

Cliff Guren
Thad McIlroy
Steve Sieck

**COVID-19
and Book
Publishing**
**Impacts and
Insights for 2021**

COVID-19 and Book Publishing:

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Cliff Guren (Syntopical)

Thad McIlroy (The Future of Publishing)

Steven Sieck (SKS Advisors)

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EXECUTIVE SUMMARY

BOOK PUBLISHING AND THE BIG PICTURE

The impact of COVID-19 on different industries, markets, and segments of society has varied widely. In broad terms, digital has benefited, while analog has struggled. Many of the larger companies have gained market share from their smaller competitors. The super-rich have massively increased their wealth, while many of the poorest have suffered.

Amid the upheaval, book publishers have, on the whole, fared well. The publishing industry, straddling as it does the poles of analog/digital, large/small, and for-profit/not-for-profit, has largely escaped the COVID-inflicted disruptions faced by several other sectors.

The most recent data from the Association of American Publishers (AAP), market researcher NPD Group, and *Publishers Weekly* show solid gains through October across nearly all publishing sectors (K-12 instructional materials being the outlier), after a flat-to-declining performance in 2019. Supply chain issues have resolved themselves, and the shift of publishing staff to work-from-home has been fairly seamless.

Looking to 2021, most projections for the U.S. COVID-recovery economy as a whole are positive, with expected growth of 6% or more. Given that publishing sales have increased in the economically-challenged environment of 2020, the prospects should be encouraging. Still, it remains to be seen whether the reading-favorable environment of stay-at-home living has been just a short-term stimulant or represents a longer-term trend; and whether books can hold their share of consumers' discretionary time and budgets vs. the rapid growth of streaming media.

THE OUTLOOK FOR RELATED SECTORS

The goal of this report is to look beyond publishing, to the surrounding sectors and to the larger economic picture, in order to examine how changes *outside* of publishing could impact it.

Retail. COVID-19 has driven a huge shift in the retail environment, from brick and mortar to online, and from the weaker to the stronger. At the end of the third quarter of 2020, the e-commerce share of retail sales had increased by over a third from the previous year. Several well-established chains have filed for bankruptcy, while Amazon, eBay, Walmart and Target reported record sales. Although books themselves have performed well, partly buoyed by the success of Amazon and of non-traditional book retailers, year-to-date bookstore sales were down by almost a third through September.

Libraries. The most contentious pre-COVID issue in the library market, a conflict over publishers' terms for ebook offerings, was superseded in the pandemic by an explosion of patron demand for ebooks. But beyond the ultimate disposition of publisher conditions for library ebook sales, major questions remain for libraries post-vaccine(s). A lingering distaste for handling shared physical objects

and reluctance to spend time in public spaces may dampen demand for the return of more traditional library services. And library budgets are likely to be early targets for the chopping block at the state and local level.

Education. The pandemic brought longstanding weaknesses in both K-12 and higher education to the fore, testing the value proposition of higher ed institutions and making stakeholders in K-12 more aware of alternative approaches to classroom instruction. Publishers faced challenges in the form of deferred textbook orders and stressed institutional budgets. But years of investment in digital solutions and a focus on flexible and inclusive subscription business models appear to be paying off in the higher ed market, with strong growth in digital offerings that for some leading players has more than offset declines in printed textbook sales. And the K-12 market, as it emerges from the disruption of traditional practices, also appears primed for growth in digital learning platforms.

Entertainment Media. COVID-19's impact on different segments of the entertainment sector has varied widely. The gaming and streaming video and music markets have seen big gains from home-bound consumers, while the movie industry has been plagued by halted production and shuttered theaters. The big winners appear to be those players with recurring revenue models who can bring a wide choice of original programming directly into consumers' homes. While competing for consumers' discretionary time and dollars, publishers will also be leveraging subsidiary rights from existing properties to feed the demand for that programming.

OVERARCHING THEMES

Price-sensitivity. Consumer discretionary spending should rise with the economy's anticipated growth in 2021, a positive note for consumer book sales. But there are clear signs of demand elasticity in, for example, consumer willingness to add or cancel video streaming services to lower cost, and resistance to paying high prices for home rental of first-run movies; and in the high demand for library ebook lending.

Digital technology. The pandemic has accelerated the analog-to-digital evolution in every sense. With September ebook sales up 22% year over year and 16% year-to-date, publishers are revisiting the format with new respect. The long-awaited payoff that educational publishers are seeing from their digital learning offerings, and the flow of venture investment to edtech innovations, are developments that trade and other publishers would do well to observe.

Direct-to-consumer marketing revisited. Publishers have been halting in their efforts to bypass their traditional B2B approach to book distribution. But the crisis in brick and mortar bookselling, growing demand for ebooks, an emerging direct-to-parents channel for educational content, and the compression of supply chains in an increasingly direct-to-home entertainment industry, all point to the need to revisit D2C opportunities and strategies.

Demand for video content development. The explosive growth of streaming video entertainment represents a two-sided coin for publishers: a competitive venue for some successful authors, but also

an opportunity for book rights holders to develop video properties and perhaps novel packaging strategies for entertainment industry partners and other potential distribution channels.

The social element. Enforced – or habituated – isolation should naturally result in heightened interest in alternative forms of social connection. The finding that 60% of gamers are playing more multiplayer games, and specifically with social components, is one confirming indicator. Publishers would do well to continue to develop community-oriented activities such as online book tours and social media initiatives like Penguin Random House’s “#BooksConnectUs.”

1. INTRODUCTION

This report, a collective effort by three book publishing industry consultants, examines the impact of COVID-19 on sectors aligned with or adjacent to book publishing, in order to understand the broader impact that COVID may be having on the industry. We also seek to provide context via macro views of the economy overall and consumer spending more specifically. Our intention: to bring perspective to industry decision-makers regarding where we have been and where we are going in the COVID and post-COVID era.

Our methodology is based squarely on secondary research. We have combed through publicly-available literature produced during the pandemic, including articles, studies, blogs and other resources, all of which are cited for further investigation by you, the reader. To this review of recent coverage, we have added our own perspectives and takeaways regarding the implications for the book publishing industry, including trade, educational, and, to a lesser extent, academic.

The report is thus a chronicle of the impact of, and responses to, the pandemic over the past year, and a look ahead. As we begin a new year, with the promise of a vaccine-enabled return to a new “normal,” many uncertainties remain. We hope that this review and analysis will help illuminate the way forward in 2021 and beyond.

