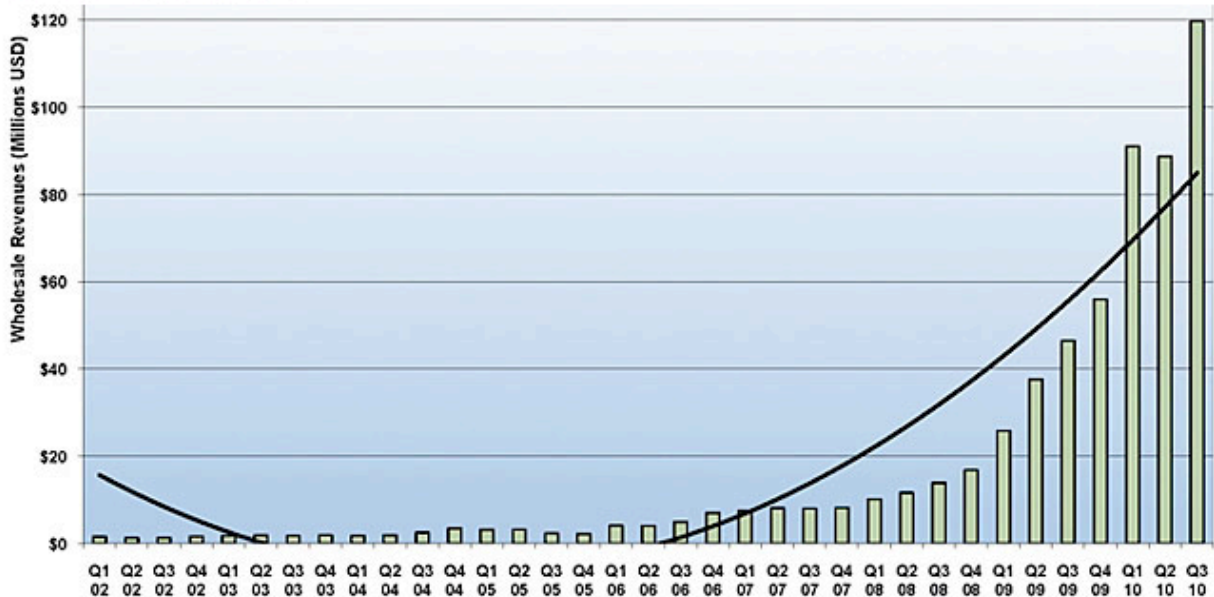


Introduction: A New Paradigm for Pricing

Q3 2010 = \$119.7 Million



US Trade Wholesale Electronic Book Sales 2010, courtesy of the International Digital Publishing Forum.

The cries of “publishing is dead” have given way to the far more reasonable assessment that publishing has changed. With Amazon reporting that there are 105 eBooks sold for every 100 print books, many think that eBooks will be the savior, rather than the demise, of publishing. However, publishers must be aware of the differences between print and eBook merchandising. In particular, pricing presents a unique problem as publishers attempt to build new revenue models. Vook, the world’s leading enhanced eBook publisher, began a pricing study in early 2011 and has built a deep expertise around eBook merchandising. This paper details what Vook has learned from our extensive price testing in the digital marketplace. It serves as a resource for anyone trying to find the right price point in the “wild west” of app, eBook, and web-based storefronts. Vook has collected a great deal of insight into smart eBook pricing and after much analysis, compiled 10 rules for maximizing digital sales. Our success hinges on our proprietary Vook Pricing Engine—a key part of Vook’s business analytics toolkit.

Adapting to a Digital Marketplace

Before the advent of the eBook, book pricing was fairly straightforward—set at \$25 for hardcover books and \$15 for paperbacks. Early on, Amazon declared \$9.99 the magical price for eBooks; however, publishers are quickly learning that eBook pricing



may not be so cut and dry. The explosion of content in 2011 has brought a multitude of price points to the digital consumer, from \$0.99 self-published works to \$12.99 digital front-list titles. Because an eBook's exposure also often correlates to its price, a comprehensive pricing strategy is necessary to expose great digital content and maximize revenue.

Two important differences in the world of digital merchandising warrant an analysis apart from paper books. Firstly, the variable cost of selling an eBook is zero. This means that from a revenue perspective, it makes more sense to sell 11 eBooks at \$0.99 than one for \$9.99. Secondly, digital retailers use highly algorithmic methods for serving content to interested readers. One factor in the algorithm is the number of downloads. Thus, a lower price point that leads to greater number of downloads ultimately helps sales and increases overall revenue. An intelligent launch campaign could build a critical mass of downloads that would populate recommendation engines or shoot titles to top-10 rankings. In the eBook marketplace, "discoverability" is both a challenge and an opportunity for digital publishers; more often than not, discoverability hinges on determining the right price.

