The Growing Market in Used Books

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)

2004 Used Book Units (million) = 111.2
2004 Used Book Revenue (million) = $2,223

Average Sales Price
- Non-education: $8.12
- Education: $42.31
Used Book Sales

US Used Book Market – Revenue ($ million)

Year Over Year Growth
- Total Market: 11.1%
- Other Locations: 1.5%
- Bookstores (POS): 4.6%
- Online: 33.3%

## Comparative Statistics

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<thead>
<tr>
<th>SIC</th>
<th>1987 SIC Description</th>
<th>Year</th>
<th>Establishments</th>
<th>Sales ($1,000)</th>
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<tbody>
<tr>
<td>5942</td>
<td>Book stores</td>
<td>1997</td>
<td>12,363</td>
<td>12,375,058</td>
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<td></td>
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<td>1992</td>
<td>12,887</td>
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<td>% chg</td>
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<td>54.4</td>
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Source: U.S. Census Bureau (http://www.census.gov/epcd/ec97/industry/E453310.HTM)
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 an online 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

- 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

- 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.
<table>
<thead>
<tr>
<th></th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Publisher</td>
<td>64%</td>
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<tr>
<td>Bookstore</td>
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<tr>
<td>Author</td>
<td>11.6%</td>
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<tr>
<td>Shipping</td>
<td>1.7%</td>
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</tbody>
</table>
Textbooks: Industry Tactics

- 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

- 76% of textbook editions are changed every 3-4 years.
- 89% of professors 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.
References

Reading Between the Lines of Used Book Sales, New York Times
http://people.ischool.berkeley.edu/~hal/people/hal/NYTimes/2005-07-28.html

U.S. Census Bureau
http://www.census.gov/epcd/ec97/industry/E453310.HTM

Book Industry Study Group


Half Price Books finds success old-fashioned way: offline

CALPIRG
http://calpirg.org/CA.asp?id2=11987&id3=CA&.
The End