



Innovation in E-book Lending

An IPA Special Report

Compiled by Dougal Thomson, 24th June 2014

1. INTRODUCTION

The market for digital books remains embryonic. While the transition from paper to digital reading is gradually taking hold, distribution channels and business models are taking their time to form. E-books are a mass phenomenon in very few countries.

The book industry has long recognized the vital role which libraries play in developing a reading culture yet until recently, booksellers and publishers have been wary of the concept of libraries lending e-books, concerned about security and above all, the effect on sales. Experiences in countries like Sweden have shown that library e-lending, introduced hastily, can effectively cannibalize e-book sales. Some trade publishers have therefore been reluctant to give libraries access to bestsellers and new releases.

There is huge potential demand for e-books, driven by the exponential growth in tablets, smartphones and reading devices. In order for e-lending to be sustainable, however, business models will have to reconcile publishers' and librarians' interests.

In some countries, governments have asked publishers and librarians to work together to run pilot e-lending projects. Elsewhere, collaborative schemes are developing naturally, driven by market demand. Many of the most innovative projects are taking place in the United States, where digital books have been around for longest and where every major trade publisher is now participating in some form of e-lending to libraries.

This special report assesses recent developments in e-lending, both in the trade and the academic sector, studying innovative approaches from the US, France, Sweden and Brazil. What these different projects have in common is that they are based on licenses which provide libraries with the conditions to acquire and lending e-books while putting publishers in control of lending terms. This allows publishers not just to protect their revenue streams, but to expand them.

These new approaches to e-book lending promise to be of major benefit in building market demand for e-books, which will lead to increased revenue for publishers, booksellers and authors alike.

2. THE UNITED STATES MARKET

The United States, with its long experience of digital publishing, has led the way in developing e-lending schemes for libraries. The majority of publishers have readily embraced the concept, with non-fiction, children's, reference and academic publishers among the early adopters. The large trade publishers were slower to incorporate e-lending into their digital strategy, due in part to concerns from authors and agents. Today however, every major trade house is participating in library lending projects, although their approaches and business models vary.

HarperCollins has been offering e-books to libraries for a decade. Titles cost about the same price as print, and the publisher uses a **metered-access model** by imposing a limit to the number of loans per title: 26, after which an e-book must be repurchased.

FAST FACT

E-book lending increased by 46% in 2013, compared to 2012
OverDrive user data 2013

In May 2013, **Hachette** announced that it would make its entire e-book catalogue available to libraries simultaneously with print editions. Titles can be borrowed by one user at a time, and libraries can acquire unlimited copies. The price libraries pay for e-books is 300% the print cover price, dropping by 50% for titles that have been in circulation for 12 months.

In April 2013, **Simon & Schuster** launched a pilot e-book lending program with New York Public Library, Brooklyn Public Library and the Queens Library, making its complete e-book catalogue available to libraries for a year, with unlimited one-user-at-a-time circulations and no limit on the number of loans per title. Library users are also offered the chance to purchase titles from Simon & Schuster – if they do, the library receives a commission on the sale.

In October 2013, **Macmillan** announced that it was expanding library e-book lending to its entire e-book backlist, representing more than 11,000 titles. Titles are available to libraries for two years or 52 lends (whichever comes first) for a price of \$25.

Despite **Penguin Random House's** recent merger, the firm continues with two distinct e-lending models. In September 2013 Penguin announced it was making 17,000 e-books available through distributor OverDrive. Titles can be licensed for one year under the one copy/one user model: frontlist titles are priced at \$18.99, while backlist titles range from \$5.99 to \$9.99, i.e. similar pricing to that offered to individual consumers. Random House, in contrast, charges significantly higher prices to libraries but makes its entire catalogue available via perpetual licenses.

CASE-STUDY: OVERDRIVE

OverDrive the world's biggest distributor of e-books and audiobooks, partners with 90% of US public libraries. It offers a catalogue of 1.8 million digital titles to 30,000 libraries, schools and colleges. Their publishing roster includes Random House, HarperCollins, Harlequin, Wiley, Macmillan and Bloomsbury, although the terms of engagement vary. Macmillan, for instance, gives OverDrive most of its backlist but none of its frontlist, while Penguin, Hachette and HarperCollins release e-book titles to OverDrive as soon as they're published.

OverDrive operates a number of lending models. The most prevalent is the **one book/one user** model, which lets only one person borrow a book at any time. Its popularity (representing at least 85% of OverDrive's volume) is due to its straightforward nature, being based on the same principles by which libraries loan print books.

