



## **POWER PRICING 2014**

Kobo Pricing Whitepaper

# Power Pricing

Digital publishing, especially when it comes to pricing, is a paradigm-shifting world. Gone is any necessity to parse out a book's life into three distinct phases (hardcover, trade paper, mass market) and in its place is a constantly moving and adjustable target — what would the value of a book be, and what is the “right price”, when books are untethered from the physical? As we put it last year, when “you don't have a print run to capitalize and returns to hedge for, the only thing that matters is the amount of revenue you're generating.”

As we began analysis, one idea seemed to come to the forefront and that is how price and time itself are connected. How long a book lives and where in the publishing cycle (its own, or the series from whence it sprang) all factor into the pricing equation. Supply chain economies aside, books in the digital world can morph into entities that better vie with stiff competition for time and attention, the games, blogs, website and videos that so easily and temptingly offer an entertainment hit; as well they can morph to forms more suited to the smaller bits of time people may have for an entertainment or distraction. Digital books can find their way into more scraps of time in a person's day, and digital books tailored to do exactly that can find a wide audience keen for all variations of digital shorts.

Since our last look at pricing, a number of new elements have come into the equation, most significantly the onslaught of self-publishing and related new forms of “books” — serialized ones, short ones, works by authors unrelated to their “big books” and more, all of which have had an impact on what the market responds to in terms of price.

And to reiterate what we hope was the takeaway from our Power Pricing webinar last year, we are not talking about “price” so much as “revenue”. How much revenue can your pricing model create for you? Rather than selling a lot of books, success is a matter of optimizing revenues by making decisions closer to the customer than ever. Price, as we said, is not a “thing” printed on the cover. It is an action, and a powerful one when done well.

## Self-publishing is real and its pricing affects you, too.

The ability for authors and small publishers to easily and inexpensively bring their books to the global market has opened a fire hose of content flooding the digital world. In fact, more than 10% of all Kobo sales come from self-published books, making Kobo Writing Life one of our largest digital publishers in the world.

These indie authors (and small publishers) aren't hampered by the same overheads as traditional publishers, and for many a sale at any price is worth the effort to publish.

This group has found an audience among those hungry for less expensive books, new series within favourite genres, and genres mainstream publishers haven't exploited. Indies are also big experimenters, offering up shorter works or serializing larger ones to capture an audience short on time, money or both.

As a result there is a new view among some customers as to what a book is and the true value of one; further, as well, indies have used a few tactics that are now the norm for gaining attention and driving sales.

### **It's a bandwagon you can't afford to ignore.**

So what do these maverick indies do, and what do they do right? What can you adopt into your own thinking and strategies?

## What price point works best?

Ah the elusive sweetspot, if only it were something so easily defined, and would that there were only one.

It is an industry adage that \$9.99 is a peak price for eBooks, especially bestsellers. Independent authors, however, price far lower and often make up the difference in volume. Even within the indie world there are wide variations, with some authors never breaking CAD \$1 per book and others who stay within the range of CAD \$5.

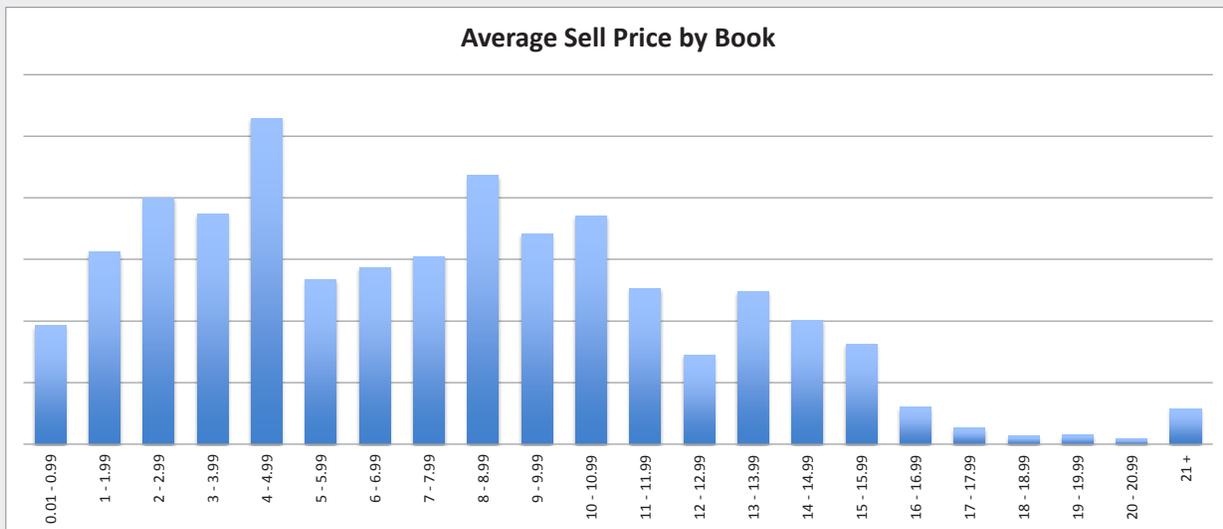
### **So, is there any such thing as a "right price" for an eBook?**

Taking a look at the top 100 bestselling titles for 2013, we found that 62% of the titles had an overall ASP > \$9.99; 28% of the top 100 had an overall ASP of > \$12.99. That's a lot higher than the rule of thumb suggests is viable.

