

Used Book Market Analysis

Initial Preview

**Complete report to be released
late fall of 2005**



Book Industry Study Group

Important Notice

The following slides are highlights from the Used Book Study Preview that was presented on September 28 at BISG's Annual Meeting and Fall Conference 2005.

A comprehensive and detailed report of the findings of the Used Book Study is being prepared and will be released in late fall 2005.

Agenda

- Objectives
- Key findings
- Booksellers
- Market size and growth
- Consumer survey findings
- Conclusions
 - Trends, publishers, booksellers
- Future directions

Project Objectives

- Size the US market for used books
 - Units and sales for 2003 and 2004
 - By genre (top 50 BISAC codes) and other
 - By channel (online vs. off-line)
- Conduct research on used book selling and buying activities
 - Assess used bookseller volume, trends, perspectives
 - Understand used book purchasing behavior, process and drivers
- Develop a summary report on the used book market

Used Book Market Sizing Methodology

- On-line transaction data
- Bowker ISBN to BISAC
- MIR textbook data
- Bookseller survey
- Consumer survey
- Secondary research
- Market model

**Majority of units and sales figures based on transaction data
(Abebooks, Alibris, Amazon, Biblio, eBay, MIR, Powells)**

Key Resources and Data Partners



Key Findings – US 2004 Used Book Market

- \$2.2 B in used book sales; 11.1% growth over 2003
 - \$1.6 B in education and \$600 M other genres
- 111.2 M used books (units)
 - 38.6 M in education and 72.6 M other genres
- On-line used book sales = \$609 M; 33.3% growth
- Bookstores (POS) = \$1.57 B; 4.6% growth
- Other locations = \$46 M and 19 M units; 1% growth

Key Findings – US Used Book Market

- Traditional booksellers seeing declining store (POS) used book sales (except for college stores)
- On-line vendors actively focused on building inventory (booksellers, consumers)
- Significantly higher average sales prices via on-line (except for education)
- High consumer satisfaction with used book purchases
- Key used book buying factors are price and book condition – new book availability is a secondary factor

Who are the used book sellers? How many sell used books?

- Bookstores
 - Independents (used, new), national, college, religious, other
 - 11,036 establishments per Census Bureau
 - 22,321 per Information Today (7,131 are various retail stores)
 - Industry consensus of around 15,000 to 17,000 total bookstores
 - We estimate around 11,600 sell used books

- Other locations – 1,000's

- Book fairs
- Friends of the Library
- Goodwill and thrift stores
- Yard sales

Physical Stores Selling Used Books

4,200	Independent - Used
4,000	Independent - New
3,205	College
200	Other
11,605	TOTAL

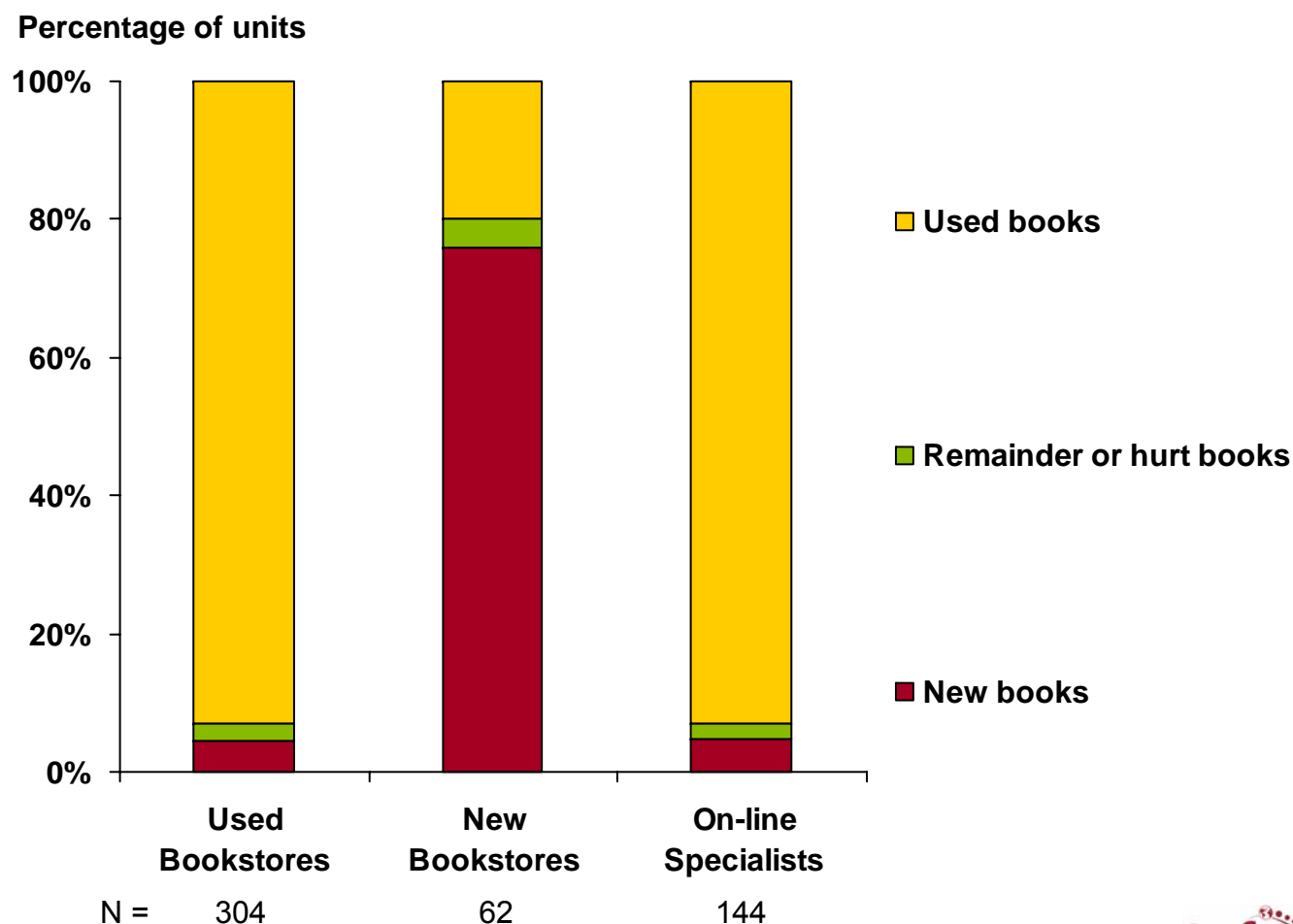
- On-line – Majors, on-line specialists, consumers