While one book/one user is the dominant model (representing at least 85% of OverDrive's volume) the firm offers publishers a number of alternatives. The **always-available** access model, allowing simultaneous use for an unlimited number of readers over a set period works on a subscription basis. According to OverDrive, it is gaining momentum in the schools and education sector.

The **metered access** model used by HarperCollins and Macmillan is another alternative, and OverDrive offers a fourth category, "**classroom sets**", specifically aimed at letting publishers lend titles to the school market, which is significantly larger in revenue terms than public libraries.

FAST FACT

Mobile platforms account for two-thirds of all e-lending traffic
OverDrive user data, 2013

79 million e-books were borrowed through OverDrive in 2013, a 46% increase over 2012. The action is increasingly taking place over mobile devices: mobile checkouts increased by 147% in 2013 and mobile platforms now account for two thirds of all traffic.

CASE-STUDY: HOOPLA

Hoopla is a digital platform which stands in contrast to the *one copy/one user* lending model. Its rationale is that libraries need to provide a better user experience by making their digital services as engaging as the apps and platforms people encounter in the retail space.

Created by Midwest Tape, a media distribution company, a beta version of hoopla launched to 10 libraries in February of 2013. Today, over 300 library networks, including Toronto, Chicago, San Francisco, Boston and Los Angeles are using the platform, which offers video, music and audiobooks.

With hoopla, publishers set and adjust the price for each title, a vendor portal showing reading activity in real time. Midwest Tape say the model solves publishers' distribution problems while maximizing title availability for readers, and that it's more transparent than subscription services as every publisher and author is paid each time a book is read.

Hoopla is not a subscription service or a licensing model, nor does it charge libraries any annual fees or setup costs. Regarding budget control, hoopla provides libraries with administrative tools for financial oversight, including monthly item limits per cardholder and monthly spending limits. Libraries only pay for what is actually used. Midwest Tape points out that in alternative models, libraries take on a great deal of risk by investing upfront in titles that may not circulate and by buying subscriptions that don't get used.

The service positions itself as a gateway for discovering backlist and midlist titles. Midwest Tape says that in the first four months of 2014, 82% of their 12,000 audiobook titles circulated.

3. THE SWEDISH EXPERIENCE

Sweden was an early adopter of e-book lending for libraries. Its experiences between 2011 and 2013 reveal that e-lending can go wrong and seriously impact the commercial e-book market. Thanks to a collaborative approach, the e-lending schemes which have replaced the earlier versions build on this experience and promise to be more sustainable.

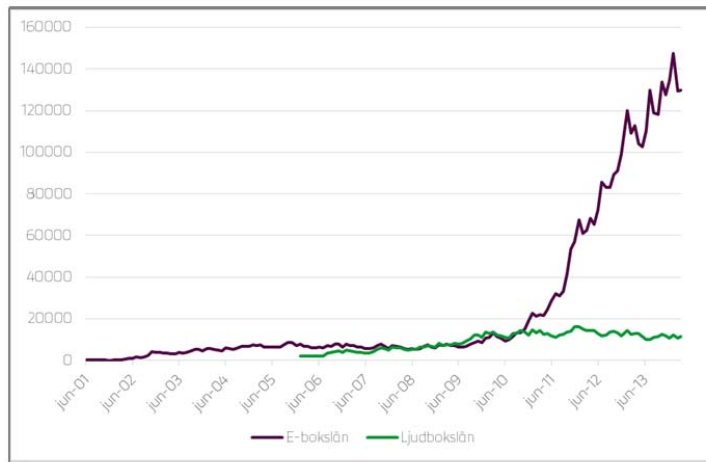
In 2000, Sweden's four largest publishers created **Elib**, a digital publishing company. With input from libraries and the Association of Swedish Publishers, Elib developed a pay-per-loan model for library access to ebooks. As opposed to licensing 'copies' of e-books, e-books were treated as a 'service' with unlimited copies of titles available concurrently, for free. Libraries paid 2 euros per loan.

FAST FACT

In 2013, there were 1.4 million e-book loans in Sweden but only 270,000 e-book sales

Elib data

It wasn't until 2011 that e-book lending really took off in Sweden, but when it did, it did so in a big way, as the graph below shows (the purple line represents e-book loans, the green line shows audiobook loans).



By 2013 there were 1.4 million ebook loans annually, but the scheme was recognized as having major flaws: inflexible pricing, libraries unable to control their catalogue and costs and publishers concerned about cannibalization of frontlist sales.

This led publishers to delay providing releases to libraries until they had gone cold commercially, a practice referred to as '**windowing**'. This generated strong antipathy from libraries, readers and the media alike.

Conscious that the model was broken, a consultation period between publishers and libraries produced a recognition that for e-book lending to be viable, a revised approach would have to be developed which gave libraries control of their catalogue and costs while protecting publisher sales.