As well "bestseller" is a different beast in digital than in print, where the next best thing and the newest release tends to push out contenders like yesterday's news; in digital, the bestseller in any given week can be a book that first broke years ago. Of the 62 titles with ASP's > \$9.99, 34 published in years prior to 2013. Books have a longer life in this world than anywhere else.

An interesting picture emerged when we looked at not where publishers were setting their prices and what price bands were the most densely populated but in terms of where the customers were.

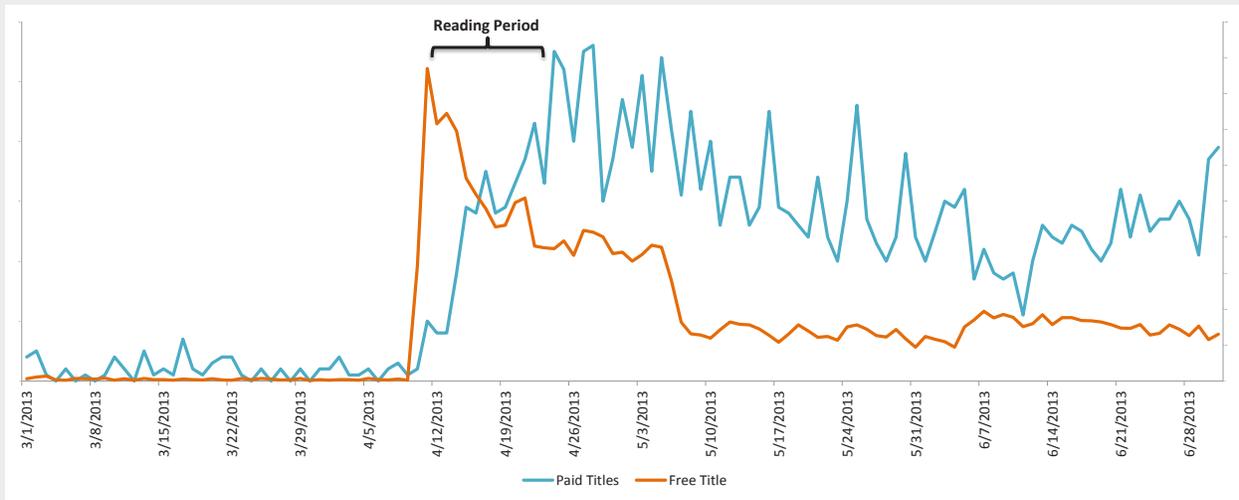
We learned there are customers for all price points, and there is a large difference between where publishers are pricing their books and where populations of customers are buying them.



## Price and the series author

A favourite technique among indies with a series is to offer the first book free. This is a strategy that famously helped propel Amanda Hocking to bestselling success and ultimately gained for her the notice of a traditional publisher and sales across digital and print.

The lesser known reality is, “free” can actually help sell the rest of the series, breathing new life into it and generating a total of more revenue. It can’t do all the work – but supported with social media or other marketing strategy it can create interest, remove the barrier to entry and ultimately engage fans searching for a new series.



