

The Growing Market in Used Books

A stack of several books is shown in the background, with one book in the foreground being open. The pages of the open book are fanned out, and the book has a red cover. The background is a plain, light-colored surface.

EEP 142
By Tzu-Chen Huang
and Yi-Ling Yang

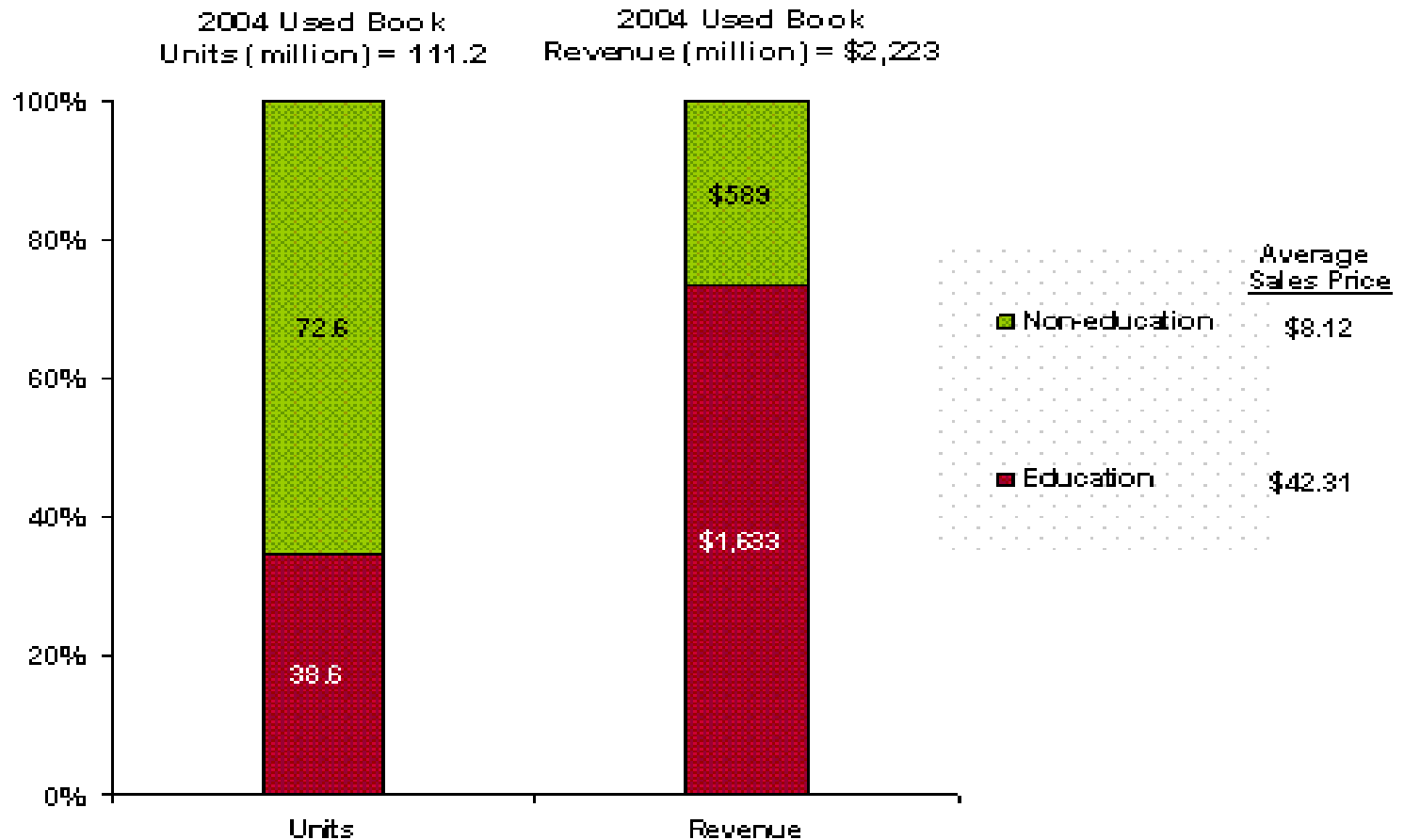


Background & Facts

- Traditionally in physical stores
- Expansion through Internet sales
- \$2.2 billion in used book sales in 2004
 - Used book sales = 8.4% of total consumer spending on books
 - Textbooks dominate the used book market but sales of non-education titles are growing rapidly