Bookseller Survey

- Web-based survey conducted August 23 – September 19, 2005
- Sample from Book Hunter Press and American Bookseller Association
- 510 respondents
- BISG and list providers identified as sponsor
- Three main groups (all independents, no national)
 - Used bookstore (304) = physical store and primarily used books
 - New bookstore (62) = physical store and primarily new books
 - On-line specialist (144) = no store (excludes Abebooks, Amazon, B&N, et al)

Percentage of Bookseller Sales (Units) – Survey Data

Roughly what percentage of your company's books sales (UNITS) in 2004 fell into the following categories?

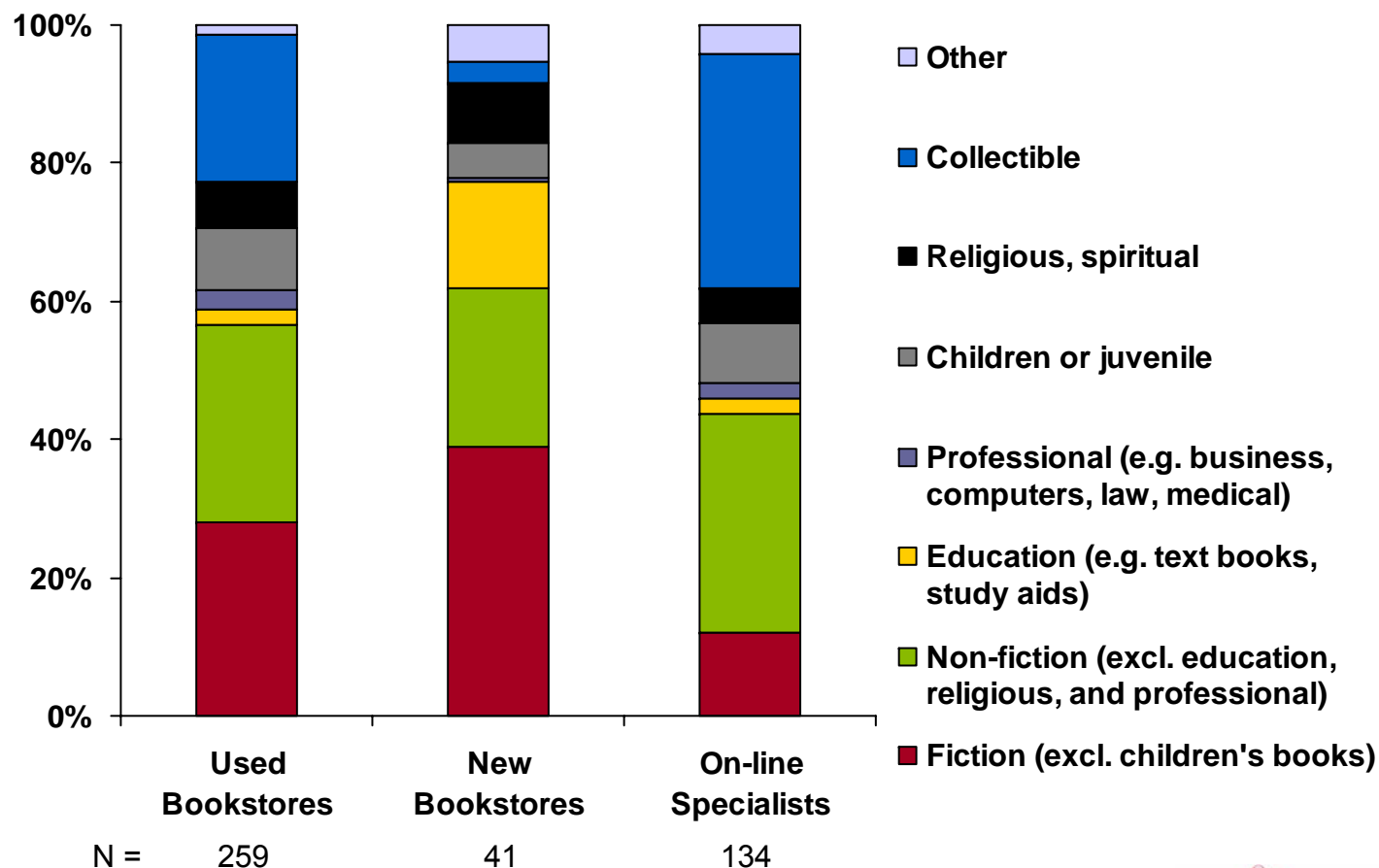


Note: This sample does not include the major online retailers or the large bookseller chains.

Percentage of Used Units by Category – Survey Data

Approximately what percentage of your USED BOOKS sold in 2004 were in the following categories?