## How a free title affected a series

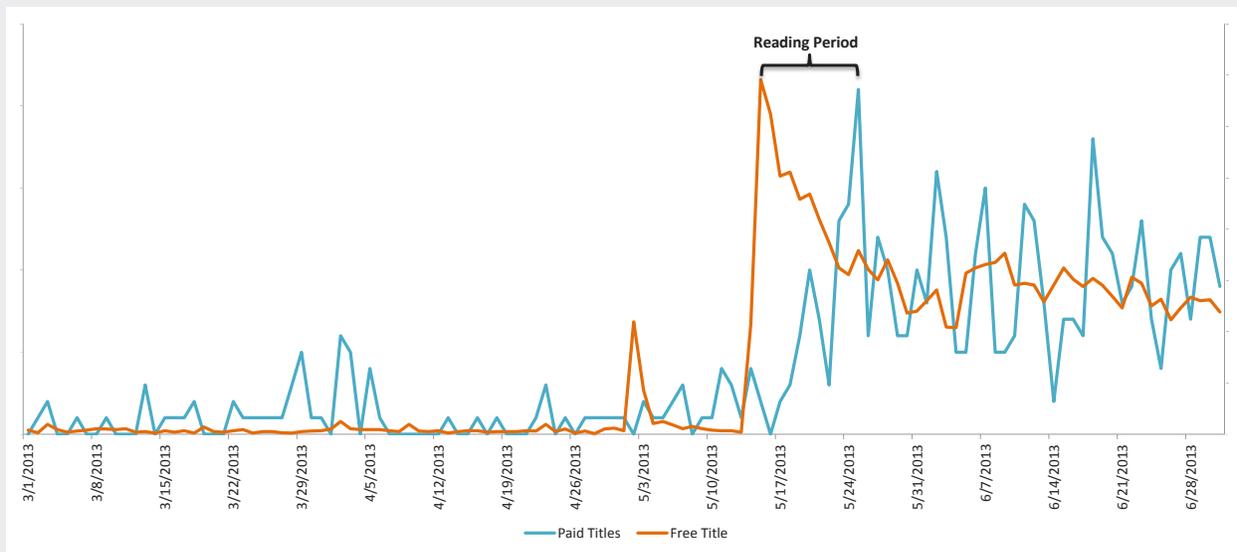
### Example 1

In both cases, the free title saw an increase in “sales” of about 5,000%. Not surprising perhaps, and from a revenue standpoint not that interesting.

What is interesting, though, is that the free title shone a light on the author’s other work where no adjustment was made to price. In the first instance related titles saw a 2400% increase in sales, and unrelated titles by the same author increased in sales by 46%.

In the second instance, with an author with just two books in a series, there was an increase in sales of 1500%, in a title that had more or less gone dormant.

We looked at another example to further test what happens to titles unrelated to the target series, and found that the increase in sales for the author was repeated.



## How a free title affected a series

### Example 2

Paid titles of the target series spiked, but so did paid titles of another series not related to the price promotion. A short burst of “free” elevated the author’s entire catalogue.

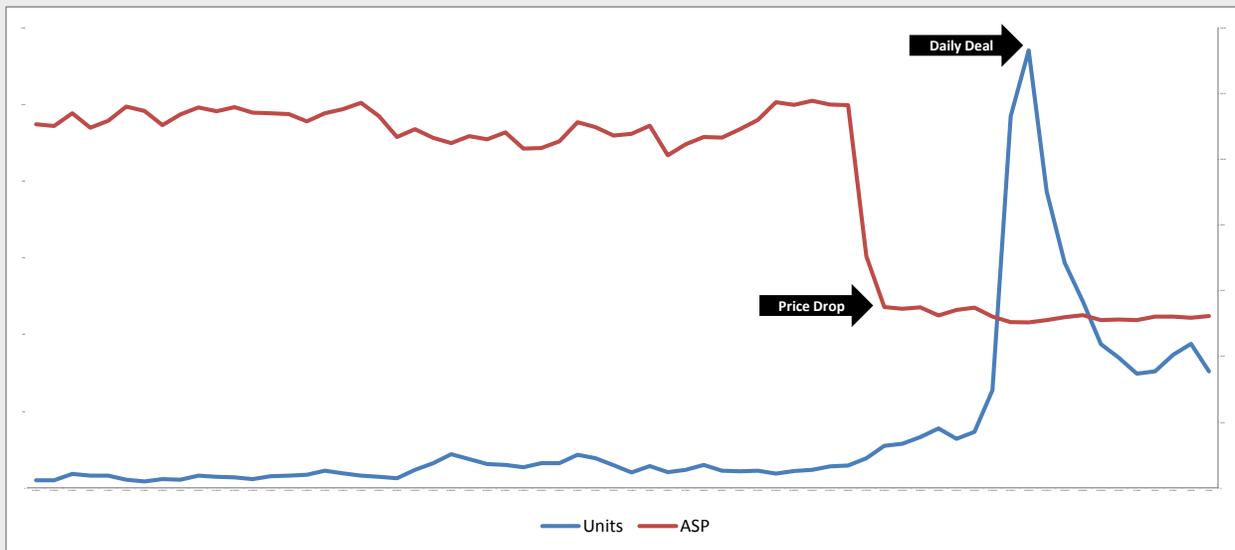
If price can be used almost as a communication tool to draw attention to an author’s entire list or series, we wanted to know if a short term promotion is also effective in lifting sales overall, or if booklovers have a tendency to take the deal and run.

## What about “nearly free”? Offering a price promotion on the first of a series

We have seen a few examples where a publisher has offered the first of a series free, and it did not translate into similar successes. One possible reason might be that the list price of the rest of the series may have been just too big a leap for readers – moving from \$0 to \$10 or more being an obstacle.