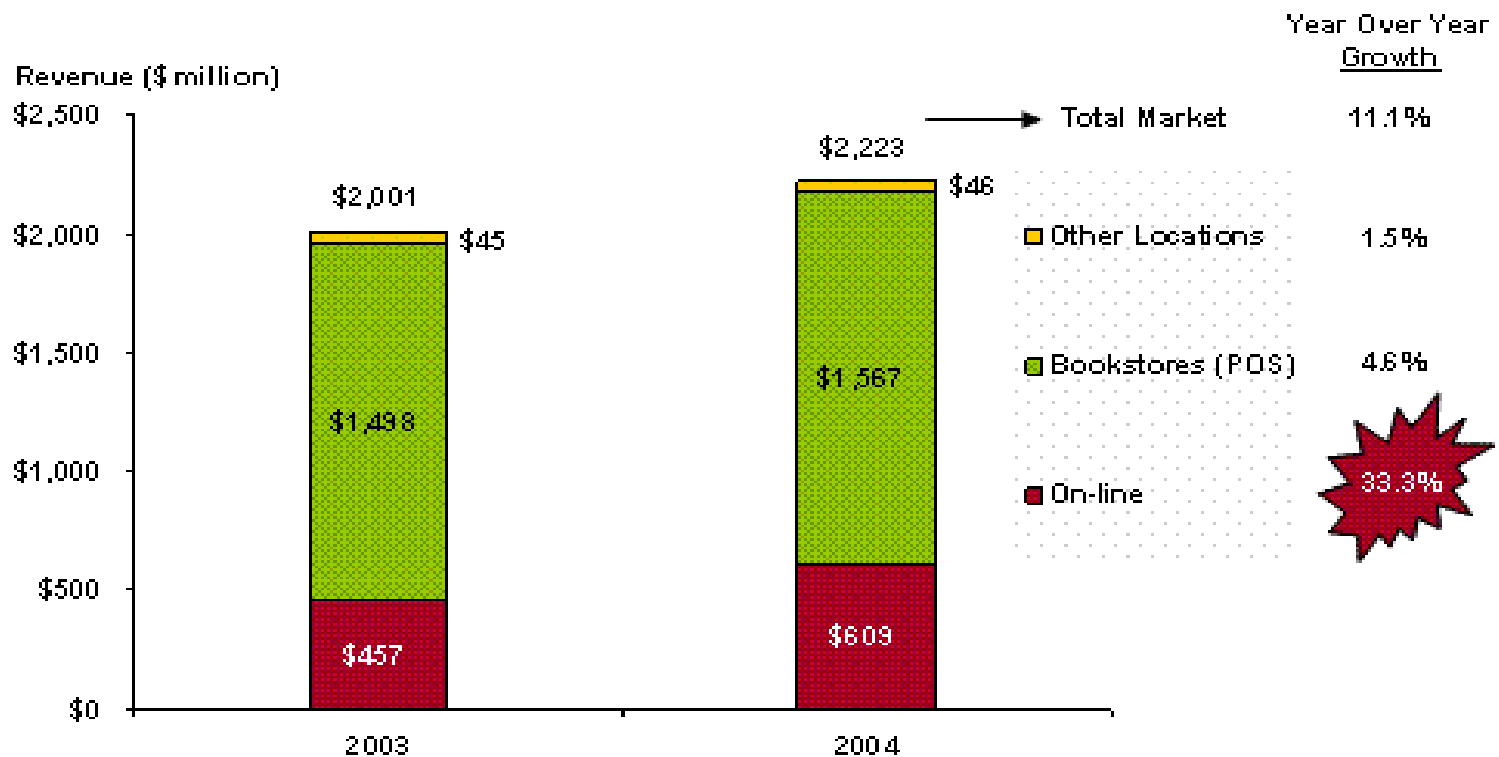
Used Book Sales

2004 US Used Book Market – Units and Revenue (million)



Used Book Sales

US Used Book Market – Revenue (\$ million)



Source: Book Industry Study Group (<http://www.bisg.org/news/press.php?pressid=29>)

Comparative Statistics

SIC	1987 SIC Description	Year	<u>Establishments</u>	<u>Sales (\$1,000)</u>
		1997	12,363	12,375,058
5942	<u>Book stores</u>	1992	12,887	8,014,885
		% chg	-4.1	54.4

Source: U.S. Census Bureau (<http://www.census.gov/epcd/ec97/industry/E453310.HTM>)

A stack of several books is shown, with a yellow highlighter resting on top of them. The books have various colored covers, including red, brown, and white. The highlighter is positioned diagonally across the top of the stack.