2. THE ECONOMY

INTRODUCTION

COVID is in control of the economy. Until the spread of the virus is halted or significantly diminished for a sustained period it will be impossible for anyone to offer a reliable economic forecast, short-term or longer-term.

As of this writing, the party that will control the Senate in January has not been determined. Regardless of the victor, the Federal government's ability to continue to respond to health and economic challenges remains uncertain, along with the public's willingness to comply with the mitigation measures already in place. The \$900 billion relief package passed on December 21, 2020, the first encouraging sign in months, follows on the previous relief bill from back in April. As we finalize this report there are strong indicators that the new administration intends to take decisive action on the economy early in 2021, but that remains speculative.

While other chapters of this report drill down within specific sectors, here we will take a look at the broader trends in the U.S. economy. In the section on Publishing we examine the largely positive 2020 sales data within existing economic trends. In the section on Bookstores we review the significant downward sales trend this year. The question to be addressed here is: in 2021, how will the broader economy impact both book publishing and retailing?

THE IMPACT OF COVID-19 ON THE ECONOMY

(i) Key U.S. data

Gross Domestic Product (GDP) in the United States contracted roughly 2.4% in 2020. The Federal Reserve projects 4.2% growth in 2021.¹ The unemployment rate, which stood at 3.5% in January, 2020, peaked at 14.7% in April, then dropped to 6.7% by the end of November. New lockdowns into at least January 2021 will likely increase the rate for the short term.² The Conference Board Consumer Confidence Index fell to 88.6 in December, down from November's 92.9 (1985=100).³ Despite the bad economic news, U.S. stock markets hit historic highs in mid-December, with the Dow Jones breaking through 30,300, the Nasdaq Composite above 12,750, and the S&P 500 reaching 3,722.⁴

(ii) The world data

According to the IMF, the world economy will contract by 4.4% this year, but grow by 5.2% in 2021 (though that will still leave it only 0.6% larger than in 2019).⁵ The Poverty and Shared Prosperity Report 2020 indicates that COVID-19 is likely to push between 88 and 115 million people around the globe into extreme poverty in 2020 (living on less than \$1.90 a day).⁶

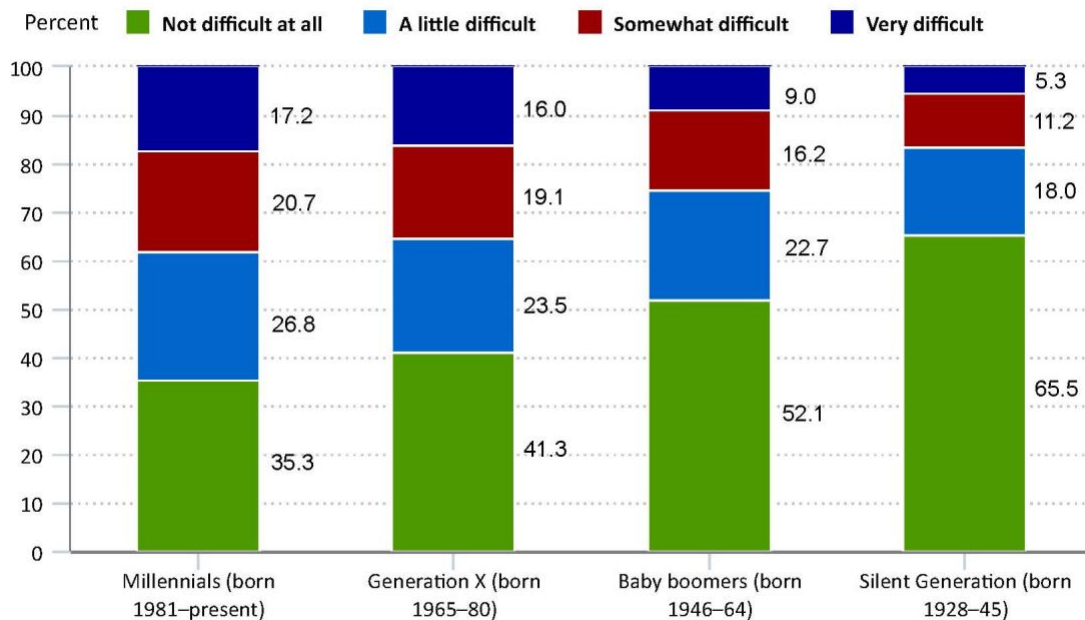
(iii) Consumer spending

Data on trends in personal income and consumer spending turned negative in November: personal income dropped by 1.1% and consumer spending by 0.4%.⁷

The U.S. Bureau of Labor Statistics compiles a weekly *Household Pulse Survey*, measuring changes in consumer spending behavior.⁸ The survey looks at four generations: Millennials, Gen X, Baby Boomers, and the Silent Generation. It considers the financial well-being of households within an income range from <\$25,000 to \$200,000+, and analyzes behavior changes occasioned by the pandemic.

To the question, “In the last 7 days, how difficult has it been for your household to pay for usual household expenses?” the results skewed toward youth: the younger the respondent, the greater the difficulty. Of Millennials, 17.2% reported “very difficult” vs. 5.3% for the Silent Generation (see chart).

Difficulty in paying for usual household expenses over the last 7 days, by generation



Source: U.S. Census Bureau, Household Pulse Survey.