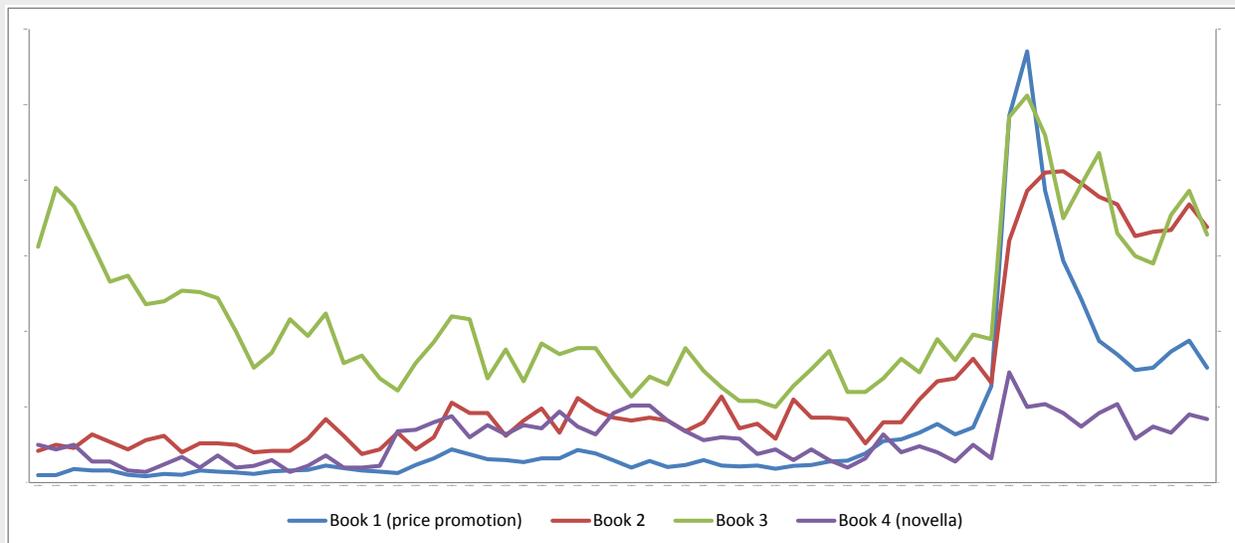
There are a few ways to use price to create buzz. Lowering the price of the first of a series can generate a lot of sales if not actual revenue, and as a result also generate the “heat” that can move a book up the bestseller lists and onto reader radar.

We looked at a mature series, the first volume of which had already been marked down by the publisher who then participated in our “Daily Deal” offer. A price drop resulted in a moderate lift in unit sales, with a sharp spike in units when the book was the Daily Deal choice.

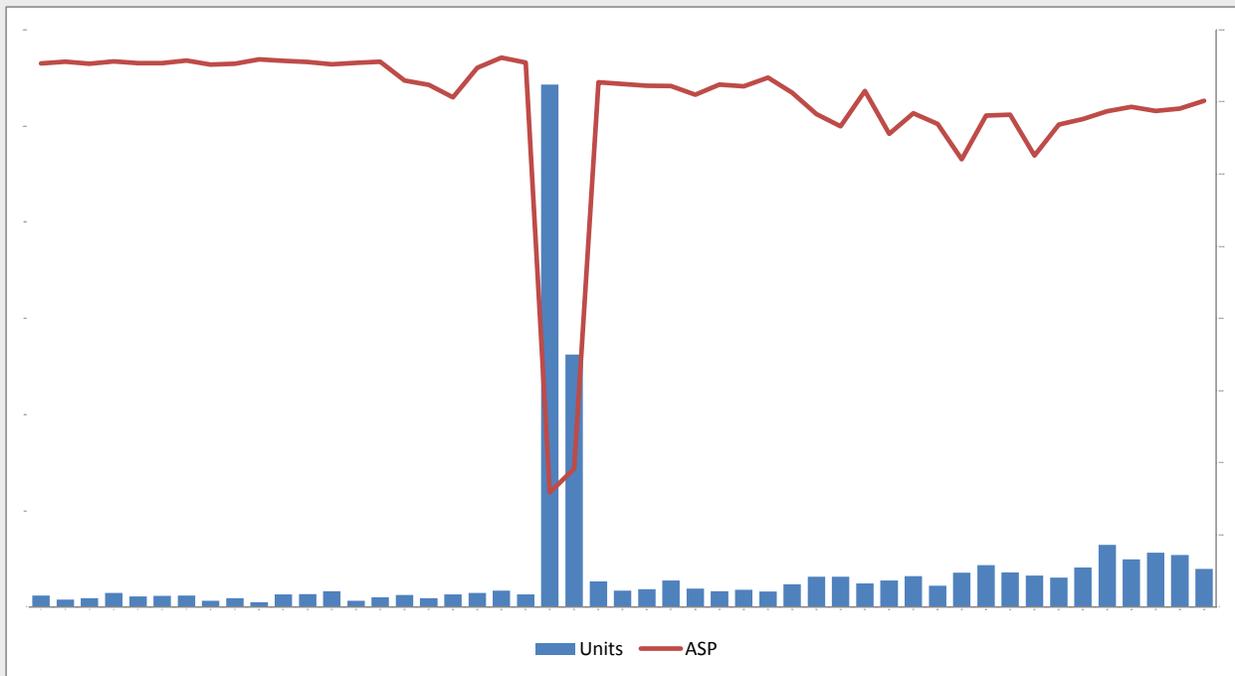


So far so predictable.