Used Books in E-Commerce

- Slow beginning
- Prices used to be higher online but are lower now due familiarity and efficiency
- Big ones: Amazon.com, Half.com, etc.
- Exchange: Comegetused.com, Facebook, Craigslist, etc.

Price Competition

- Price level expected to be lower on the Internet
- Lower search costs for consumers
- Lower marginal costs for sellers (i.e. no physical stores)
- More competitors in the market due to lower entry costs for the sellers

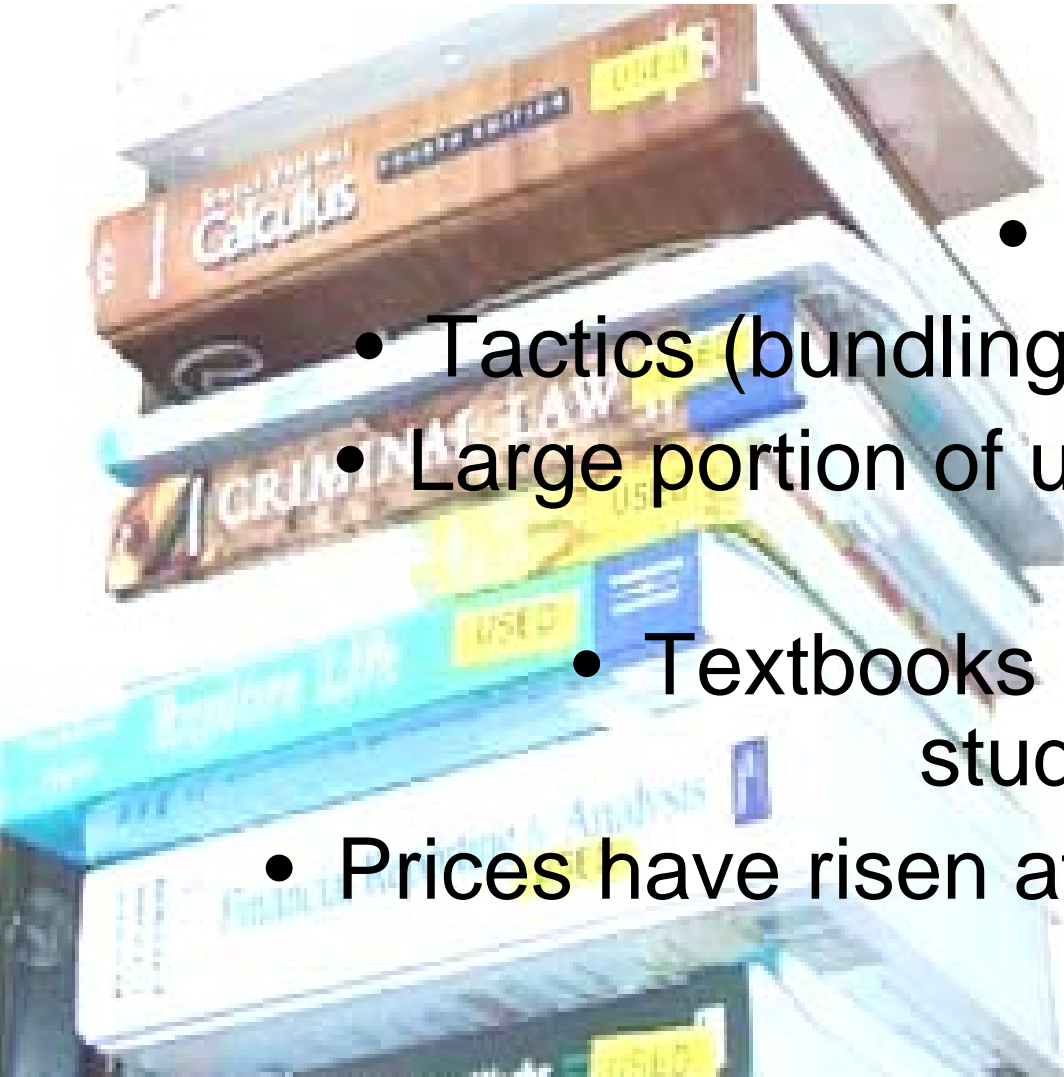
Price Competition

- Expect higher elasticity since consumers have better information and lower switching cost, but there are also two distinct types of buyers (new vs. used)