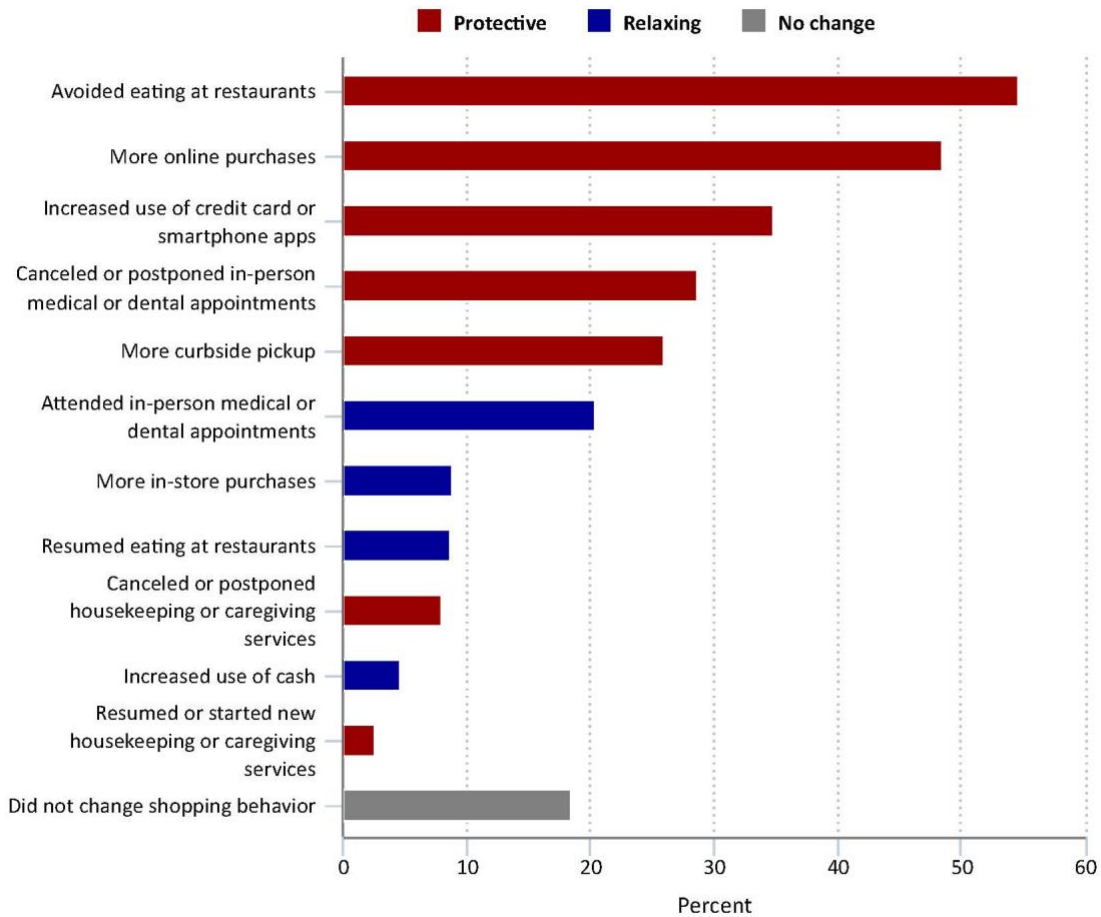
Unsurprisingly, the income correlate was specific and direct: 32.7% of those with household incomes below \$25,000 found paying very difficult, against 2.7% of those earning \$200,000 or more.

Behavioral changes are classified as “protective” or “relaxing” based on their adherence to pandemic-avoidance behaviors. A “protective” behavioral change is one that conforms to pandemic-avoidance behaviors (e.g., increasing online shopping, avoiding eating at restaurants), whereas a “relaxing”

behavioral change indicates a weaker adherence to pandemic-avoidance behaviors (e.g., increasing in-store shopping, resuming eating at restaurants).

There are few surprises here: the most often reported behavior changes are increased avoidance of eating in restaurants (54.6%), more online purchases (48.5%), and increased use of credit card or smartphone payment apps (34.8%). 20.4% increased their attendance at in-person medical or dental appointments, while 28.7% cancelled or postponed them.

Consumer behavioral changes over the last 7 days, all respondents



Note: Percentages do not add to 100 because respondents were allowed to select more than one category when answering this question.
 Source: U.S. Census Bureau, Household Pulse Survey.

Interestingly, the data again show that the younger the respondent, the greater the likelihood of taking additional protective actions: 53.6% for Millennials overall, vs. 31% for the Silent Generation. Millennials (70.4%) were also most likely to make more purchases online, compared with 56.5% of respondents in the Silent Generation.

What are the takeaways here? Book purchasing and book reading skew heavily toward higher incomes. In one Bureau of Labor Statistics survey, the top 10% of earners spent nearly 8½ times more on reading than the bottom 10%. And so while the pandemic is hitting lower earners financially more heavily than the more prosperous, this is at worst a minor negative indicator for publishing's bottom line.⁹

Also, behaviors that were spotted early in the pandemic are, if anything, becoming more entrenched at the end of 2020. The trend toward increased online spending, which we look at more closely in the retail section, continues for all generations.

(iv) Travel

The pandemic's brutal impact on travel and tourism is well known. The U.S. travel economy has incurred over \$500 billion in cumulative losses since March. Urban hotels are less than one-third full.¹⁰ The leisure and hospitality industry accounted for more than one-third of all job losses in the U.S.¹¹ 55% of Americans said they would feel guilty traveling right now.¹²

A major trend is a move toward domestic tourism—travelling closer to home. The relatively lower cost of domestic travel leaves discretionary dollars in consumers' pockets. As we point out in the appendix on topic trends for book publishers, this is certain to be reflected in the travel book market, at least in terms of the types of books purchased, and perhaps the quantity.¹³

At a more fundamental level there is an expectation that business travel will simply not return to pre-COVID levels. One estimate is that between 19% and 36% of business travel volume could disappear altogether. Sales calls, as an example, may fully return to in-person meetings, because of the competitive nature of business, but internal company training sessions are more likely to remain virtual. Because business fares contribute the majority of airline profits, this will force a radical restructuring in the airline industry, the effects of which are certain to be widely felt.¹⁴

(v) Why the U.S. economy could take off in 2021...

The *Wall Street Journal* strikes an optimistic note on the U.S. economy. "The story of 2021, however, will be of a great comeback...When it is safe for business to resume as usual, the economy could take off." The factors identified are:

- New business applications have nearly doubled.
- Pandemic savings deposits of \$2 trillion are waiting to be spent.
- People will continue to save time and money formerly spent on commuting.¹⁵

A *Bloomberg* survey of Wall Street banks found growth forecasts for 2021 ranging from 5% to 6.4%.¹⁶

(vi) ...while growth remains negative in Q1

JPMorgan, in its 2021 outlook, now says first-quarter growth will be negative, due to the still-spreading virus and associated restrictions, though they "expect the economy to expand briskly in the second and third quarter, based on positive vaccine developments."¹⁷

(vii) A fundamentally changed economy

U.S. Federal Reserve Chairman Jerome Powell described fundamental economic shifts accelerated by the pandemic, including the increasing use of technology and of remote work. He said that while technological advances are generally positive for society, in the short term they can create disruption, and the pain isn't evenly shared. Lower-paid workers, often women and minorities, bear the brunt.¹⁸

(viii) State budgets to take a hit

Total U.S. state budget shortfalls through 2022 could be “greater than the K-12 education budget for every state combined in 2019.” Deficits have already prompted tax hikes and cuts to education, corrections services and parks. State workers are being laid off. Libraries fear cuts.