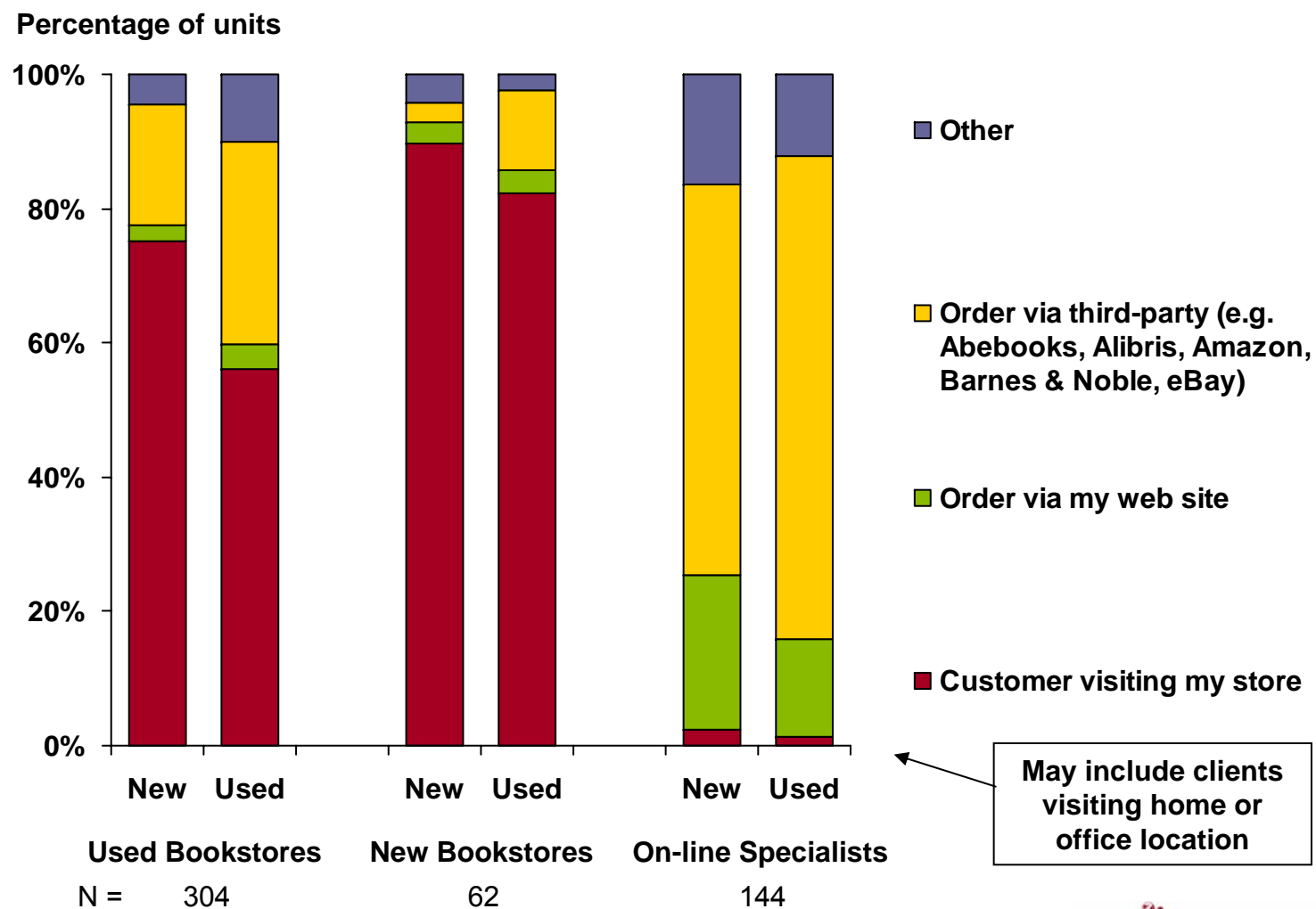
Percentage of USED units



Note: This sample does not include the major online retailers or the large bookseller chains.

Percentage of Units by Sales Method – Survey Data

What percentage of your books sold in 2004 did you sell through the following methods?



Note: This sample does not include the major online retailers or the large bookseller chains.

College Bookstores

- 4,650 college stores serving 4,168 institutions in US, 200 stores in Canada
 - 2,500 university owned
 - 2,350 managed (e.g. B&N, Follet, CBA) or privately owned
- \$10.9 billion revenue (North America)
 - 63% of business is course materials (\$6.9 B)
 - \$5.0 B new textbooks*, \$220 M course packs, \$440 M in trade books
 - \$1.75B used books*
 - Around \$275 M sales via Web
- Facing increasing competition from third-parties