- Menu cost lower on internet since it's easier to update changes in price
- Since books are the same either in store or on-line, price dispersions are similar for in store and on-line

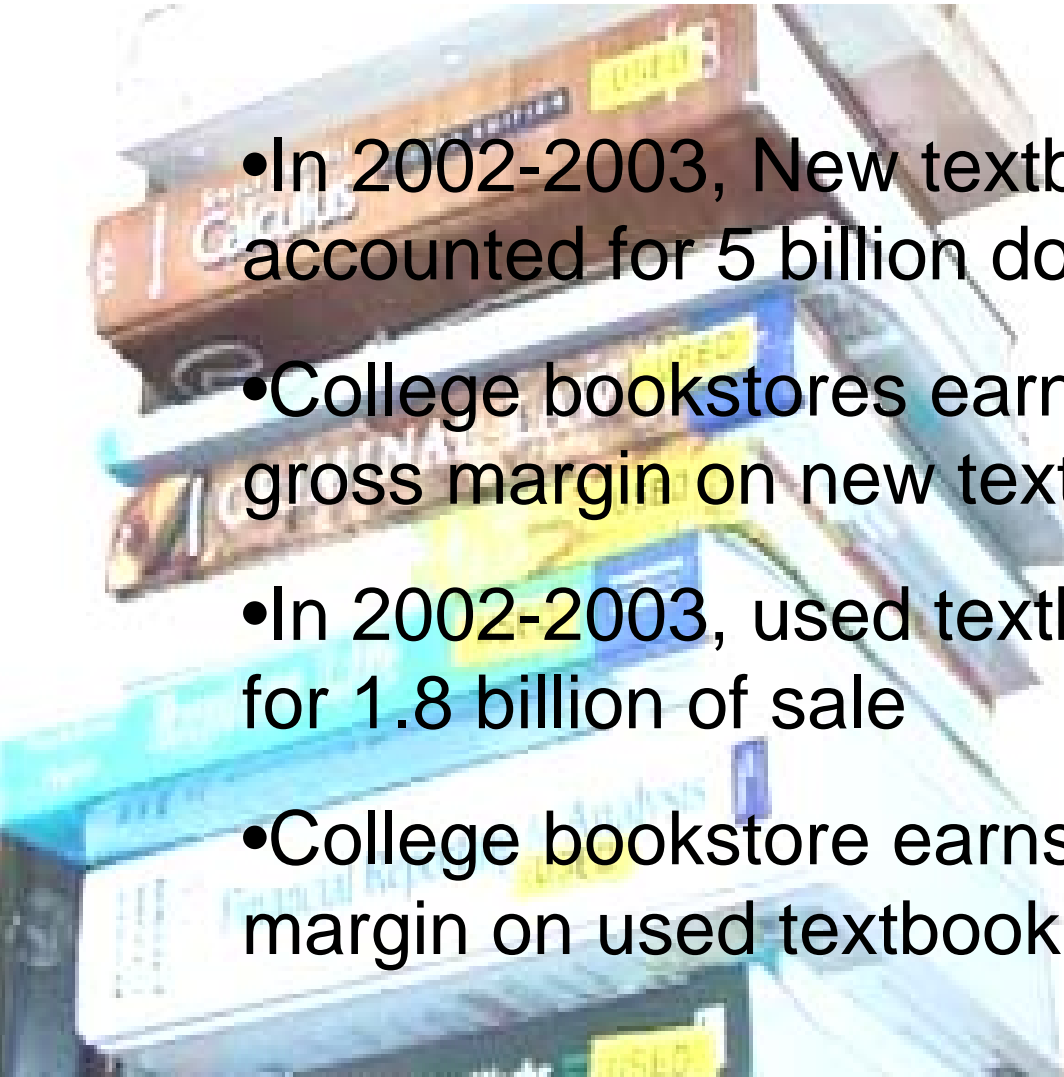
Example: Amazon.com

- One of the first e-commerce companies
- Founded in 1994 by Jeff Bezos
- Started out as on-line bookstore
- Grew slowly but steadily and survived the dot-com bubble
- Turned its first profit in 2003
- Revenue = \$14.84 billion (2007)
- Net income = \$476 million (2007)
- Number of employees = 17,000