While many states were in a better position pre-COVID than they were heading into the 2008 crisis, Moody's Analytics projects that 46 states will be coming up short “even after rainy day funds are used.”¹⁹

(ix) The rational stock market

What is wrong with this picture? The U.S. economy is facing its worst economic crisis in a dozen years. Unemployment rates are high, and once again increasing. The central government is struggling to implement a strong support program. Despite the prospect of a vaccine, the COVID-19 virus is claiming more victims daily than in the initial outbreak last spring.

And yet all three major U.S. stock market indices have hit new all-time highs in November and December 2020. This is not coming off a depressed pre-COVID market: the markets were booming even before the virus hit.

Two concepts are frequently discussed to try to account for what could appear to be irrational enthusiasm.

- The first is that relatively few industries, and companies within those industries, are propelling market growth: if it weren't for Amazon, Apple, Tesla, Facebook, Google et al, the markets would appear far calmer.²⁰
- The second is that, with historically low interest rates, cash and bonds are unattractive investments when compared to a booming stock market. The \$2 trillion in savings that Americans have accumulated this year “are looking for a comfy home.”^{15, 21}

None of the economic forecasts that we have reviewed in preparing this report consider the possible impact of a stock market correction on the broader economy. We will not venture a guess.

CONCLUSION

Economic forecasting is often characterized as a fool's game. Fortunately, we report here only on the notions of other fools, remaining a little above the fray. We can conclude definitively that there is uncertainty. Publishers in 2021 must continue to closely monitor macro-economic developments, not

just in publishing, not just in retail, and not just in the U.S. broadly, but worldwide. Somewhere within that data are useful insights to inform your planning—if only for a month at a time.

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3. RETAIL

INTRODUCTION

Physical retail and online retail have taken dramatically different paths during the pandemic. Well-established chains like Brooks Brothers, GNC, J. Crew, and Neiman Marcus have all made Chapter 11 filings, while Amazon, eBay, Walmart, and Target reported record sales.

And then there are product types, disinfecting wipes on one hand, and dress shirts on another—the pandemic has had drastically different effects on individual product categories. Books, though not officially an “essential good,” have performed strongly through nearly a year of the pandemic. But bookstores have not. As we question also in the separate section on bookstores, how might they perform after the vaccine has been widely administered? Moving into 2021, what do the broader trends in retailing suggest about bookselling in a post-COVID world?

THE IMPACT OF COVID-19 ON RETAIL

(i) The data

Retail sales are only slightly changed so far this year, measured against all sectors. But the broad picture needs to be dissected. There have been huge swings month-to-month. April sales were down 14.7% from March, but were followed by an 18.3% jump in May.¹ November retail sales dropped 1.1% from October, but were up 4.1% from November 2019.² 40 U.S. retailers have filed for Chapter 11 since the pandemic started forcing shutdowns in March. More than 8,600 stores have closed this year.³

Are things looking up? Certainly the arrival of the vaccine(s) has altered the mood. But the still-increasing case rate cloud the picture. The holiday season normally accounts for roughly 20% of the retail industry’s annual sales.³ In the U.S. they rose 2.4% between November 1 and Christmas Eve compared with the same period last year. But most of those were online.⁴

(ii) The continuing shift to online spend

E-commerce represented 11.3% of retail sales at the end of 2019. In Q1 2020 it climbed modestly to 11.8%. By the end of Q3 it stood at 13.5%, an increase of 36.7% from the third quarter of 2019.⁵ As Accenture noted, in a theme repeated elsewhere in this report, online retail “has seen 10 years of growth in a matter of months.”⁶

The big question is whether the increased shift to e-commerce will hold once the outbreak subsides. Moody’s retail analyst team is projecting online sales to “shoot above” 25% of all retail sales over the next five years.⁷

International research by consultants Oliver Wyman indicates that “up to a third of grocery customers who began online shopping in response to the virus have a desire to continue shopping online even after the pandemic passes.” The research also suggests that consumer behavior in other industries,

including medical, household goods, and health and wellness, will follow suit, and become more pronounced the longer COVID-19-related restrictions stay in place.⁸

(iii) The death of the mall

The mall sector has been under pressure for years because of the shift to online shopping and the failure of some large anchor tenants (such as Sears). One estimate suggests that more than half of all mall-based department stores will close by the end of 2021, a severe blow given that department stores account for nearly one out of every three square feet in malls. As shopping malls lose their anchor stores, buyers have fewer reasons to visit.⁹

A Moody's report estimates that 20% of all mall stores could close in five years. Those closures "will hurt many weaker malls, which could in turn lead to their full closures or repurposing to alternative uses (such as distribution centers)."⁷

Relatively few independent booksellers are based in malls, but Barnes & Noble is heavily dependent on healthy malls for many of its 600+ locations.

(iv) Signs of a move to preserve local purchasing

Amid the disruption in retail, there's one positive sign for independent booksellers: an increased appreciation of local businesses, imbued with the strength of their communities. According to an Accenture report, consumers are looking at "small, independent stores in their immediate neighborhood as much-loved places that they fear won't survive. They're making efforts to support these retailers and their staffs, ordering takeout and shopping there when they can."¹⁰

(v) Winners & losers

Despite lockdowns, several brick-and-mortar sectors are thriving through the pandemic, notably home improvement stores (Home Depot, Lowes), mass merchandise retailers (Walmart, Target), warehouse clubs (Costco, BJ's Wholesale Club), dollar stores (Dollar General, Dollar Tree), computer and electronic stores (BestBuy), and pet care stores (Petco, Chewy).¹¹

Walmart sales were up 5.2% in the third quarter, year-on-year, to \$135 billion. Home Depot sales were up 23% in the same period. Macy's meanwhile has seen sales drop by roughly a third this year.¹²

(vi) Retail and mobile

The ever-increasing use of mobile devices for every part of the shopping process, from discovery through evaluation through purchase, has an impact on brick-and-mortar as well as online retail. Mobile sales accounted for nearly 75% of the \$72 billion incremental e-commerce growth in 2019. Also, mobile sales, which were just 19% of digital sales in 2014, rose to 45% in 2019.¹³

Even when shoppers seek to support local retailers and restaurants, they want to be able to interact online, whether to check for product availability or to place an order. Many small businesses, including bookstores, have minimal e-commerce features on their websites, and will need to step up their game.

(vii) Trusting Amazon?

We should mention here that Amazon is facing increased antitrust scrutiny in the U.S., and antitrust charges in the European Union. The pace of progress in this sort of litigation is sufficiently slow-moving that it's unlikely to impact Amazon's overall sales in 2021, including book sales.¹⁴

(viii) Best practices for retailers

Distilled from several reports, here are a diverse set of recommendations around best practices in physical retail, all of which may have applicability to bookstores.

