Battle over e-book prices may be nearing truce

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Since Amazon.com debuted its first Kindle e-book reader late in 2007, the reaction within the book industry has been some mix of welcome and scorn.

Welcome because of the potential to tap an entirely new market -- before a wave of digital piracy similar to the one that decimated the music business. Scorn because of fears that the online retail giant, which already has a commanding share of the market for physical books, might use its leverage to seize control of the new market and push down prices even further.

Publishers have been fighting back, and seemed to score an important victory over the last week, with Amazon reportedly agreeing to a model that would let them set higher prices for e-books sold for the Kindle.

Analysts say a truce is likely but won't do much harm to Amazon even if the company loses the $9.99 price tag for e-books that has helped make the Kindle a major hit.

The company discloses little data for its Kindle business, but it is widely estimated that Seattle-based Amazon loses money on most e-books that it sells for that price. Higher prices would mean a better margin for the business even if sales take a small hit in terms of volume, experts say.

But concerns persist about whether publishers will give any ground at all on e-book prices. In theory, the companies should still make good profits on e-books at lower prices, because they are saving on the costs of printing, binding and distribution that make up an estimated 10 percent to 12 percent of a hardcover book's total price.

"Publishers seems to be fighting a rear-guard action against Amazon," Stephen Windwalker, a small book publisher and author of the Kindle Nation Daily blog, said on a conference call hosted by the brokerage Collins Stewart on Monday.

"I'm not seeing a lot to be excited for," he added.

Ironically, the company that has thrown the biggest wrench into Amazon's plans for the e-book market is the very company that Amazon was trying to emulate -- Apple Inc.

Apple, with the launch of the iPod and its iTunes online music store, turned the music industry on its ear.

The store sold single tracks for 99 cents and kept most full albums under the $10 mark. The music industry had already seen its profits socked by digital piracy, so it begrudgingly accepted a model that allowed them to see some revenue -- even if it was less than what they were accustomed to.

Amazon tried the same simplified pricing scheme for e-books, pushing publishers to keep the prices below $10.

But last month, Apple introduced the iPad tablet device and with it, announced a new service called iBookstore. No prices were announced for the store, but the company said it would let publishers set their own rather than force them to accept a set price.

Six major publishers announced support of the iPad and have been pushing Amazon to allow them to set higher prices. Things came to a head last week when Amazon removed the titles of one publisher -- Macmillan -- from its site in protest of its new e-book prices, even as the company admitted that it had "capitulated" to Macmillan's demands to set higher prices.

Macmillan's books are back for sale on Amazon this week, and neither company will say what sort of deal they reached.

"It's fair to say that no one in the book industry wants to see a major channel of distribution shut down, and that's what happened when Amazon turned off the buy button on Macmillan's books," said Al Greco, a professor of business at Fordham University who studies the book market.

An olive branch?

In an op-ed column in the Wall Street Journal on Monday, the head of a major publishing house noted the changes rippling through the book business and offered what some considered to be an olive branch in the battle over pricing e-books.

John Makinson, chairman and CEO of the Penguin Group, wrote that publishers need to understand that "it's fruitless to stand between the reader and his choice." But he also noted that the physical cost of a book is roughly on par with the average margin of the consumer book-publishing industry, "and what's needed to keep investing in new writing and new ideas."

"So there's some room for discussion but not that much," he wrote.

Greco called Makinson's piece "an attempt to calm the waters." He noted that five of the six major publishers have entered into what is called an "agency agreement" with Apple to allow the company to sell e-books for its iPad, but it gives publishers control over pricing.

Such a model "will become the norm for all sales of e-books in the future," Greco said.

"Ironically, while Amazon seems to not like that agency approach, they lost money on every transaction under their current model," he said. "From a financial point of view, Amazon will make more money this way."

He noted the risk, however, that consumers have now become used to a $9.99 price tag for e-books, which may make some resistant to the idea of paying higher prices.

"Will consumers walk away? I don't think so," Greco said.

Windwalker agrees that Amazon will likely do well financially even under higher prices. But he added that consumers will likely resist the higher prices -- providing an incentive to publishers who break from the pack to keep prices low.

He also noted that publishers may be ignoring Amazon's key strengths -- at their own peril.

"There are two things that Amazon knows more about more than anyone else in the world: Price elasticity and their own customers," he said. "If higher prices begin to suppress sales and profits, then I think it's fair to assume they (publishers) will not march in lockstep."