In the new Elib model, publishers can choose to make titles available in an **access model** (free access to titles, pay-per-loan, unlimited simultaneous users) or a **license model** ("virtual copies", pre-paid, 10 loans per licence, valid for five years, one user). Publishers set prices and can revise them at any time. As a consequence, backlist titles and short stories are cheaper than originally set rates, while bestsellers command a premium. Libraries choose their catalogue from the available titles, managing their catalogue and costs via the Elib interface.

Atingo is a new service created by Publit, Scandinavia's largest publishing service for e-books and Axiell, a technology firm. It functions as a marketplace, collecting titles from Publit and other suppliers and letting libraries select books for their own catalogues. The publisher sets and can adapt the price per loan. Libraries are given free access to the catalogues and only pay for the loans that are made. The loan period is 28 days, after which the file disappears from the reading device and can be borrowed again.

As with Elib, a web interface connects publishers with libraries. Libraries can browse titles by price, author, genre etc, checking availability and negotiating prices. Atingo also lets self-published authors make their books available to libraries, allowing them to set prices in a similar way.

Both Elib and Atingo have resolved the contentious issue of "windowing" frontlist titles by putting publishers in control of borrowing terms, notably pricing.

4. BRAZIL'S DIGITAL CLOUD OF BOOKS

Brazil is seeing rapid growth in e-lending, thanks to a growing supply of e-books, publishers building digital catalogues and government projects which focus on acquiring digital assets. In common with other emerging countries, initial difficulties (lack of libraries, inequality of access) have worked in favour of the mass incorporation of digital solutions. The vast scale of the Brazilian market has attracted a variety of actors (publishers, aggregators, mobile operators etc) to develop commercial digital libraries, usually operating under subscription models.

The main schemes are as follows:

1. Minha Biblioteca

In 2011, four Brazilian academic publishing houses – Grupo A, Atlas, Grupo GEN and Saraiva – launched the Minha Biblioteca (“my library”) project, aimed specifically at higher education institutions. The 4,000 titles available through the platform cover different disciplines (law, social sciences, health) and can be acquired either through subscription or perpetual purchase.

2. Nuvem de livros

Developed by Gol Mobile and launched in 2011, Nuvem de Livros (“Cloud of Books”) has already acquired over one million subscribers. Subscription costs vary depending on the type of contract, ranging from \$2.70 to \$8.90 per month. Readers must be connected to the internet to view a wide-ranging catalogue of 11,000 works. Access can be made via any type of device.

3. Árvore de livros

Árvore de livros (“tree of books”) launched in 2013, targeting the public sector, schools and private companies. Its catalogue offers 200,000 e-books. Payment is on a subscription basis, while access is provided via any device connected to the web, although titles can also be read offline, eg on e-readers. Each user can browse up to 3 works simultaneously and publishers participating in the project can monitor the performance of loans in real time as well as being able to analyze reading behavior and user profiles.

4. Biblioteca Xeriph

In February 2014, the digital distributor Xeriph launched this service for municipal and corporate libraries. It offers titles from 280 publishers and provides two purchasing options: loan or subscription. In the loan option, the library buys the book at a cover price, of which the publisher receives 60%, and after 14 days the book is returned to the system. In the subscription option, publishers are paid according to the number of hits for each work.

5. Biblioteca Saraiva

Saraiva is the biggest bookseller in Brazil. It has the most extensive bookshop chain, the biggest online bookstore and the largest e-book catalogue. In March 2014, the company presented its own virtual library solution, stocked with a catalogue of 1,500 titles. Institutions subscribing to Biblioteca Saraiva will be able to acquire e-books at a cover price and access increasing discounts, depending on the number of titles requested.

5. FRANCE’S “BOOKSHOP-LIBRARY” MODEL

In France, bookshops play a central role in the e-lending process. The philosophy is to maintain a diversity of commercial e-lending models (ie to protect bookshops) while simplifying and standardizing e-lending models to encourage wide adoption by libraries.

Currently, approximately 100,000 titles are available for library loans, the two largest projects being Numilog’s BiblioAccess and Dilicom’s PNB (Prêt Numérique en Bibliothèque).

BiblioAccess is France’s largest e-book lending scheme, offering 70,000 titles and currently used by 135 libraries. The online platform contains a Vendor section where bookshops can create an account, consult the catalogue and make their purchases. It also contains a User section where libraries can purchase from bookstores and present

their available titles to the public, letting users access them directly. A bookshop bills the library for its purchase, and Numilog then bills the bookshop for its commission.