- Safety and convenience are critical for the in-store experience. Consumers want stores to follow guidelines that will keep both shoppers and employees safe.
- Organized and easy-to-navigate stores are even more appealing as many people seek to spend as little time as possible mingling with others in public spaces.
- Contactless purchasing: the ability to do self-checkout, and the ability to pay with a smartphone, is a priority for many shoppers.
- The next generation of loyalty programs will balance monetary rewards with “experiential” offerings designed to make consumers feel special and recognized (such as exclusive events, early access, unique discoveries), appealing both to the consumer's head and to the heart.^{13, 15}

(ix) The COVID winter

As we conclude this report at the end of December 2020, America is facing a devastating winter before vaccines can be widely distributed. Cases, hospitalizations and deaths are increasing rapidly in most states, leading to a new round of restrictions, some of them as confining as the first rounds in the spring. The impact on the already challenged retail sector cannot yet be determined.

CONCLUSION

Without question COVID has occasioned a seismic shift in the retail landscape. The balance between brick-and-mortar and online is shifting, while many brick-and-mortar stores are rushing to strengthen their online footprint.

COVID and social unrest have heavily impacted the retail core in most large cities: stores and restaurants have been boarded up, and many have permanently closed. It's unclear when, or if, these areas will start to come back, and when they do what types of retail experiences shoppers will be seeking. The comfort people feel in physical retail spaces is changing.

All of this will spill over into how people relate to bookstores, both independent and chain, brick-and-mortar and online. 2021 will uncover a new world.

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4. HIGHER EDUCATION

INTRODUCTION

Higher education institutions are facing major challenges as a result of the pandemic, with all but the most elite and well-endowed confronting budget cuts, falling enrollments and increased focus on some basic questions about the value and purpose of post-secondary education. Leading higher ed publishers, already heavily debt-burdened and facing fundamental business model disruptions, have been directly impacted. How are institutions of higher learning responding, and what will the impact be on publishers of textbooks and providers of digital learning platforms?

THE IMPACT OF COVID-19 ON HIGHER EDUCATION

(i) Pre-existing stresses on higher education institutions

Even before the advent of COVID-19, U.S. higher education institutions were facing an abundant array of significant challenges, including:

- Rising costs for students
- Skill gaps for graduates entering complex and ever-shifting workplaces
- Growing regulatory and administrative overheads
- Greater faculty competition for increasingly scarce research funding
- Growing concerns about student debt, and
- Alarm over post-graduation unemployment and underemployment¹

(ii) New stresses on higher ed brought by COVID-19

Adding to that list of challenges, COVID-19 has brought a new and even more immediately daunting set of stresses to these institutions. These include:

- The expectation of large budget cuts
- Growing reluctance among students to pay full tuition fees for online education
- Demands for reimbursement of already-paid fees
- Decreasing enrollments of international students who pay full fees
- Large-scale deferral of admissions
- A spike in students' need for financial assistance, and
- The question of how and whether to reopen²

A letter to Congress from the American Council of Education and other organizations representing two- and four-year colleges in the US estimated that the financial impact on American colleges and universities will easily top \$120 billion.³

Early expectations for fall enrollment were for a decline in enrollments at community colleges ranging from 10% to 30%.⁴ And some institutions are resorting to the previously unthinkable, and invoking “act of god” clauses allowing them to cut tenured faculty.⁵

(iii) Varied approaches to in-person vs. online learning models

A survey by the *Chronicle of Higher Education* found that in July of 2020, 56% of institutions planned to resume in-person classes in the fall, with 30% planning a hybrid model, and 9% planning for exclusively online classes (5% were undecided).⁶ But as these ambitious plans gave way to the reality of the pandemic, many institutions flipped back and forth between different modes of course delivery. Some sent students home early, and some discouraged them from leaving and insisted on new testing requirements before their return.⁷

(iv) Reexamination of higher education operating models

Beyond their immediate responses to the exigencies of the pandemic, higher ed institutions are being challenged to reconsider fundamental assumptions about how they should operate, sparking a reexamination of what a “quality education” should look like in the 21st century.

The new circumstances may prompt a more business-like approach to managing the campus, including how technology is used, how many graduate students should be produced in different disciplines, and new approaches to student acquisition and retention.⁸

Indeed, with the extensive and still growing availability of online courses, it is possible to assemble an undergraduate degree in areas like statistics, business, and computer science at a 50th of the cost of a residential undergraduate program. An MBA program can be pursued online at a total cost of \$2,000, compared with up to \$200,000 or more for tuition and fees for an on-campus full-time MBA program. Some 4800 online courses are currently offered on edX and Coursera, and 700 courses were running on FutureLearn as of Q2 2020 (as well as the course content available from other sources such as Khan Academy and YouTube).¹

(v) Impact on students

These institutional strains are accompanied by new stresses on students. A meta-analysis of 11 COVID-19 student surveys found that students need additional mental health support as they cope with higher levels of stress, additional financial support, and better access to academic counselors and online tutoring. Students also want more opportunities for connection with their classmates.⁹

The percentage of students saying that their academic experience during the pandemic was ‘definitely not worth the cost’ or ‘probably not worth the cost’ nearly doubled: from 15% before COVID-19 to 27%, according to a nationwide survey of 502 students conducted by brightspot.¹⁰

(vi) Use of digital resources

An Ithaca S+R study, examining the difficulty of using instructional resources in different formats, found that the formats perceived as most difficult to use, such as digitized collections of historical documents and quantitative datasets, were also the least used. Ebooks, not including textbooks, were used by 53% of students, and rated difficult to use by 19%. Electronic or ebook versions of textbooks were used by 64% and rated difficult by 18%, while journal articles, used by 64%, were rated difficult by 16%. Online video tutorials (e.g., from Kahn Academy, Coursera, or YouTube) were used by 66%

of students, and only 10% found them difficult to use. The easiest resource to use was, not surprisingly, Wikipedia or other online encyclopedias, used by 59% of students and rated difficult to use by only 5%.¹¹

(vii) Impact on higher education publishers

The likely long-term contraction of higher education institutions overall, as well as the immediate drop in demand for printed textbooks, have added to longstanding existing challenges for publishers in the sector.

As a prominent example, in August Moody Investor Service had dropped the credit ratings of McGraw Hill and Cengage Learning Inc. from B3 to Caa2, nearly the lowest rating possible without actually delaying debt payments. It had previously cut Pearson Plc to the brink of junk bond rating.¹²

However, higher ed publishers' longstanding investments in digital learning solutions are now paying off.