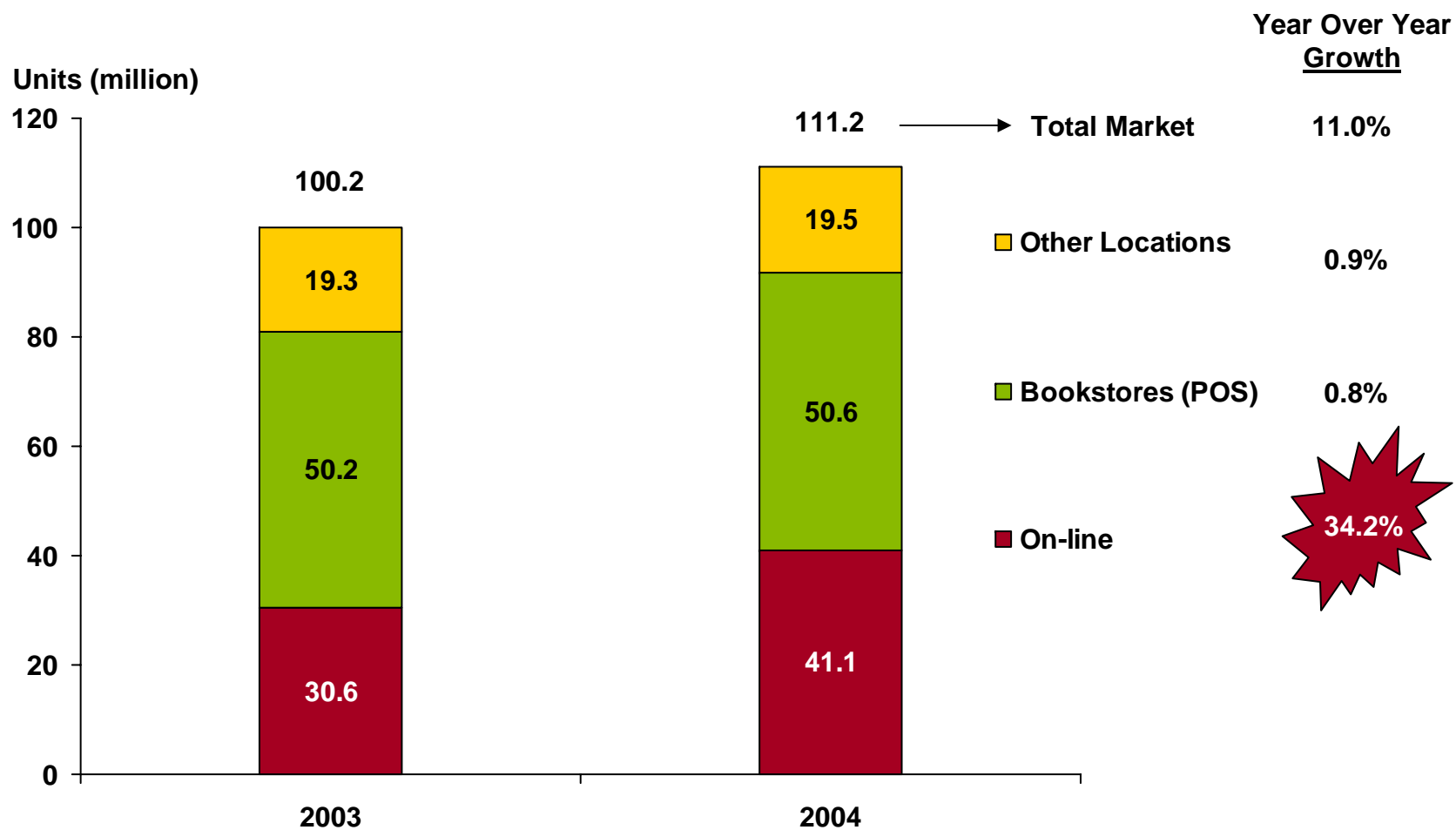
***Based on NACS survey and projections. Other sources (Bowker MIR) project slightly lower sales and units.**

Source: National Association of College Stores (NACS) - Higher Education Retail Market Facts and Figures 2005

On-line

- Retailers
 - Barnes & Noble, Books-A-Million, Powell's
 - Emphasize new and used; tied into on-line specialists and marketplaces
- Marketplaces
 - Abebooks, Alibris, Amazon, Biblio, eBay,
 - Portal for the industry inventory
 - Transaction system for e-commerce
- On-line specialists (1,000+)
 - Individual people working out of home and selling through marketplaces
 - Ex-used book dealers, part time business (\$10K, <1,000 books per year)
- Rapid growth in segment (30%+ year over year)
- Transforming the Adult Trade and Professional used book segments
- Expanding into Textbooks
- Achieving significantly higher prices than other channels

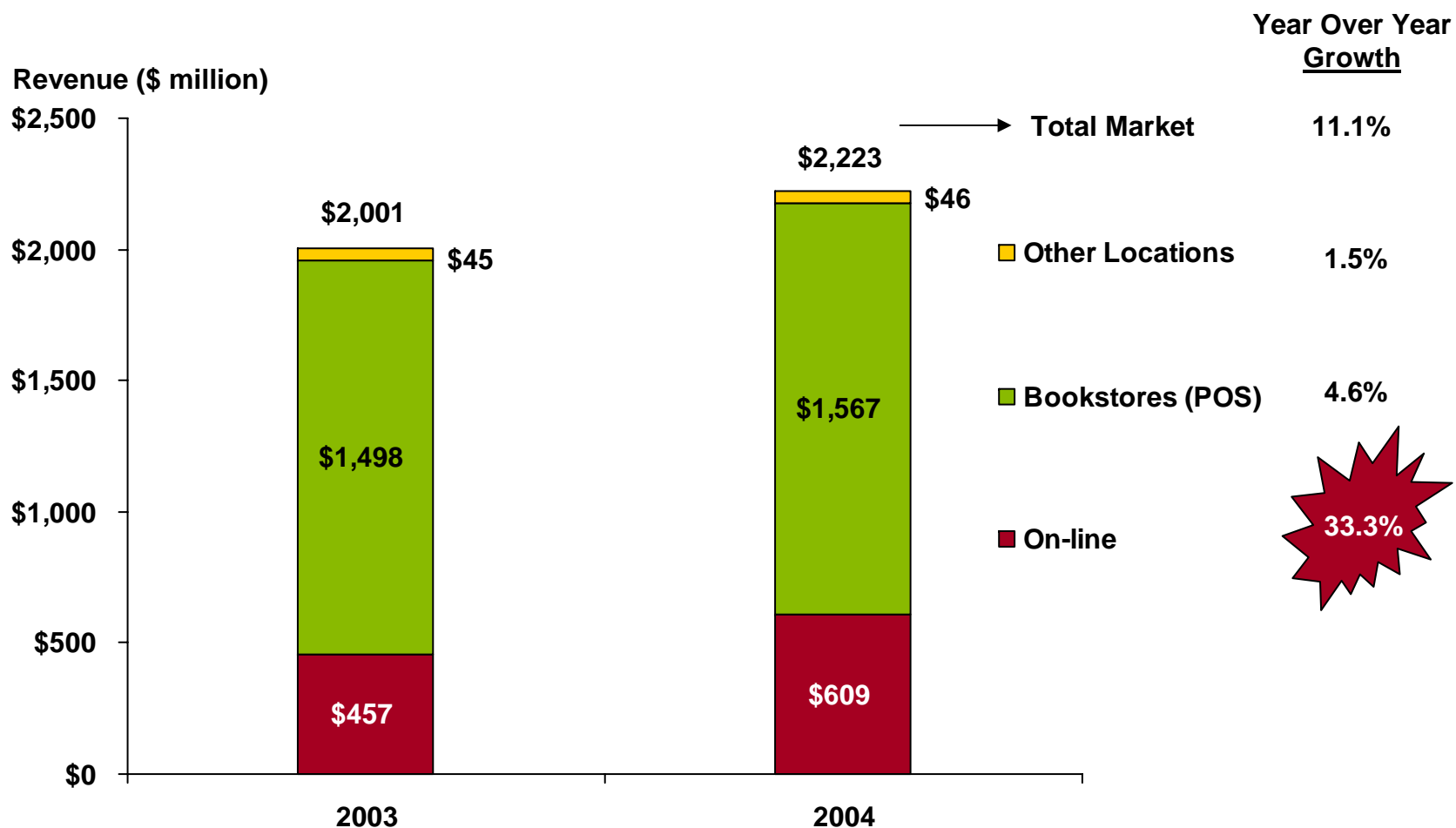
US Used Book Market – Units (million)



