

Business performance of Croatian, US and EU publishing industry

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Abstract

The main purpose of this paper is to provide an overview of the financial 'health' of the Croatian publishing market in the five-year period (2010-2015) considering the continental (EU) as well as the global context (USA) in regard to phenomenon called 'cannibalization'. The statistical analysis of losses in revenue incurred on printed books, periodicals and newspapers and gains in revenue acquired on online and other media books, periodicals and newspapers in the US publishing industry in the five-year period (2010-2015) was conducted. The results indicate that the proliferation of alternative types of publishing revenues in the US does not substitute ('cannibalize') for the evident decline of revenues incurred from the decrease in sales of printed books, periodicals and newspapers. Accumulated losses from printed items in the five-year period (2010 - 2015) are more than three times larger than the growth in the new sector.

Keywords: books, cannibalization phenomenon, publishing industry, e-books, newspapers, periodicals, comparative analysis, Croatia, EU, USA

1. Introduction

After a long period of stability, the publishing industry in general (Croatian publishing market included) shows a deep decline in business performance. This could be attributed to technological trends in the digital age and the transfer from paper to screen (PCs and laptops, e-ink readers, tablets, smartphones, etc.), as well as to the global economic downturn after the 2008 financial crisis. Although the invention of e-book caused the transformation of the publishing

industry, much like Gutenberg and the printing press did, concerns about the solidity of the publishing industry cannot be attributed only to the emergence of the e-book. The substantial changes in the publishing market are happening because of the development of online bookselling. Technological advances, discount online retailers (most notably, Amazon), as well as widespread availability through internet piracy pushed the demand for e-books.

There is a wide variety of definitions of the term 'book. For this particular paper the definition is taken over from Greco, Milliot and Wharton: *'the book is a cultural object, the means by which knowledge is passed from author to reader, from one generation to the next'* (Greco, Milliot & Wharton 2014, 16). The same authors describe book publishing as part of the publishing industry as follows: *'book publishing is a complex, adaptive, semi-chaotic industry with Bose-Einstein distribution dynamics, dual-sided uncertainty, and Pareto power law characteristics. Publishing is a business, and its business is the publication of content that entertains, educates, and informs'* (Greco, Milliot & Wharton 2014, 18).

The difference between a book and an e-book is well described by Carreiro: *'electronic books are distinct from books in terms of media, distribution, functionality, management, quantity, copyright and fair use, information technology, cost, typology of e-books, reading device specificity or lack thereof, pricing, accessibility, publishing model, book news and peer reviews, service model, quality assurance, standards and interoperability, user preferences, layout and paging, and contextual reading'* (Carreiro 2010, 220). The e-book market is evolving and faces challenges such as unauthorized sharing and copyright infringement, while the publishers oppose it with *'technologies such as encryption, DAM, DRM and DOI'* (Carreiro 2010, 232).

According to Consumer Product Strategy (2010) some of their predictions are the following: *'e-Ink will lose its claim to near-100% market share for e-reader displays, dual-screen mobile phones and net books will eat into e-reader demand, apps will make non-reading devices more e-book-friendly, e-readers will get apps, e-book content sales will top \$500 million in the U.S., e-textbooks will become more accessible, magazine and newspaper publishers will launch their own apps and devices, China, India, Brazil, and the EU will propel global growth, but the U.S. will still be the biggest market'* (Carreiro 2010, 231). According to Kovač *'in contemporary book cultures, printed books and e-books coexist in a kind of dual economy'* (Kovač 2014, 7).

The changes in bookselling are caused by many factors, such as online book sales and changes in reading habits *'to the effect that traditional bookshops experienced an increased pressure in purely economic terms'* (Maceviciute, Wallin & Nilsson 2015, 17). The Global eBook Report: A Report on Market Trends and Developments (2013) reports that the size of the digital book market for books in local languages was much smaller in continental Europe than in the UK and the US. In the first half of 2013 *'more than 20% of the book market in the UK and the US was digital, while only 3% of the sales of French and Spanish publishers, 5% of the sales of German publishers and 2% of the sales of Italian publishers came*

from e-books and till 2014, all remaining European publishers made less than 1% of their income from e-books' (Wischenbart et al., 2013).