- Revenue in Pearson's global online learning segment grew 32% in the third quarter of 2020, and the company recorded strong growth in digital and subscription services in its U.S. courseware unit.¹³
- McGraw Hill reported double-digit increases in overall digital billings in its fiscal Q2 2021 quarter.¹⁴
- Cengage saw 40% year-over-year growth in online skills revenue, and digital sales growth that more than offset print declines in its first half of fiscal 2021.¹⁵

Nonetheless, education industry ventures that sell directly to colleges and universities didn't make it into the top 10 biggest funding rounds for edtech investments in the first half of 2020. The biggest fundraiser in higher ed went to Noodle Partners, which raised \$16 million to help colleges build online programs, in competition with service providers like 2U, whose shares have risen during the pandemic. In July, CampusLogic, a provider of student financial aid software to colleges, secured \$120 million and Coursera, which provides online courses to higher ed institutions along with businesses and government agencies, raised \$130 million.

With the cost benefit of higher education in question—especially when some colleges are charging the same tuition for online instruction as for the residential experience—institutions are under pressure to deliver a good return on investment.¹⁶

CONCLUSION

As Stanford economist Paul Romer once said, and politicians have often repeated, a crisis is a terrible thing to waste. And it's certainly true that in higher education, the pandemic has brought longstanding weaknesses to the fore, forcing the reexamination of how colleges and universities operate, testing the value proposition of established approaches to post-secondary education, and probably ushering in a period of pedagogical and technological innovation among those institutions best able to respond. Despite the short-term impacts of Covid-19 on the publishers serving this market, the new emphasis

on online learning approaches that address student costs and offer more flexible approaches to curriculum are already beginning to repay higher ed publishers' years of investment in digital learning solutions.

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5. K-12 SCHOOLS

INTRODUCTION

As every parent of young children can attest, the K-12 education market has been hit hard by the pandemic, creating major challenges for students, parents and educators as teaching has moved online. School districts are facing harsh budget challenges amid rising costs. Yet there is also optimism that the forced acceleration of distance learning approaches will result in much needed reforms and innovations. How have schools responded to the disruption, and what has been the impact on textbook publishers and education technology providers?

THE IMPACT OF COVID-19 ON K-12 EDUCATION

(i) The scope of impact

As a global phenomenon, COVID-19 has impacted education worldwide. At its initial peak in mid-April, the virus caused nationwide school closures in 190 countries, impacting 90% of total enrolled learners, or almost 1.6 billion people globally.¹

As K-12 school districts were bracing for budget cuts necessitated by decreased local tax revenues, they were also being hit by substantial costs of new procedures for disinfecting facilities, purchasing personal protective equipment, and implementing new protective protocols. In the U.S., the superintendent's association (AASA) has estimated that new health and safety expenses alone could cost each school district an extra \$1.7 million.

And if that weren't enough, there are also the costs of designing and implementing new remote learning programs, and new costs for childcare, transportation, and significant costs associated with providing students with computers and other essential equipment, such as Wi-Fi access points. The Learning Policy Institute has calculated the cost of distance learning at about \$500 per student for a total of \$3.7 billion. All in, the labor union, the American Federation of Teachers (AFT), estimates the national cost to be at least an extra \$116.5 billion for all public schools.²

(ii) Impact on learning

As in other areas of society, the pandemic has exposed underlying problems in the ability of the education system to respond to these challenges. It has highlighted persistent barriers to digital learning adoption and tech-enabled education, ranging from disadvantaged access to technology to unacceptably poor experiences with remote learning and teaching.³

Education inequality is accelerating to an unprecedented degree. For young people in wealthy communities around the globe, schooling has never been better, thanks to, among other things, "learning pods" that instruct only a few students at a time. But by mid-April of 2020, fewer than 25% of low-income countries were providing remote learning opportunities, and in the U.S. during the COVID-19 school closures, 1 in 10 children had little or no access to technology for learning.⁴

Yet even where learning technologies are widely available, surveys cited by *CB Insights* indicate that nearly half of parents are dissatisfied with how their children have performed academically during the pandemic, and 70% of teachers feel students haven't adapted well to remote learning.³

(iii) Acceleration of distance learning trends

Still, observers have commented that, as in other areas of life, the pandemic has moved digital learning in public education ahead by as much as a decade, and settled in many ways the question of whether digital tools have a place in schools. To some, at least, it is “proving that you can learn anywhere and anytime.”⁵

Some school administrators predict that, now that school communities are more comfortable with video conferencing and asynchronous learning approaches, there will be demand for the choice of in-person and online learning post-pandemic.⁶

School fiscal planning may need to become more entrepreneurial in a straightened economic environment—for example, instead of maintaining only brick-and-mortar schools, using part of that funding to build digital infrastructure.⁵

(iv) Home schooling poised for substantial increase

Driven by concerns over exposure to the coronavirus, excessive screen time, and instability in school schedules, 9% of the parents who weren't already home schooling their children in the last school year have told researchers at EdWeek Research Center that they planned to home school their children at least some of the time this year. Federal data show that, typically, a little over 3% of the nation's school-age children are home-schooled in a given year.⁷

(v) Shift in spending by parents

Consistent with a movement toward greater family involvement, a shift in parental spending habits may already be underway. “In the U.S., we've historically seen a lower willingness among parents to pay for educational products as compared to other countries,” according to one expert, “but with the shift to remote learning, many parents are, whether they want to or not, going to spend more on services.”