Finding the Sweet Spot

It follows that today's publisher must strike a balance between a price that's low enough to entice sales but high enough to convey credibility and earn a profit. A variety of seemingly disparate factors must be considered in determining an eBook's price, but with the right tools, the process can be relatively straightforward. Early on in Vook's history, we adhered to conservative pricing policy, but quickly realized the monumental effect that price had on sales and began testing to find the optimal price.

Factors that Influence Pricing

The ease with which consumers can buy digital content makes an eBook purchase much more impulsive than the deliberate, brick & mortar shopping experience. Thus, there is a significant overlap between distribution and marketing; these two elements interact to maximize sales. Ultimately, given the instantaneous nature of purchasing, price becomes a significant factor in a customer's decision to purchase an eBook. A psychological "value assessment" happens in a split second and is highly dependent on a number of factors. For example, "Lifestyle" content, such as yoga and Pilates titles, garners a higher value and thus a higher price point than classic literature and fiction does.

Furthermore, customers value books differently based on the marketplace (i.e. App store, Amazon, iBookstore, B&N etc.) and whether the eBooks are part of a library or series. Thus, when pricing an eBook, a publisher must consider:

- 1) category,**
- 2) a title's discoverability,**
- 3) the marketplace, and**
- 4) whether it is a discrete book or part of a content library.**

Based on the real-time analytics within Vook's proprietary platform, MotherVook, Vook built a unique analytical tool for determining price, the **Vook Pricing Engine**. Using this tool, a publisher can consider all these factors simultaneously and determine the optimal price for any title. This tool incorporates important research on the four essential elements of successful pricing.

The same toolkit can easily be used by any publisher to find optimal pricing for their content—be it “plain-vanilla” text, enhanced eBooks, or eBook apps.

1) Categorization: Putting Content in the Optimal Place

Correct categorization is an essential factor in determining optimal pricing and it also affects how many views a particular titles gets. For example, an instructional title about “Microsoft Office” could fall underneath the “Productivity” or “Reference” groups, but categorizing it as “Business” gives the dual benefit of a higher price point and increased traffic from the popular business section. At Vook, in order to reduce mistakes and take the guesswork out of categorization, we added all BISAC book categories and mapped them to the unique categories of each digital channel.

2) Discoverability: Hitting a Critical Mass of Sales

Of course, in order for customers to make a value assessment on a title, an eBook needs to be seen. In a world where anyone can publish anything, it's easy for an eBook to be buried in the sea of titles. Acquiring page views is a precursor to sales.

Standing out among a crowd of 1MM+ eBooks may seem like a daunting task, but the key is to take advantage of “lift effects.” Lift effects are those that raise content to prominent shelf position and keep it there with high purchase rates. For example, in the Amazon environment, a critical mass of downloads can earn an eBook a “you may also like” recommendation, further fueling sales. Apple's iBookstore and App Store publish hourly ranking data, and earning a top-10 position ensures prime shelf space. When coupled with appropriate pricing, this maximizes revenues.

Achieving that critical mass means smart pricing and a nuanced understanding of the different eBook marketplaces.

3) Marketplaces

Through comprehensive research, Vook found that different marketplaces command different price points. Vook's library of over 500 titles, coupled with strong retailer relationships, enabled price testing across 12 channels including the Apple App store, iBookstore, Amazon, Barnes and Noble, and the Android marketplace. The eBook marketplaces coincidentally held up a higher price point on the whole when compared to the App stores.