Note: On-line includes all Web-based sales via any source; Bookstore (POS) refers to sales at the register



US Used Book Market – Revenue (\$ million)



Note: On-line includes all Web-based sales via any source; Bookstore (POS) refers to sales at the register

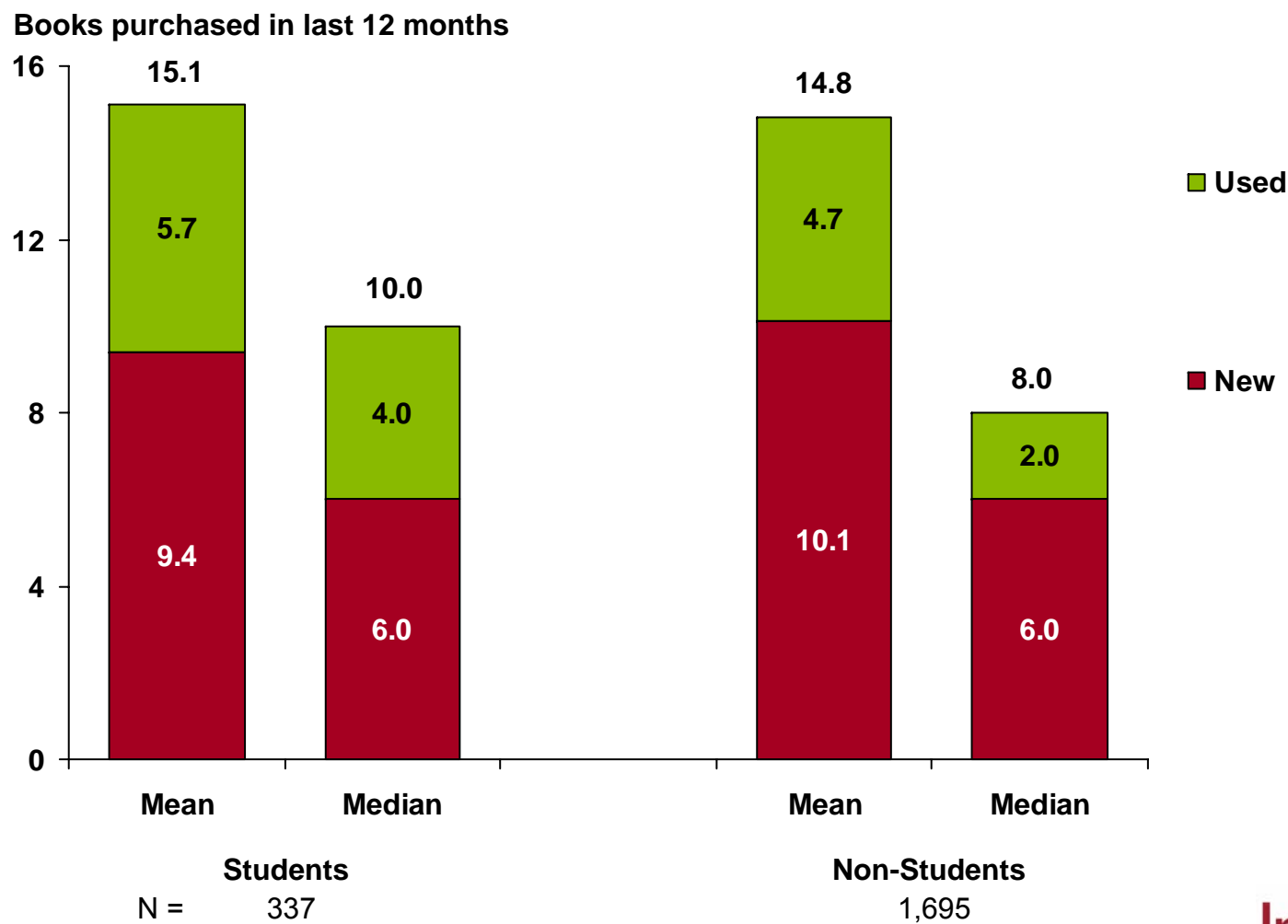


Consumer Survey

- Web-based survey conducted August 9 – 11, 2005
- Sample from Survey Sampling and InfoTrends panels
- 1,695 consumers and 337 students
- Random drawing for cash prize
- BISG not identified as sponsor

