brazil, the changes it’s been through and the impact on the industry’s structure, business models, profitability and even the survival of the incumbent companies. This study also helps the understanding of the major traps faced by incumbents dealing with emerging technologies.

This research focused on the actual changes that have been caused by the entry of large international players into the Brazilian book market and the arrival of e-books. In accordance with their international counterparts in developed countries, Brazilian companies are concerned with their potential loss of control in pricing and their nodal position in the publishing industry’s value system.

Editors are trying to keep their relevance in the ecosystem (Iyer et al., 2000) by identifying new complementors (Shapiro and Varian, 1999) and creating alternate ways to satisfy their customer’s needs. Studies have suggested that when a company shifts its focus from being centred on products to being focused on their customers, new opportunities may arise that helps strategic sustainability (Hax and Wilde, 1999). In addition, another strategic path emerges from considering both the ecosystem as a whole and as individual businesses to be a platform (Eisenmann, 2007). To assure their relevance as a hub in this ecosystem, editors
must act together and attempt to establish standards (Hax and Wilde, 1999; Shapiro and Varian, 1999), and partnerships such as DLD appear to be in accordance with this directive.

However, conservative attitudes - which include holding firmly to established business models and establishing a reactive position towards new technologies (Day, Schoemaker and Gunther, 2000) - may further diminish the ability of editors to lead or participate in innovation processes. At the present time, these attitudes pose an important strategic threat to the publishing industry. The analyses showed the importance of the Incumbent’s Traps framework that connected with the current situation of the Brazilian publishing industry.

From a managerial standpoint, this study can help editors to change their approach towards new technologies, avoiding the usual traps and evolving towards an ecosystem view of their businesses (Iyer et al, 2006). As we’ve pointed out large scale e-book adoption can help the industry in achieving cost reductions (Shapiro and Varian, 1999), offering a more convenient solution for readers (Rao, 2003; Long, 2003; Anderson, 2007) as well as a direct relationship with its customers (Hax e Wilde, 1999).

From an academic viewpoint, the present study provides a unique contribution for researchers trying to understand the impact of emerging technologies on established businesses. Brazilian publishers are facing disruption for the first time and the context is particularly rich because of the imminent entrance of major international digital players. In this sense, it was possible to understand how the incumbents’ traps manifest and also to propose a new trap - the Industry View Trap, that emerged from the field in confront with the current strategy literature.

Also, the study helps to build a first, exploratory step, in the knowledge about strategy in the publishing industry in Brazil (Bento and Ferreira, 1972). This industry can help academics to better understand the impacts of technological disruptive changes in intensive information environments and to analyse the incumbents’ perceptions and strategic responses.

Few studies have been conducted about this issue in Brazil, despite the relevance and applicability in the broader Brazilian context. However, the results presented here should not be considered as representative of the entire universe, given the methods used in this study. To researchers who wish to further investigate this industry, we recommend the use of sampling techniques that allow statistical inferences regarding Brazilian editors. This research focused the so-called trade segment (general readers) of the publishing market. The study of textbooks, religious books or technical publications, would certainly contribute to a better comprehension of the dynamics of the publishing industry.

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