Regardless of decisions about a return to school, the need for virtual learning solutions will not go away as parents continue to take on the role of teachers in some capacity.⁵

(vi) Impact on K-12 publishers

In their immediate response to COVID-19, scores of publishers and education technology providers offered their services for free. That's been helpful to students, parents and educators moving their teaching online, but it was also an opportunity for providers to gain a place in the rapidly evolving market for educational content and services.¹

However, a survey of education industry companies by *EdWeek* found that most K-12 companies were planning to switch districts from free use of products to paid models—at the end of the summer, or the

end of the coming academic year, or beyond. Sixty-five percent of companies that had offered free products during COVID-19 tried to convert districts to paid, but with mixed success.⁸

While the biggest publishers serving the K-12 market have seen disruption in their traditional textbook businesses, they have also benefited from the shift to digital offerings. Although overall sales declined by 14% reflecting the impact of COVID-19, Pearson recorded growth of 14% YOY in Global Online Learning in the first 9 months of 2020, driven by 41% enrollment growth in Virtual Schools (accredited private virtual K-12 schools) for the academic year 2020/2021.⁹

McGraw Hill saw its “total market opportunity” in K-12 decline by 21% in fiscal Q2 year-to-date, with sales shifting from Q1 to Q2 after school district closures and delayed shipments.¹⁰

But Houghton Mifflin Harcourt reported K-12 SaaS billing growth of 147% over the previous 12 months, and digital platform usage growth of 388% over the same period, while net sales overall declined 32% in the third quarter and 28% year-to-date. At the same time, it announced its intent to explore the sale of its consumer publishing business in order to focus on creating a pure-play learning technology company.¹¹

(vii) Investment in edtech in the K-12 market

Education technology accounts for less than 5% of the \$1.6T spent on education in the U.S. each year, according to LearnLaunch. Digital technology penetration in the education sector is slight compared to other sectors.¹²

Even before the outbreak, though, the market for education technology was growing rapidly. From \$107 billion in 2015, the industry has been forecast to triple in size to \$350 billion in 2025, as the appetite for online learning resources grows—especially for those serving Asia’s growing youth population.¹³

Edtech saw strong venture capital investment in the first half of 2020, with \$803 million invested in the U.S. across 61 publicly disclosed deals. The top 10 largest disclosed deals included two K-12-focused providers (PresenceLearning and HopSkipDrive) and two providers to markets adjacent to K-12 (Roblox, Quizlet). Other K-12 providers have refocused, such as Swing Education, which had matched teachers with school job openings, but has reoriented its service to capitalize on the “learning pods” trend, where families set up their own informal, private educational communities.¹⁴

CONCLUSION

Our takeaway is a strong impression that, even as more school districts are re-opening as this is written, the impacts of Covid-19 on K-12 education are likely to be long-lasting. All stakeholders are more aware of alternatives to traditional classroom instruction, and operational changes forced by budget shortfalls and the costs of adjusting to a post-pandemic “new normal” are likely to persist. Increased parental involvement may have opened up a more significant direct-to-consumer channel. For publishers who can manage the short-term challenges of deferred textbook orders and shrunken

overall budgets, it appears that an acceleration of digital learning solutions could provide a lifeline into the future, partly underwritten by investor appetite for the potential growth in education technology markets.

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6. ENTERTAINMENT INDUSTRIES

INTRODUCTION

The Entertainment section of this report collects relevant insights for publishers on the impact of the COVID-19 pandemic on the following entertainment industry sectors: video gaming, streaming video, streaming music, and films. The impact of the pandemic on these sectors has varied widely. Gaming is seeing unprecedented growth while the film industry is experiencing unprecedented challenges. Homebound consumers have shifted to online discovery and consumption of content. The companies that have been most successful during this time have been those with the capability to stream content directly to consumers, in their homes and/or on their mobile devices. They are for the most part companies with subscription-based business models. With multi-generational families to entertain and stretched budgets, consumers are looking for low-cost access to libraries of content that have something for everyone.

The entertainment industry has been forced to respond quickly and dramatically to the challenges posed by COVID-19. While publishing hasn't entirely escaped the consequences of the pandemic, other sectors of the entertainment industry have faced a more immediate impact. What insights can be gleaned from those sectors' responses to the forces that are shaping the "new normal" in consumer entertainment?

GAMING

Gaming is one of 2020's great success stories. The World Economic Forum estimates global gaming revenue will hit \$165B this year, with 2.7B gamers worldwide. Gaming is already the world's favorite form of entertainment, with annual revenues that surpass TV, movies, and music.¹ COVID has only strengthened gaming's already dominant position, in large part due to the fact that gaming began shifting to online and mobile platforms in the early 2000s, meaning that gaming platform companies and gamers were already connected when the pandemic hit.² The ensuing lockdowns put gamers right where gaming platform companies wanted them: in front of their PCs, mobile devices, and televisions.

(i) Impact on consumer spending

NPD reported that spending on gaming reached record levels in Q3:

- Consumers spent \$33.7B on video games from January through September, compared with \$27.9B during the same time period last year.
- Spending in the third quarter reached an all-time high of \$11.2B, up 24% from the same quarter last year.³

(ii) Impact on the types of games played

Gaming is increasingly both a social activity and a spectator sport. According to a recent study on global gaming by Simon-Kucher:

- Sixty percent of gamers surveyed said they are playing different game types during lockdown, with a majority (60%) stating they are playing more multiplayer games, and specifically game types with social components.
- Streaming has become a massive component of the gaming world, with the majority (81%) of survey respondents reporting that they are watching more gaming streams during lockdowns than before.
- 23% of respondents said that they began to stream for the first time during the pandemic.
- Users of Twitch (a live streaming platform for gamers) watched 5 billion hours in total from April to June 2020, an increase of 63% from the first quarter.
- 25-44 year olds are the largest group streaming video games, rather than younger teens often thought of as the most avid gamers.⁴

MUSIC

Streaming is fueling recorded music industry revenues, with growing subscriber revenues and paid subscription numbers. According to the RIAA, streaming music revenues grew 12%, to \$4.8B in the first half of 2020. Paid subscription revenues grew 14% to \$3.8B.⁵ Spotify, with 32% of the global streaming market, and Apple Music, with 18%, are still the two top players in the space.⁶

(i) Streaming subscriptions and revenues sustaining steady growth

- The average number of subscriptions in a given month for all streaming music services for the first half of 2020 was 72 million, up 24% versus the H1 average for 2019. That reflects the addition of more than 1 million net subscriptions per month on average (note this figure does not include limited tier subscriptions).
- Streaming music revenues (including both subscription, ad-supported, on-demand and ‘lean back’) grew 12% to \$4.80B in the first half of 2020, up by \$512.3M over H1 2019.⁵
- Total streaming music revenues are expected to top \$1B in 2020.⁷

(ii) Physical sales (vinyl albums and CDs) falling at least in part because of COVID-10 shutdown measures

- Combined revenue generated by vinyl albums and CDs fell 22.6% in the first six months of 2020, down to \$375.5M.
- Vinyl album revenues of \$232M for H1 2020 were 62% of total physical revenues, marking the first time vinyl exceeded CDs for such a period since the 1980’s, though vinyl still only accounted for 4% of total music recorded music revenues.⁵