The impact of e-books on sales of the printed books can be explored through the prism of the phenomenon called 'cannibalization'. Cannibalization refers to a 'reduction in sales volume, sales revenue, or market share of one product as a result of the introduction of a new product by the same producer[1]'. Li (2015, 59) states that cannibalization happens when two conditions hold: '(1) the consumer would buy paperbacks in the absence of e-books, and (2) the consumer would prefer e-books to paperbacks when he can choose from both formats. Market expansion happens when the second condition holds and the first condition does not hold'. Namely, bookstores suffer the loss from decrease in sales of printed books due to sales of e-books, and they cannot benefit from market expansion by the additional sales created by e-books (Li 2015, 68).

These issues serve as a background for the following research questions:

- Is business performance of Croatian publishing companies in line with the European and US trends?
- Does the increase of the e-publishing substitute correspondingly for the decrease in the 'classic' (print) publishing revenues in Croatia?

2. Methodology and data

The statistical analysis of publishing industry data was performed using the following data sources:

1. hr – Croatian business data provider,
2. Federal Reserve Bank of St. Louis (Fred) – major US economics open access database,
3. Federation of European Publishers – European Book Publishing Statistics.

National Classification of Activities (hereinafter NCA, in Croatian: Nacionalna klasifikacija djelatnosti, NKD) is the official Croatian standard for classification of industries into categories, and corresponds to NACE Rev. 2 standard. Five NCA/ NACE segments were selected for this study. These are:

1. Code: 58.11 – Book publishing. This segment includes print, CD/DVD, e-, and online publishing.
2. Code: 58.13 – Newspaper publishing. It includes items which are published at least 4 times a week; printed, online, or electronically.
3. Code: 58.14 – Periodicals publishing. It contains items which are published less than 4 times a week; printed, online, or electronically

4. Code: 58.19 – Other publishing activities. This segment covers items such as catalogues, photos, postcards, forms, posters, greeting cards, advertising materials, statistical data and other publishing items; printed or online.
5. Code: 63.12 – Web portals. This section encompasses internet search engines, internet portals, and media publishing online. It excludes publishing books, newspapers and periodicals online.

Each of these NCA segments was analysed for the year 2015. Furthermore, ten largest Croatian publishing companies (in terms of 2015 revenues) were analysed for their economic performance during the five-year period from 2011 to 2015. These companies are listed in Table 1.

Table 1. Largest Croatian publishing companies by 2015 revenue (Source: Poslovna.hr)

Rank	Company	Revenue in 2015 (€)	Main activity (NCA/ code)
1	NARODNE NOVINE d.d.	48.987.500	58.19
2	24sata d.o.o.	27.415.900	58.13
3	VEČERNJI LIST d.o.o.	24.682.900	58.13
4	ŠKOLSKA KNJIGA d.d.	22.979.800	58.11
5	SLOBODNA DALMACIJA d.d.	15.592.600	58.13
6	HANZA MEDIA d.o.o.	14.367.200	58.14
7	NOVI LIST d.d.	9.998.100	58.13
8	PROFIL KLETT d.o.o.	9.442.600	58.11
9	ADRIA MEDIA ZAGREB d.o.o.	6.940.300	58.14
10	MOZAIK KNJIGA d.o.o.	6.797.200	58.11

3. Results and discussion

'Value Created' is an economic performance measure which attempts to represent the total value that a company created which was added by the company to the economy. It is calculated by adding gross profits (earnings before taxes, which are considered as benefits to the state via taxes, as well as benefits to the company) to gross expenditures for the employees (benefits to the employees). Table 2 shows the joint performance of the top 20 Croatian companies from selected NCA segments in 2015. In the newspaper publishing segment, the largest measure value created is 58.13.