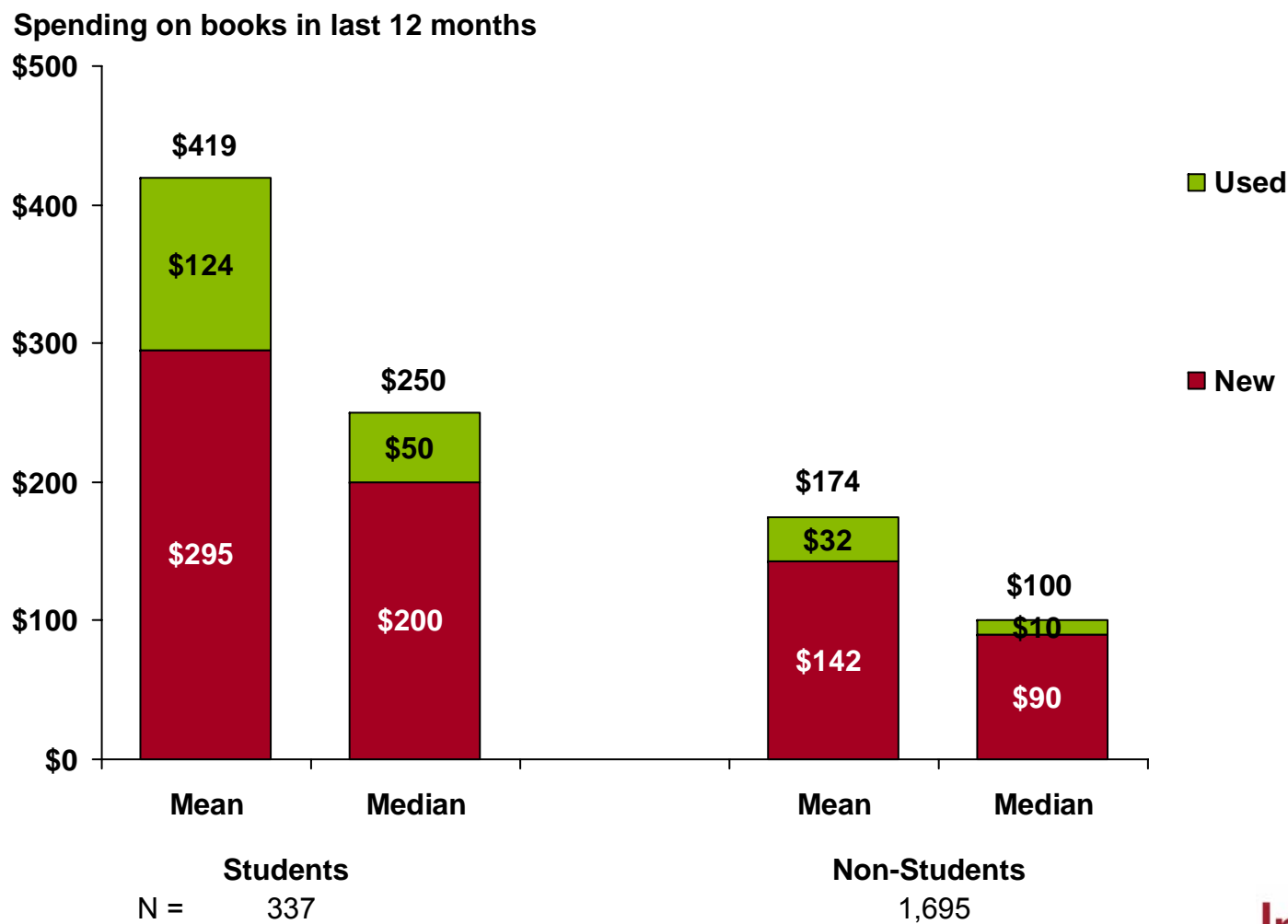
Number of Books Purchased in Last 12 Months

How many new and used books have you purchased in the last 12 months? Please include all books that you have purchased including ones for yourself or as gifts.



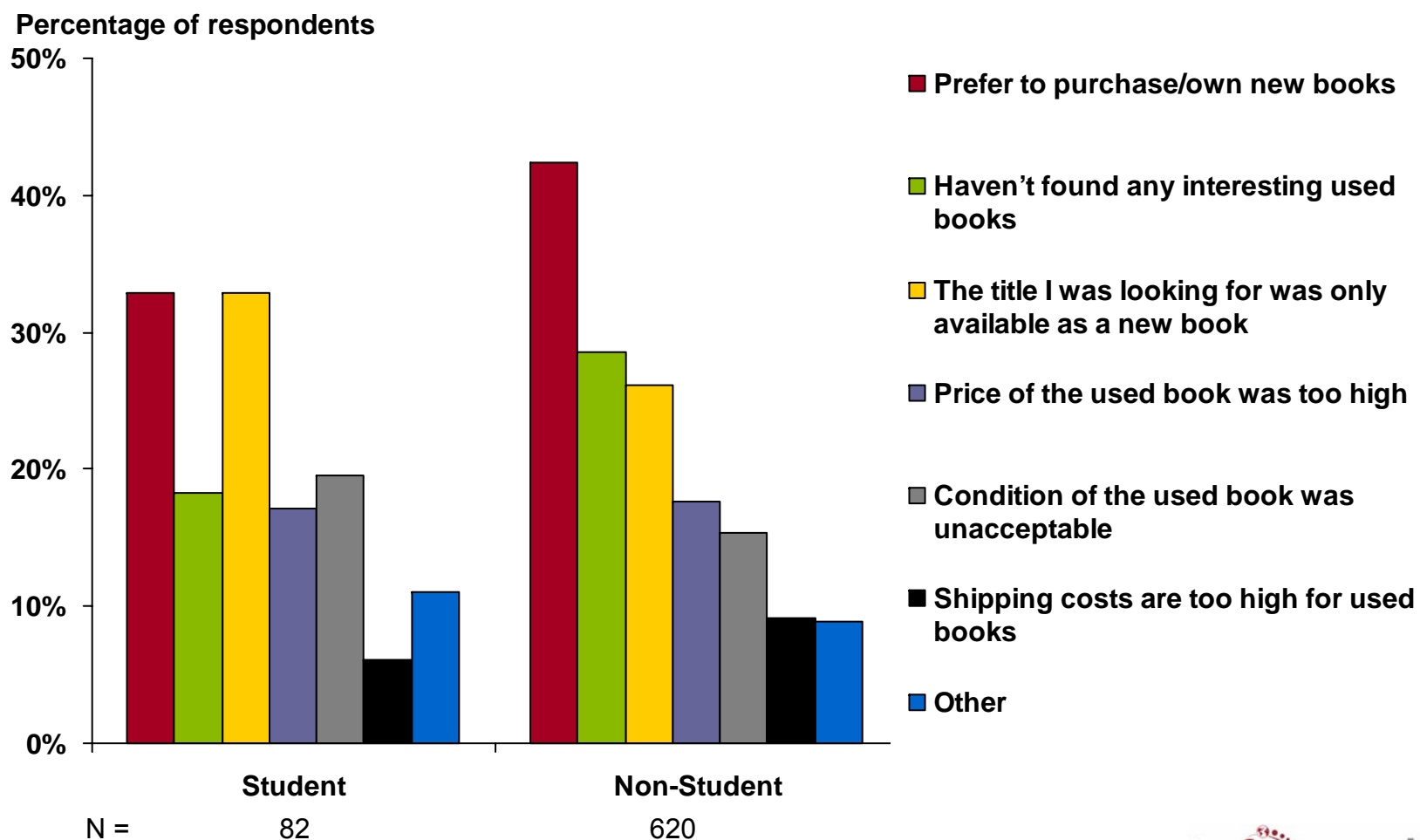
Amount Spent on Books in the Last 12 Months