But what was surprising is the Daily Deal also caused a spike in the more recently released third part of the trilogy, with a less sharp but longer surge in sales of the second volume. Sales remained substantially higher for the entire series, and an increase in sales also resulted in a fourth book by the same author.



As well, we looked at what a sudden price drop would do to the lifespan of a book outside of a series. A recently released novel was made a “daily deal” supported by a customer email and on-site merchandising support. It saw a predictable spike in sales on sale day, but the surprising thing was that the increase level of sales continued on for some time after the price returned to list, generating an unpredicted increase in revenue.



The book had a lift of almost 5,000% on sale day and more than doubled its rate of sales for another two weeks after the daily deal was over.

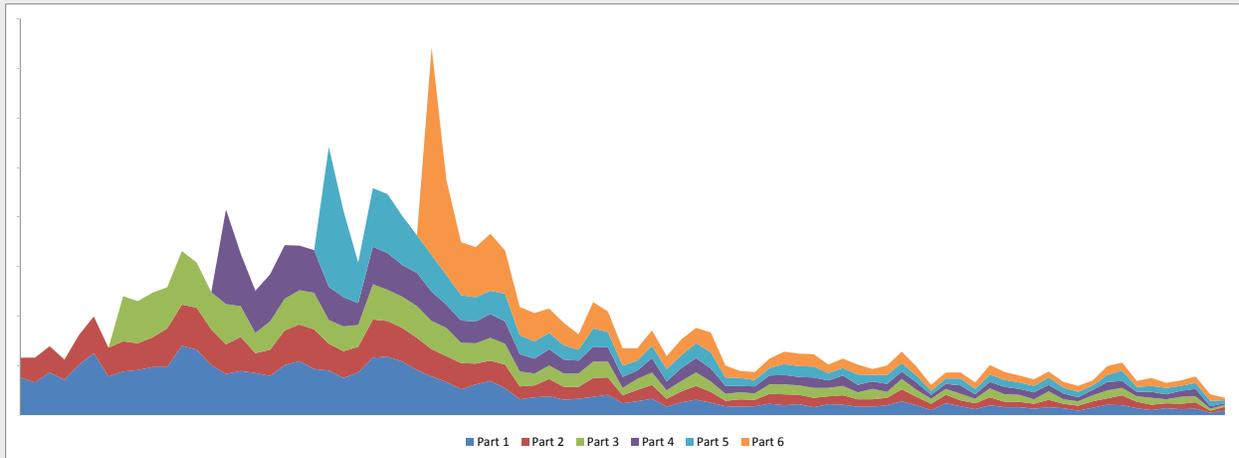
So overall, a promotion is an effective loss leader that can breathe new life into both an established series and a book where sales are beginning to tail off.

## When is a book not a book? Learning from the “serialization” experiments of indies

How do you sell a \$10.99 book to a reader who likes to pay \$1.99? By breaking the book into pieces.

There are a few notable examples of authors who serialized their novels, offering chapters or sections to readers one at a time. We looked at a few instances to learn best practices, and also tried to determine when a book is more than the sum of its parts, and when the parts are bigger than the sum.