Table 2. Joint performance of the top 20 Croatian companies from selected NCA segments in 2015 (Source: Author's calculation, data from Poslovna.hr)

NCA code	Joint revenues for the segment top 20 (€)		Joint profits for the segment top 20 (€)		Joint value created for the segment top 20 (€)		No. of employees in the top 20 of the segment	
	Revenue	Profit	Revenue	Profit	Revenue	Profit	Employees	Profit
58.11	72,302,500	26.7%	7,489,000	55.3%	24,596,900	28.4%	942	26.9%
58.13	100,482,600	37.1%	2,638,600	19.5%	32,967,900	38.1%	1,347	38.5%
58.14	32,863,700	12.1%	1,357,800	10.0%	11,618,900	13.4%	446	12.7%
58.19	53,864,500	19.9%	757,200	5.6%	12,617,400	14.6%	606	17.3%
63.12	11,202,300	4.1%	1,307,400	9.6%	4,684,200	5.4%	158	4.5%
Total	270,715,600	100%	13,550,000	100%	86,485,300	100%	3,499	100%

Table 3. shows the performance of Croatian publishing companies from selected NCA segments in 2015 and the newspaper publishing segment 58.13 outperformed the others.

Table 3. Performance of Croatian publishing companies from selected NCA segments in 2015 (Source: Poslovna.hr)

NCA code	Average revenues (€)	Average profit (€)	Average value created (€)	Average No. of employees
58.11	293,600	17,593	96,580	4
58.13	1,138,100	1,257	377,056	16
58.14	251,100	- 8,373	85,851	4
58.19	543,100	- 8,237	128,208	6
63.12	83,400	5,124	35,309	2

Figure 1 illustrates the performance of largest Croatian publishing companies from 2011 to 2015 and it can be seen that Narodne novine d. d. had the best business performance in the given time period.

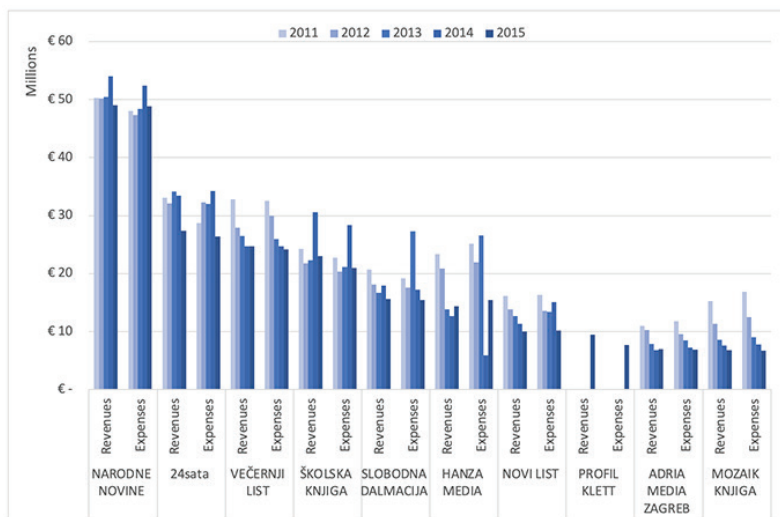


Figure 1. Performance of largest Croatian publishing companies 2011-2015 (Source: Authors' calculation, data from Poslovna.hr)

In terms of net (after tax) profits, the most profitable Croatian companies in 2015 were those shown in Table 4. Namely, ŠKOLSKA KNJIGA d. d. was the leading publishing company.

Table 4. The most profitable Croatian publishing companies in 2015 (Source: Poslovna.hr)

Rank	Company	Profit in 2015 (€)	Main activity (NCA code)
1	ŠKOLSKA KNJIGA d.d.	2,019,600	58.11
2	PROFIL KLETT d.o.o.	1,772,600	58.11
3	24sata d.o.o.	1,015,400	58.13
4	IN TECH d.o.o.	494,500	58.11
5	VEČERNJI LIST d.o.o.	479,000	58.13
6	ELEMENT d.o.o.	451,800	58.11
7	INTONAT d.o.o.	&314,200	63.12
8	ALFA d.d.	309,200	58.11
9	NA CESTI 041 d.o.o.	301,900	58.14
10	VOX-ZAGREB, d.o.o.	289,300	58.13

The simple arithmetic mean (average) of the revenues for the ten largest Croatian companies (by revenues in 2015; Table 1) reveals a declining trend which is shown in Figure 2.