Approximately how much have you spent on books in the last 12 months?



Reasons for Not Purchasing Any Used Books

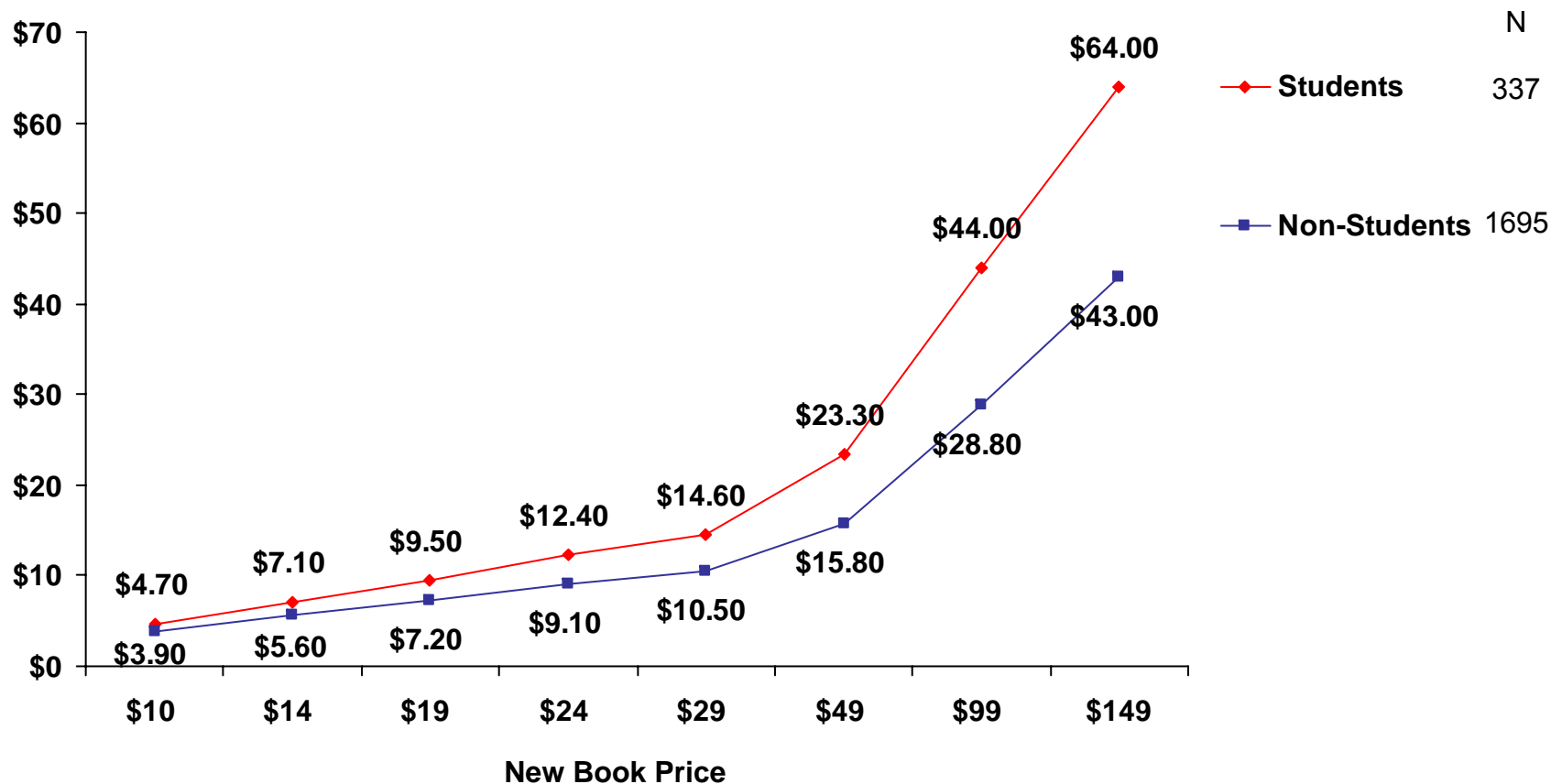
Why have you not purchased any used books? (check all that apply)