This shows sales of a six part serial

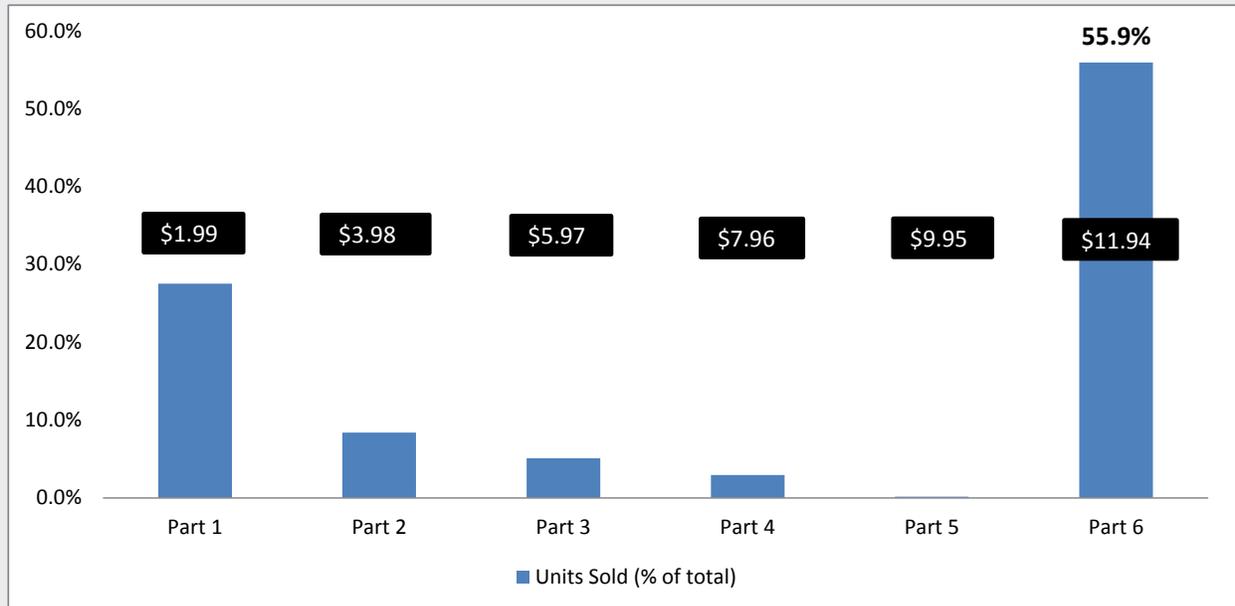


Over time, despite early enthusiasm, the total number of units sold per part declined. Assuming that the same people bought each installment, about 1/3 of those who started the series hung on with it until the final chapter, part 6. Each part was priced at \$1.99.

The author then issued the complete book to the market, priced at \$10.99 – a typical price point for mid-list fiction. Total sales were about one-third that of the sales of the last installment.

What is interesting to note, however, is the total revenue for the author. The installments saw a total

of 22,000 units, or about \$43,000 in sales. The full book sold just 1,000 units for \$11,000. Overall, the author appeared to do better by releasing the short, inexpensive installments rather than holding out for release of the finished book; that said, it is difficult to know if her audience is in fact different for each. Would readers have bought the \$10.99 novel in the numbers that bought the shorts, had the shorts not been available? And another question arises, for both indie authors and publishers – were the shorts easier to produce, and was the ongoing income preferable from a business standpoint to holding out for a full novel?



More than half the customers who started the book completed it, and paid a total of about \$12 for it; meanwhile, the price of the complete book was \$11. (The weighted average price for the serialized book was slightly more than \$8.)

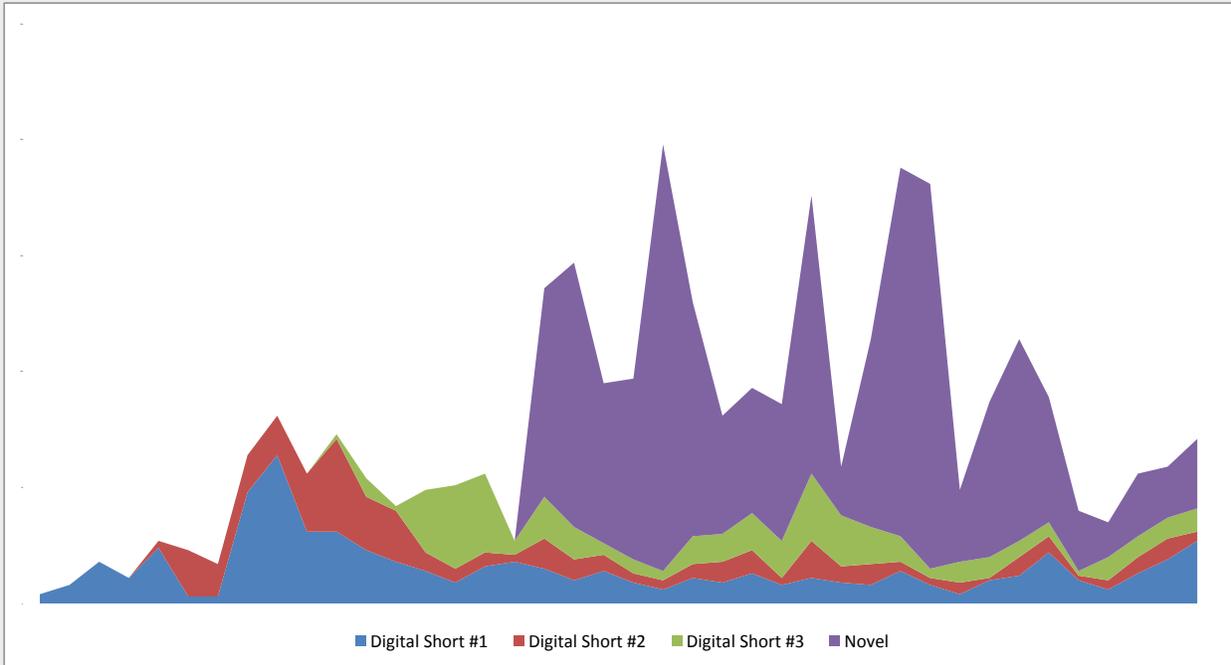
Leaving the question of art aside for a moment, was the effort required to produce the novel worth the incremental revenue? Shorts can be a good way to generate sales and visibility.

## The independent short

In examining the effects of the “short” we took a look at the sales cycle for an established, frontlist fiction author who issued a novella unrelated to any other book or series.

The author issued a 34-page novella priced at CAD \$2. The novel was already in market, at a price of CAD \$15. Unit sales were nearly equal, with a revenue generated of about \$12,000 for the short, and \$66,000 for the novel.