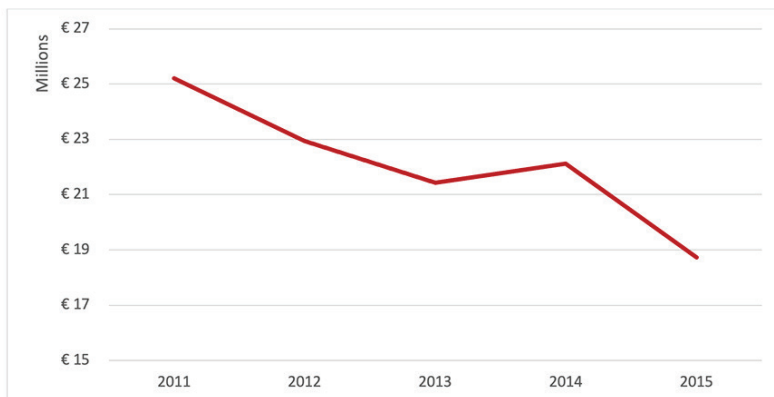


Figure 2. Average revenues of largest Croatian publishing companies (Source: Authors' calculation, data from Poslovna.hr)

EBITDA (earnings before interest, taxes, depreciation and amortization) is another standard economic performance measure. EBITDA is one of the indicators of company's financial performance. It is often used as a representation for the earning potential of a business. Figure 3 shows that EBITDA of NARODNE NOVINE d. d. was the best among the largest Croatian publishing companies.

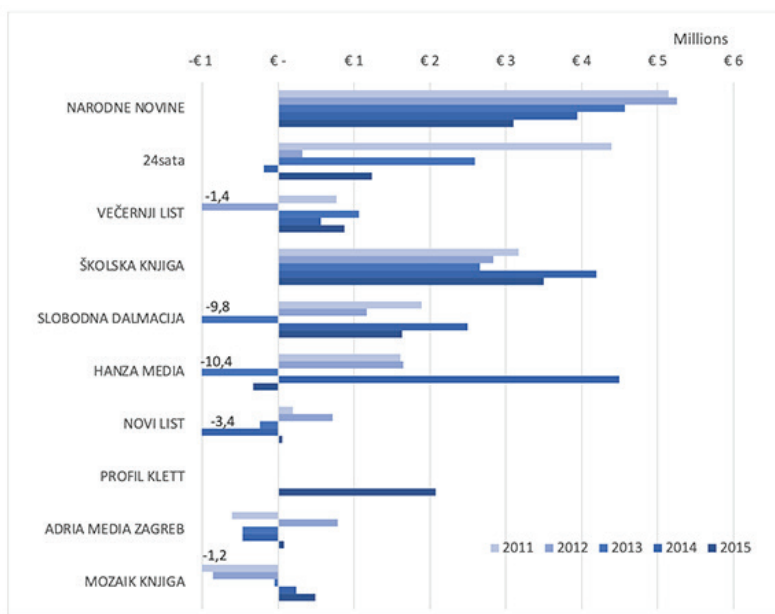


Figure 3. EBITDA of largest Croatian publishing companies (Source: Authors' calculation, data from Poslovna.hr)

Figure 4. shows that the lowest average EBITDA of largest Croatian publishing companies was recorded in 2013.

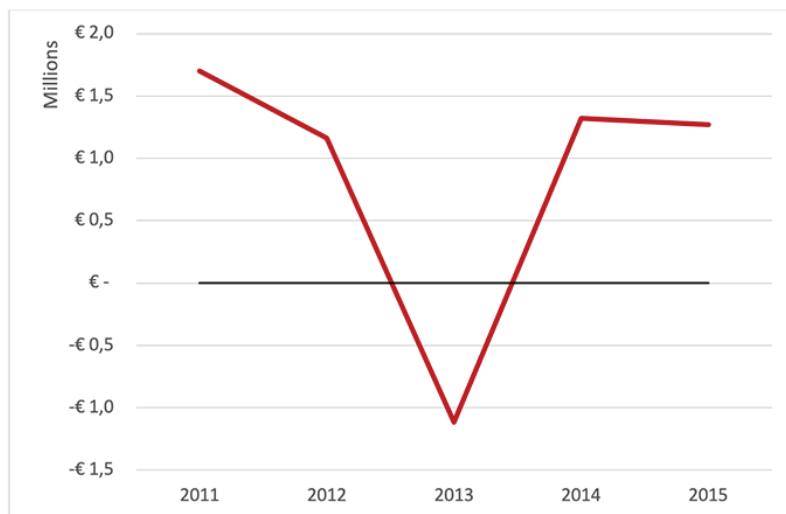


Figure 4. Average EBITDA of largest Croatian publishing companies (Source: Authors' calculation, data from Poslovna.hr)