The amount of simultaneous users and total number of loans is fixed by the publisher, while the duration of loans to patrons is chosen by the library. BiblioAccess works via streaming: the user clicks on the title and can enjoy consecutive 24-hour consultation periods. Numilog intends to introduce the possibility for readers to download titles and to expand its catalogue to cover all available e-books in French by striking interoperability agreements with other e-book distributors.

Prêt Numérique en Bibliothèque works through a distributor sending details of a publisher's offer to Dilicom. The publisher defines access conditions, with a number of flexible criteria: how long a title will be available, number of loans authorized, number of simultaneous borrowers, loan duration, whether access is on-site or off-site etc. Bookshops access Dilicom's database and download title details to their own websites.

Libraries buy via the bookshops' websites, with orders transmitted to the distributors. Currently, three library/bookstore partnerships are in operation, in Montpellier, Grenoble and Aulnay-sous-Bois. They are offering a catalogue of over 6,000 titles, a mixture of new releases and backlist.

6. OCCAM'S READER: INNOVATION IN INTERLIBRARY LENDING

Interlibrary lending is an established method for libraries to supplement their own holdings by borrowing titles from other libraries in response to requests from their users. But while it is a longstanding practice in print, it has been controversial for e-books. The Occam's Reader project promises to change that by creating a way for libraries to share books in a digital world.

In 2013, the academic publisher Springer was approached by the Greater Western Library Alliance (GWLA), a consortium of 33 research libraries in the United States, to collaborate on a one-year pilot scheme to test the viability of interlibrary e-lending by creating a process for requesting, processing and delivering e-books.

The Occam's Reader application takes a Springer eBook PDF and dices it into page image files. The set of page images is then made available on a server of the loaning library. Publisher metadata is removed in the process, to preserve the unique attractiveness of the full e-book version. The borrowing library or individual receives an e-mail with a username, password and URL that gives them access to the content for an agreed loan period. Readers can flip one page at a time or jump to a specific page number, but they cannot search within the book and there are technical measures to prevent making any download, copy or print. At the end of the designated loan period, the file disappears from the server.

Springer believes "the GWLA pilot is breaking new ground not just in the loan of whole e-books, but also in the sharing of loan data. We do not normally have access to interlibrary loan statistics from our library clients, but with this pilot we will be allowed to see which libraries are doing the borrowing, what types of books are being borrowed, and of course the magnitude of how much is borrowed."

"We can then tailor targeted e-book package offers at volume discount based on this information. Also, while the pilot is currently limited to the 33 members of the GWLA consortium, we think it will attract attention to Springer's liberal use policies and its willingness to partner with libraries in new ventures. This helps us to build relationships with important current and potential customers."

"What we hope to see is that there is enough borrowing by libraries that had licensed limited numbers, or no e-books through us in the past, that they see the value of licensing the full Springer e-books in those fields of most interest to their readers. Borrowing that leads to evidence-based purchasing would be a great outcome."

Ryan Litsey, a librarian at Texas Tech University and Director of the Occam's Reader Project has commented that "interlibrary loans of eBooks have long been a challenge posed to academic libraries, and we believe this new software could be the answer."

7. SUMMARY



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The tide has turned in e-book lending. In a book industry that is only just easing into digital consumer markets, there is a growing sense that library lending, done correctly, can contribute to publisher revenues.

While publishers have always appreciated libraries' potential as shop windows for the public to discover titles and authors, e-book lending projects have faced a number of challenges. A new approach needs to be found that addresses the concerns of authors, publishers, libraries, bookshops, teachers and readers. As this report reveals, collaborative models and market-driven solutions are now emerging which give publishers enough control to maintain a sustainable business model overall while guaranteeing excellent access to libraries and readers.

In the digital age, libraries are reinventing themselves, creating new value propositions, providing new resources and finding new ways to serve their communities.

Rather than requiring top-down policy intervention, this report reveals that around the world, the book ecosystem itself is developing and experimenting with e-lending models which align the interests of publishers and libraries, offering a diverse range of opportunities for libraries to acquire and lend e-books, based on fair, transparent and reasonable licensing terms.

ACKNOWLEDGEMENTS

The IPA is grateful to all those who contributed to this report, including Denis Zwirn (Numilog), Steve Potash and David Burleigh (OverDrive), Bob Boissy and Alexander Brown (Springer), Jeff Jankowski (hoopla), Sabine Le Stum and Catherine Blache (SNE), Martijn David (GAU/NUV), Marcus Tirkel (Atingo). The Brazil market data was provided by Octavio Kulesz, drawing on a previous article at www.alliance-lab.org/archives/2174

For any questions regarding this report, please contact the author at thomson@internationalpublishers.org