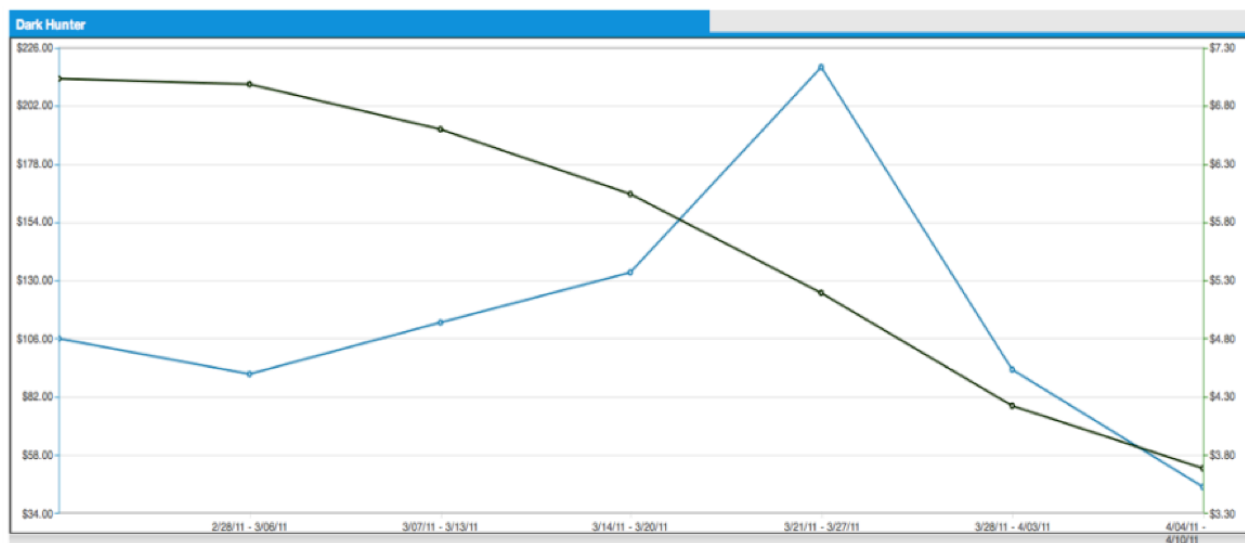
4) Importance of libraries

The importance of merchandising whole content libraries cannot be overstated. The rising tide of a popular catalog lifts all eBook boats as retailers' platforms automatically cross-sell for you. Categorized, branded eBook containers not only keep the barrier to purchase low, but enable you to upsell complete libraries of your content to interested readers. Thus, to create the Pricing Engine, Vook also measured data that compared content libraries to sales of individual titles.

The Vook Pricing Engine: Using Data, Not Guesswork

Using the analytics tools in MotherVook, Vook ran tests and collected data on the effects of all the above factors. We dove into our vast library of content to simultaneously test 40 eBooks in the Apple iBookstore and 20 Apps in the App Store. We chose at least one and in many cases two representative titles from each retail category to test their sensitivity. Over the span of three months, we adjusted pricing on a weekly basis, starting testing at the highest point we thought was viable and slowly dropping it well past an optimal revenue point. In most cases, there was a distinct "sweet spot" where the revenue popped versus a certain price point.

You can see dynamic pricing in action below. We varied the price of Sherrilyn Kenyon's *Dark Hunter* over six weeks. In this snapshot from the Vook Sales Reporting system, price is charted on the right axis and represented by the black line; revenue from sales is on the left axis and represented by the blue line. As you can see, sales "popped" at a price around \$5.30.



We used the information gleaned in our study to create the Vook Pricing Engine. Using this pricing engine, the optimal price can be determined for any book sold in any category and through any channel.

VOOK PRICING ENGINE			
Vook Franchise?	No	Video Guide	
Choose Category:	Health & Fitness		
Channel	Category	Optimal Price	
Apple App Store	Healthcare & Fitness	5.99	
iBookstore	Health, Mind & Body	6.99	
Amazon	Health & Fitness	6.99	
Barnes & Noble	Health & Fitness	6.99	
Google Books	Health & Fitness	6.99	
OverDrive	Health & Fitness	6.99	
Sony	Health & Fitness	6.99	
Blio	Health & Fitness	6.99	
Copia	Health & Fitness	6.99	
Kobo	Health & Fitness	6.99	
Google Android App	Health & Fitness	5.99	
Amazon Android App	Health & Fitness	5.99	

Ten Golden Rules of eBook Pricing

Digital marketplaces open up a whole new set of challenges and opportunities for publishers to merchandise their content. The key is to stay equipped with the right tools and knowledge to take advantage of this evolving space. Through the research required to create the Vook Pricing Engine, we've gleaned 10 Essential Pricing rules that any publisher can apply.

Golden Rules of Pricing:

1. Zero variable cost means it's OK to significantly lower prices to maximize revenue.
2. Optimal pricing is highly content specific.
3. Certain pricing thresholds trigger psychological "automatic" purchases.
4. Categorization has a large role in optimal pricing and discoverability.
5. Merchandising whole catalogs is more effective than single titles: "A rising tide lifts all boats."
6. Containers are critical to driving upsell in App environment.
7. Lift effects through savvy launch promotions have a profound impact on sales.
8. In general apps cannot support as high price points as eBooks.
9. Real-time sales tracking is necessary to adjust pricing in a dynamic eBook world.
10. For each retailer there are distinct best practices to maximize discoverability and revenues.

The Future of the Vook Pricing Engine

As digital publishers, we must adapt as quickly as the eBook universe is evolving. In addition to the new, important distribution channels we will integrate into our tool, we will further refine the price points. Future versions of the Vook Pricing Engine will include time-based price recommendations for successful launch promotions. Also, we plan on adding new functionality to price content within containers for good upsell and to price series titles for more cross-sell. Ultimately, we would like to make the tool truly automatic where it incorporates actual sales performance to continually adjust pricing over time.

CONTACT

For more information about this study or about MotherVook, Vook's eBook publishing platform, please contact Greg Bateman at greg@vook.com.