The simple arithmetic mean (average) of the value created (gross profits plus gross expenditures for the employees) for the ten largest Croatian companies (by revenues in 2015; Table 1) also shows a declining trend, albeit with a recovery in 2014 which can be seen in Figure 5.

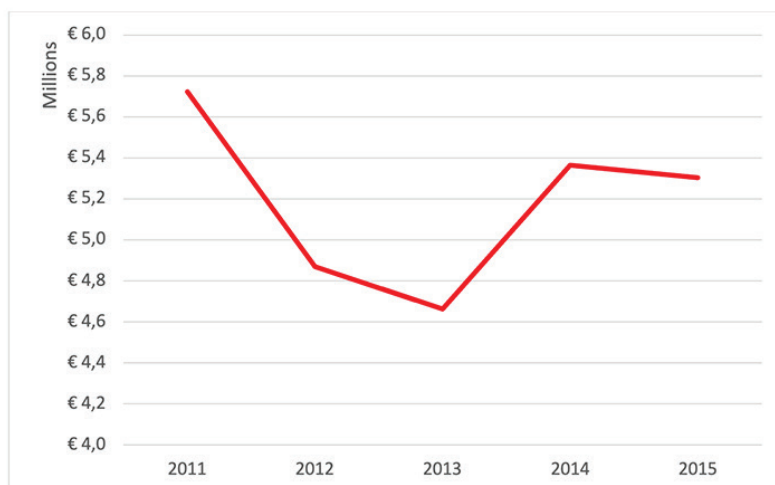


Figure 5. Average value created by the largest Croatian publishing companies (Source: Authors' calculation, data from Poslovna.hr)

Breakdown of revenues by media type in the EU-5 according to European Commission (2012) is shown in Figure 6.

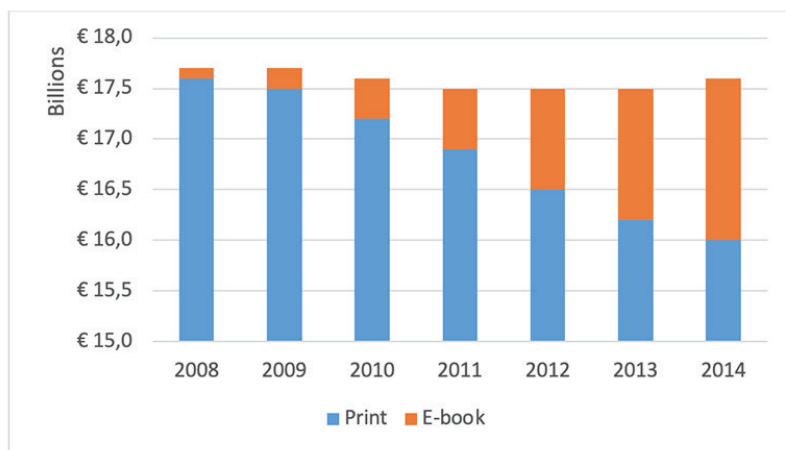


Figure 6. Breakdown of Revenues by Media Type in the EU-5 (Source: European Commission, Analysis of the media and content industries: The publishing industry, 2012.)

Breakdown of total revenues by media type in the USA according to data from FRED is shown in Figure 7.