Highest Price Willing to Pay for a Used Book in Very Good Condition

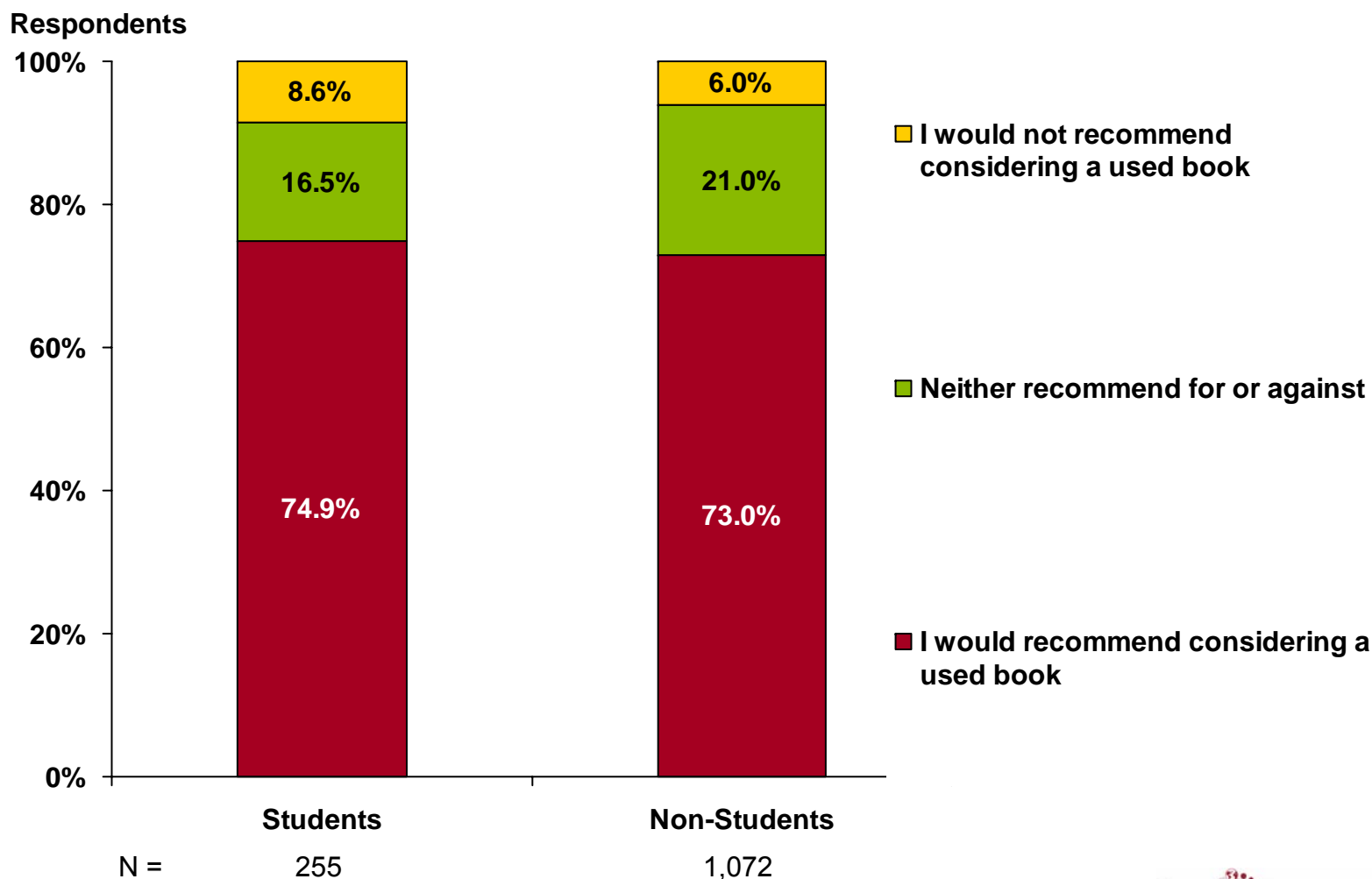
The most I would pay for a used book (excluding shipping) in VERY GOOD condition is ...

Highest price willing to pay for used book in Very Good condition



Would Recommend Purchasing a Used Book

Would you recommend to a friend that they consider purchasing a used book the next time they are shopping for a book?



Initial Conclusions

- Used books are one of the fastest growing segment of the book industry
 - 11% overall growth (2004 vs. 2003)
 - On-line sales 33.3% revenue growth
- Rapid growth driven by e-commerce (eliminating friction in buying and selling)
- Expansion from textbooks and collectibles to professional and trade
- Used books become mainstream
 - Positive experience for consumers, libraries and sellers
 - Easy, good value, profitable
 - “Wait for it to come out on video”

Initial Conclusions

- Expect a significant transformation over next few years
 - Tip of the used book inventory iceberg (libraries, consumers, bookstores)
 - Automated price quotes
 - Handheld wireless device at book fairs and yard sales? Used book arbitraging?
- Multiple business models all tied to the Web
 - Physical store
 - On-line store
 - Auction
 - Events

Initial Conclusions

- Impact on publishers
 - Another variable to factor into the equation
 - Shorter runs, more titles, more updates and versions
 - Re-examine contracts for disposing of hurts and remainders
 - The publisher as the reseller?
- Impact on booksellers
 - Majority of transactions done on-line
 - Store sales will continue, but be a smaller portion
 - Fewer used bookstores
 - More professional on-line booksellers (price erosion?)
 - Greater competition for inventory (higher costs?)
 - Volumes up

Future Issues

- More detailed examination of transaction data
 - Sales by condition
 - Quantify hurts & remainders vs. used
 - Publish date of new book (hardcover vs. soft cover)
 - Prices over time
 - Seasonality
 - International
 - Professional booksellers vs. consumers
 - Analyze in conjunction with new book sales data
- More detailed analysis of library market
- Broader, deeper survey of bookstores and sellers
- Closer analysis of students
- Analysis of run lengths, pricing strategies, hard cover vs. soft cover

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