Textbooks Industry

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- Oligopoly
 - Price manipulation
 - Tactics (bundling and supplements)
 - Large portion of used books sales is used textbooks
 - Textbooks make up to 20% of students' expenditures
 - Prices have risen at double the rate of inflation

Textbooks: Cost and Pricing

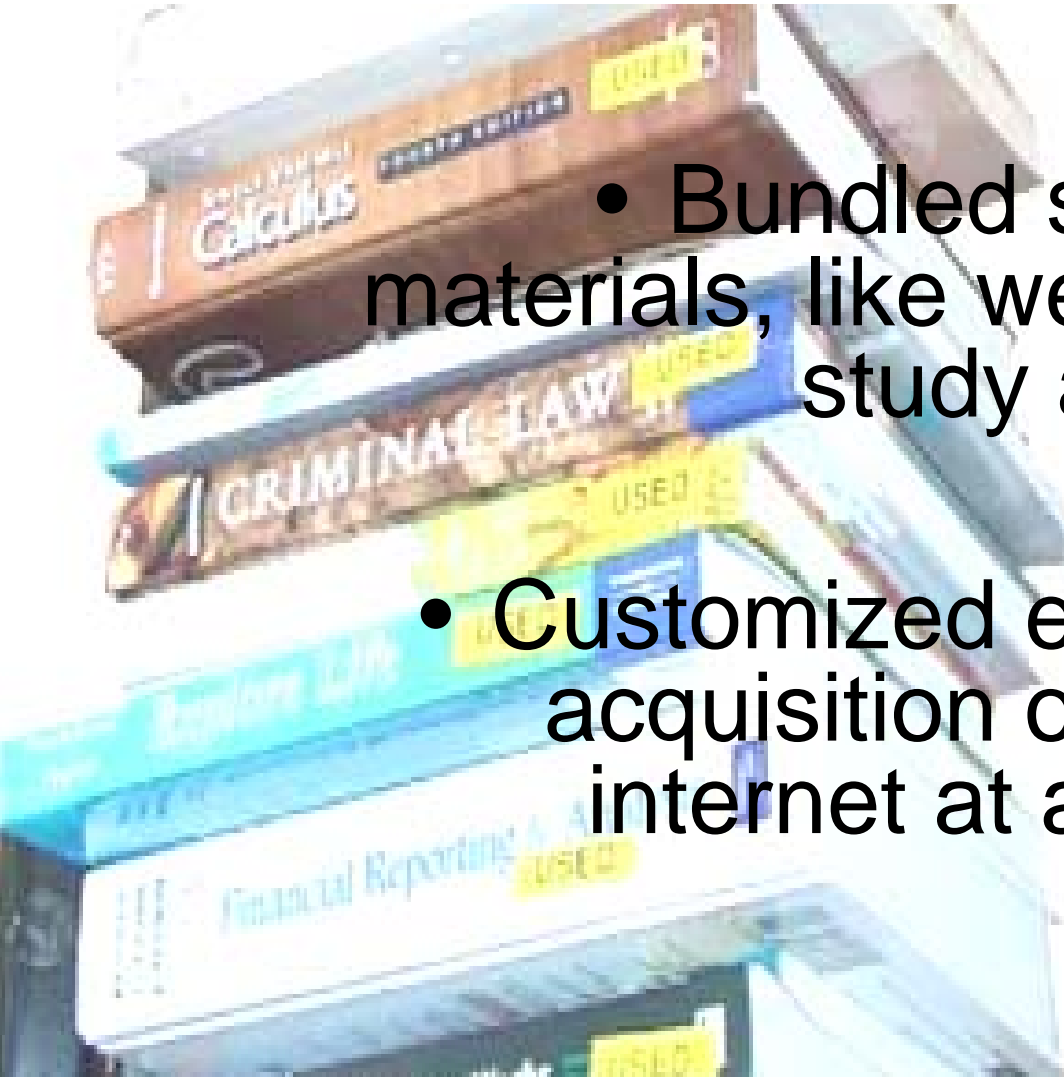
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- In 2002-2003, New textbook has accounted for 5 billion dollars of total sale
 - College bookstores earn average of 22% gross margin on new textbook.
 - In 2002-2003, used textbook is accounted for 1.8 billion of sale
 - College bookstore earns 34% gross margin on used textbook.