Carefully priced digital shorts can also be used as marketing material for a debut author. In the months leading to the release of his novel, a debut author’s publisher issued three digital shorts a month apart, all priced between free and \$0.99, to gain that “best seller” list traction created by the general uptake of cheap reads. This established readership and generated good sales – and better numbers in terms of units — for a novelist whose first eBook was published at \$21.99, a very high price point for a new writer.

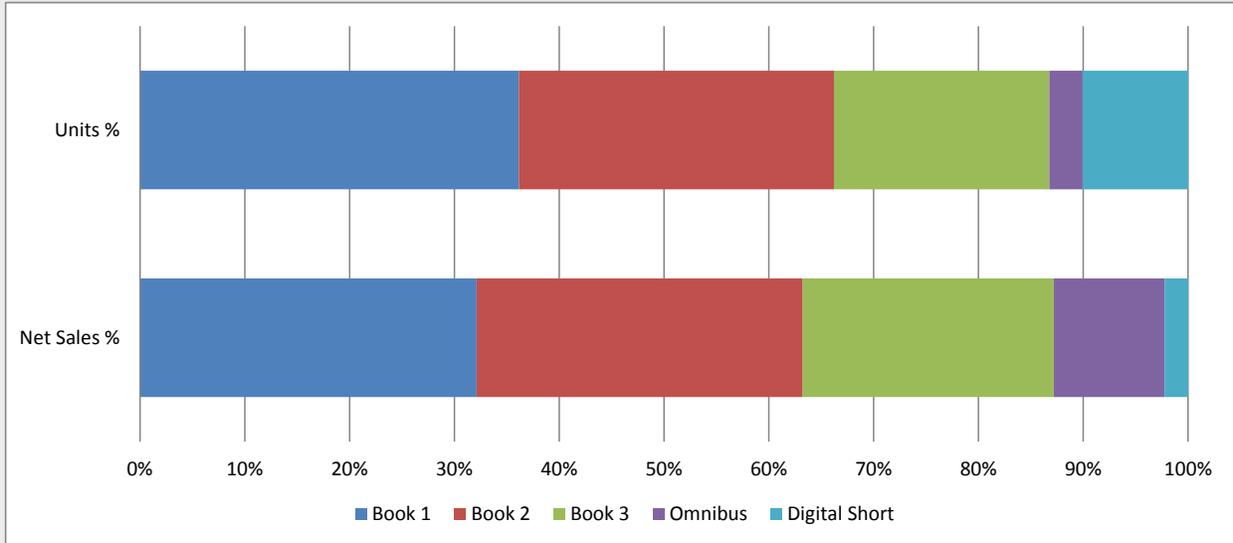


If the familiarity with a name or a title converts to book sales, the publisher was successful in raising awareness for the debut author and maintaining an interest in the new novel. As well, about 11% of the readers who bought a digital short went on to purchase the novel, which is a substantial conversion rate when compared to a marketing tactic such as sending a customer email.

## In-series digital short — license to print money

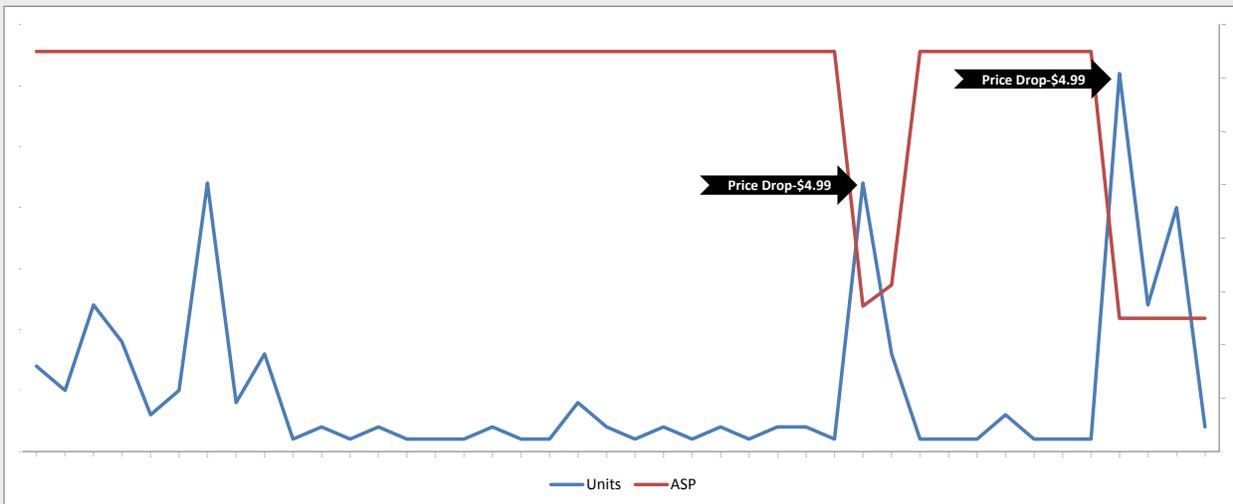
This is where digital offers a huge advantage simply unavailable in the print world. We looked at instances where an author used the characters or universe created in a series to tell another story, perhaps highlighting a minor character or scenario that didn't get in the way of the main action.