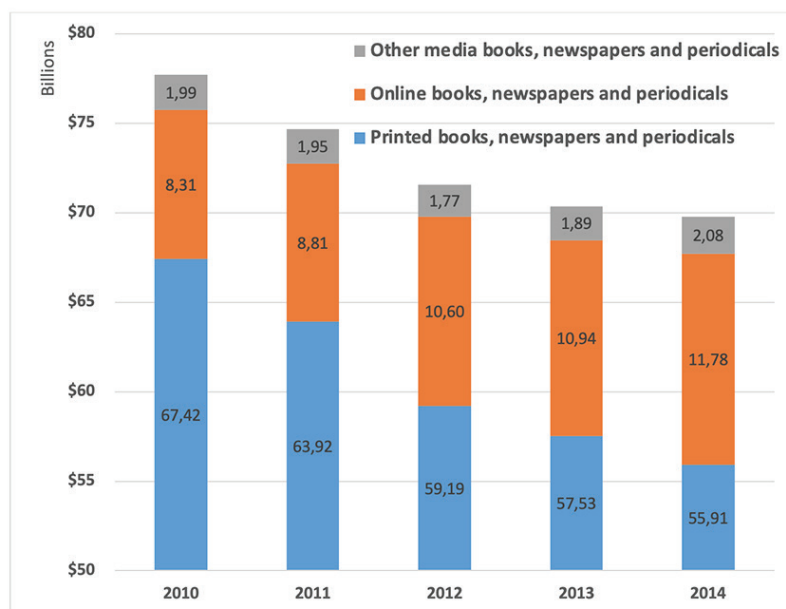


Figure 7. Breakdown of Total Revenues by Media Type in the USA (Source: Authors' calculation, data from FRED)

Losses and gains in the US publishing industry in 2010-2014 are shown in Table 5.

Table 5. Losses and gains in the US publishing industry in 2010-2014 (Source: Authors' calculation, data from FRED)

In billions of USD	Loss in revenue incurred on printed books, periodicals, and newspapers	Gain in revenue acquired on online and other media books, periodicals, and newspapers
2011-2010	3.50	0.47
2012-2011	4.73	1.61
2013-2012	1.67	0.46
2014-2013	1.62	1.03
Total	11.51	3.57

Table 5 clearly shows that proliferation of alternative types of publishing revenues in the US do not substitute ('cannibalize') for the evident decline of revenues incurred from the decrease in sales of printed books periodicals and revenues. Accumulated losses in the five-year period (2010-2015) from the printed items are more than three times larger than the growth in the new sector.

4. Conclusion

According to the obtained results it can be concluded that the proliferation of alternative types of publishing revenues in the US do not substitute ('cannibalize') for the evident decline of revenues incurred from the decrease in sales of printed books, periodicals and newspapers. Accumulated losses in the five-year period (2010 - 2015) from the printed items are more than three times larger than the growth in the new sector. Although there are no available data regarding e-books' sales in Croatia, the data obtained from interviews with Croatian publishers indicated that the Croatian market is in line with US and EU markets, namely the increase of revenues from e-books' sales does not substitute for the decrease of print books' sales.

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Sažetak

Svrha rada je dati pregled financijskog 'zdravlja' hrvatskog nakladničkog tržišta u petogodišnjem razdoblju (2010.- 2015. godine) s obzirom na kontinentalni (EU), ali i širi kontekst (USA), a u odnosu na fenomen tzv. kanibalizacije. Provedena je statistička analiza gubitaka u prihodima od tiskanih knjiga, periodičnih publikacija i novina i dobiti od prihoda od online knjiga, periodičnih publikacija i novina u nakladničkoj industriji SAD-a u navedenom petogodišnjem razdoblju. Prema dobivenim rezultatima proliferacija alternativnih načina prihoda od nakladništva u SAD-u ne zamjenjuje odnosno ne kanibalizira evidentni pad prihoda uzrokovan smanjenjem prodaje tiskanih knjiga, periodičnih publikacija i novina. Naime, akumulirani gubitci u petogodišnjem razdoblju (2010.- 2015. godine) su više nego trostruko veći od rasta dobiti u novom sektoru. Budući da tržište nakladništva u Hrvatskoj prati trendove EU-a i SAD-a može se zaključiti da povećanje prihoda od e-knjiga ne zamjenjuje tj. ne kanibalizira pad prihoda od prodaje tiskanih knjiga.

Ključne riječi: e-knjige, EU, fenomen kanibalizacije, knjige, komparativna analiza, Hrvatska, nakladnička industrija, novine, USA

Notes

[1] [http://www.gutenberg.us/articles/eng/cannibalization_\(market](http://www.gutenberg.us/articles/eng/cannibalization_(market)