Textbooks: Price Distribution

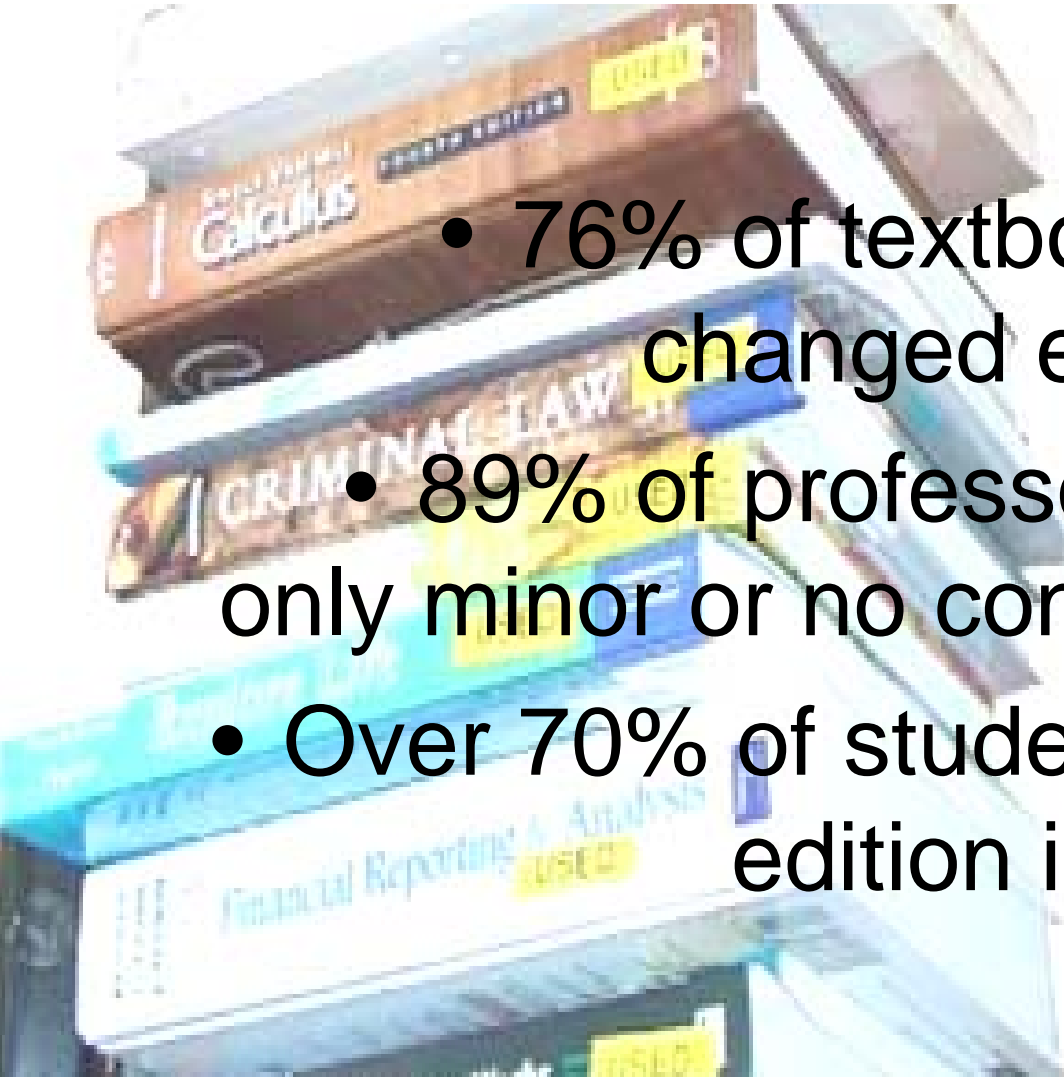


Publisher	64%
Bookstore	22.4%
Author	11.6%
Shipping	1.7%

Textbooks: Industry Tactics

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- A stack of several textbooks is shown, viewed from a low angle. The spines of the books are visible, with titles such as 'Criminal Law', 'Financial Reporting & Accounting', and 'Business That Works' partially legible. Each book has a yellow sticker on its spine that says 'USED'. The books are stacked in a way that they appear to be leaning against each other.
- Bundled supplementary materials, like website material, study aid, work book
 - Customized edition disallow acquisition of textbooks on internet at a very low cost

Textbooks: Industry Justification

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- A stack of textbooks is shown in the background, slightly out of focus. The visible titles include 'Financial Reporting & Analysis' and 'Criminal Law'. The books are stacked vertically, with the top one being a thick, dark-colored book.
- 76% of textbook editions are changed every 3-4 years.
 - 89% of professor admitted that only minor or no content is justified.
 - Over 70% of students say that old edition is just as usable

Used Books & Publishers

- Authors and publishers worry about used books taking over the market
- Authors Guild and the Association of American Publishers wrote an open letter to Jeff Bezos voicing concerns over sales being cut (2002)
- Reality: A 10% increase in new book prices would raise used sales by less than 1% (small cross-price elasticity), and used books market encourages people to buy books since they can sell the books eventually



Used Books & Consumers

- One study estimates Amazon's used books market allows consumer surplus to increase by \$67 million annually
- Being able to buy used books online has made it more convenient to shop for used books, lowering search costs