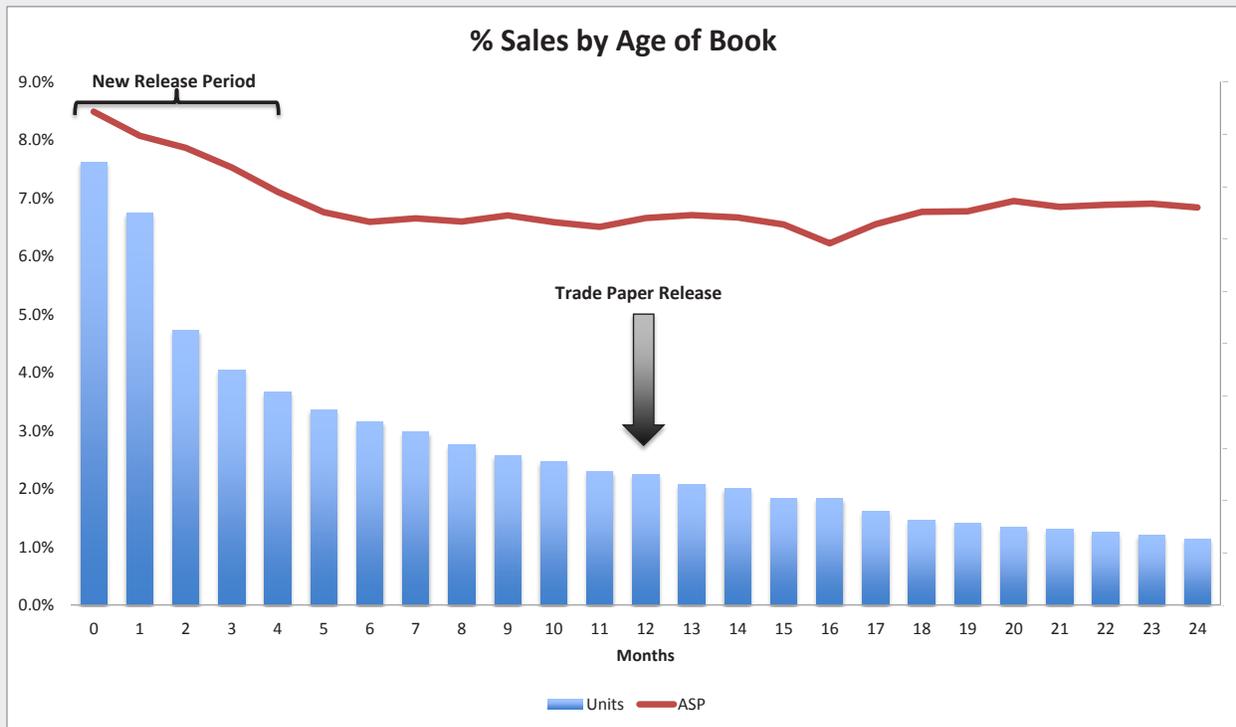
It seems those who are enthralled by the series will snap up the opportunity to find out more about the world that interests them.



While the overall units sold and revenue driven by the short was much less than the main series, it might still make great sense in terms of generating revenue when time and effort – for both publisher and reader — versus return is considered. The books in this series are 500+ pages each, the shorts were just that – 30 or so each, and generated about 10% of the units sold.

## Pricing over time — when you don't have a print run to tag it to





Price can be used to generate buzz and interest in a book, to give overall sales another boost of energy before the book enters its stable “long tail” period.

A publisher reduced the price of a book twice during its initial fade in sales. While it is unclear why the second time was the charm, the publisher was able to maintain a longer period of interest among customers, generating more revenue.

So when in a book’s lifetime should a publisher apply the jolt that a price drop provides? In digital, the answer may be “sooner rather than later”. A new release generates most of its revenue in its first weeks, as expected, but price drops after the trade paper release date tend not to do much to restore life to sales. The question is, would sales be sustained longer if there were a few short-term sharp drops in price in the earlier phases of a book’s life, perhaps even in the first month, when interest is higher but sales are beginning to fall off? The experience of the publisher who tried the successive promotions seems to indicate that they would.

## And so, in conclusion...

Digital opens up a whole new world which is just now being explored and analyzed when it comes to not only price but product. What is a “book”, and what should it be worth to a customer, is an open question. What seems clear though is that the ease of making price changes to trigger interest and sales is a tool worth using to grow revenue and even visibility for authors and books. Price and additional content can be seen as a marketing tool that can pay for itself – and pay dividends. The exploration into just what this can mean for the bottom line, and for booklovers, is just now taking place.