- Consumers can sell used books

Used Books & Environment

- Buying used books is good practice for reusing what's already there and not wasting resources in general
- U.S. book industry emits over 12.4 million tons of CO₂ into the atmosphere each year (that's including forest carbon loss)
- Seeing positive changes in the industry (i.e. use of recycled fibers has increased six-fold in the past few years, corporate commitments)
- A poll by Opinion Research Corporation found that 80% of readers are willing to pay more for books with a better environmental profile (2006)

Conclusion?

- The benefits from the expansion of used book market can outweigh the costs associated with it
- Future trend: more online book-buying, electronic books

References

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Half Price Books finds success old-fashioned way: offline

http://www.dallasnews.com/sharedcontent/dws/bus/stories/DN-halfpricebooks_22bus.ART.State.Edition1.463e110.html

CALPIRG

[http://calpirg.org/CA.asp?id2=11987&id3=CA&](http://calpirg.org/CA.asp?id2=11987&id3=CA&id4=CA&id5=CA&id6=CA&id7=CA&id8=CA&id9=CA&id10=CA&id11=CA&id12=CA&id13=CA&id14=CA&id15=CA&id16=CA&id17=CA&id18=CA&id19=CA&id20=CA&id21=CA&id22=CA&id23=CA&id24=CA&id25=CA&id26=CA&id27=CA&id28=CA&id29=CA&id30=CA&id31=CA&id32=CA&id33=CA&id34=CA&id35=CA&id36=CA&id37=CA&id38=CA&id39=CA&id40=CA&id41=CA&id42=CA&id43=CA&id44=CA&id45=CA&id46=CA&id47=CA&id48=CA&id49=CA&id50=CA&id51=CA&id52=CA&id53=CA&id54=CA&id55=CA&id56=CA&id57=CA&id58=CA&id59=CA&id60=CA&id61=CA&id62=CA&id63=CA&id64=CA&id65=CA&id66=CA&id67=CA&id68=CA&id69=CA&id70=CA&id71=CA&id72=CA&id73=CA&id74=CA&id75=CA&id76=CA&id77=CA&id78=CA&id79=CA&id80=CA&id81=CA&id82=CA&id83=CA&id84=CA&id85=CA&id86=CA&id87=CA&id88=CA&id89=CA&id90=CA&id91=CA&id92=CA&id93=CA&id94=CA&id95=CA&id96=CA&id97=CA&id98=CA&id99=CA&id100=CA)

The End