STREAMING VIDEO

Streaming video services have also grown dramatically during 2020: Antenna Analytics estimates that video streaming service subscriptions will grow by “a staggering 37 percent year-on-year, with most of that growth coming from Disney+.” Disney+ is now the third largest streaming service in the US, just behind Hulu. Netflix is still number one. (Note that Antenna does not track Prime Video.)⁸ The large players like Netflix, Disney, HBO, Hulu, Amazon, and Apple are investing heavily in content to win and retain customers. This is great for consumers who are getting more and more quality entertainment for their monthly subscription fees, and bad for the other forms of entertainment that have to compete for the time and attention of those same consumers. The fierce competition for subscribers is a growing problem for the streaming services, especially the newer entrants: the Q3 2020 churn rate (the percentage of subscribers who discontinue their subscriptions within a given period of time) for newcomers HBO Max, Apple TV+, and Peacock is about 20% vs. Netflix’s estimated 3% churn rate.⁹

(i) Impact on consumer spending

- An average of 42% of U.S. citizens say they are spending more on streaming services.
- Consumers who lost income during the pandemic were more than twice as likely to cancel a streaming service because of cost, compared with those whose income was unchanged.

(ii) Experiments with new content and offerings to attract and retain subscribers

- Conglomerates that own a movie studio and a streaming service (such as Disney and Warner Media) are experimenting with releasing first-run movies directly to their streaming video services.
- Streaming services are offering esports, such as eNASCAR and Madden NFL 2020, to fill the void left by the disappearance of traditional sports on television and to attract younger audiences. 19% of millennials watch virtual sports. The eNASCAR iRacing Pro event attracted 1.6 million unique viewers.

(iii) Consumer willingness to add and cancel video services if doing so allows them to watch more of the content they want at a lower cost

- 62% of those surveyed in the U.S. think there are too many video streaming services to keep track of.
- Original content is the No. 1 factor driving consumer adoption and cancellation of streaming services.
- 42% of those surveyed said that they would be adding/canceling services in the next year if they can watch content they’re interested in at a lower cost.
- To address concerns about the cost of streaming services, providers are increasingly offering ad-supported video streaming services (AVOD) as an alternative to paid subscriptions. 47% of American consumers are watching at least one free ad-supported service, an 18% increase since the pandemic began.¹⁰

FILM

The film industry has been upended by the COVID-19 pandemic: film production was halted, theaters were shuttered, the release dates for the year's blockbusters were pushed back, then pushed back again as the virus surged across the country. The studios have been experimenting with alternate distribution models, including releasing first run for rental ahead of or simultaneously with theater release. But consumers haven't been enthusiastic about paying \$20 to \$30 on home rental of first-run movies.¹⁰ There's simply too much quality content available on the subscription services they already pay for, and subscribing to a new service for a month costs significantly less than paying for a single first run release.

(i) A long-term decline in ticket sales for films

- In North America, the number of tickets sold has barely changed since 1995. This is likely not attributable to the movie-going experience.
- In response, most operators have invested in theaters: upgrading audio-visual technology, making seats more comfortable and introducing consumer-friendly subscription offers.
- Consumer preferences for content consumption increasingly favor streaming video on-demand.

(ii) Film studios prioritizing their own services, leading to a reduction in the number of films shown in theaters

- The theatrical window—the amount of time studios show movies exclusively in theaters before releasing them for sale, download, or streaming—has shrunk by more than two months since 2000.
- The “big six” studios (Warner Brothers, Disney, 20th Century Fox, Paramount, Sony and Universal) each released 20-25 major films 15 years ago; in 2019 some were releasing as few as nine.

(iii) Big budgets of major streaming services (Netflix, Amazon, Apple, and others) changing the power balance

- The streaming services are acquiring movies made outside the big six studios, releasing them directly to consumers and further limiting the pool of movies available to brick-and-mortar distributors.
- The apparent depletion of choice in theaters, in contrast to the wealth of content available via streaming video services, is expected to compound downward pressure on admissions.
- As we were wrapping up research on this report, WarnerMedia announced that it will release all of its 2021 films simultaneously in theaters and on its streaming service, HBO Max.¹¹

(iv) Film and television studios aggressively pursuing rights to novels and non-fiction books with the potential to become successful movies and TV series

- CAA has packaged and sold about 175 book titles for film and TV so far this year—about five times the agency's volume during the same period of time in 2019.
- Streaming services are offering writers \$1-million-plus deals with increasing frequency.

- The growing power of TV series over movies has changed the dynamic for authors. The majority of the big deals are coming from the TV side of the business, thanks to the explosion of big budget investments in the development of new series.
- Television gives creators more freedom to adapt novels that don't necessarily fit the structure of a two-hour, three-act movie.¹²

CONCLUSION

WarnerMedia's announcement sent shockwaves through the filmed entertainment industry. It clearly showed that the COVID-19 pandemic is a disruptive accelerator, one that's forcing media companies to re-evaluate existing ways of doing business and long-standing partnerships. The business model for film is moving from third-party distribution and single-ticket sales towards owned distribution and recurring revenue.

WarnerMedia's gamble may look foolish if audiences rush back to theaters once the virus is managed, but it may also be a stroke of genius if it turns out that movie-goers are content to watch new releases on their big screen televisions, especially if the cost of doing so is less than the price of a single theater ticket.

Gaming, streaming video, and streaming music have all seen significant subscriber, revenue, and engagement growth in 2020. What do these three segments have in common? Each has a well-established subscription model and delivers content directly into the home and/or phone. And each is competing in a world of finite talent resources and the quest to create global entertainment brands.

Consumers have adopted new expectations for where and how they engage with entertainment, and what their entertainment dollar buys. Publishers should be alert to signs of increased price sensitivity and opportunities for experimenting with alternative business models, including new subscription offerings. And the rapid acceleration of book rights sales for film and TV may presage an increasing convergence of these sectors. One thing is certain, significant changes are underway. It will be some time before we know what the new "normal" looks like in the entertainment sector, or how it ultimately will impact publishers' opportunities and business models.

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7. LIBRARIES

INTRODUCTION

BC—Before COVID—a major issue at the intersection of publishing and libraries involved the terms under which publishers would offer ebooks. It was a given that they would charge as much as three or four times the full retail price. It was also a given that the price wasn't in fact for a sale, but rather a one- or two-year lease payment (or sometimes a meter charge, for example, 26 loans maximum per license). But would publishers allow their hot new titles into the library channel at all, or only after sales of those titles had cooled?

And then, in February, ebook demand exploded, both at retail and through libraries. Publishers like Macmillan declared a ceasefire. As reported in *Publishers Weekly*, “in mid-March, when the reality of the pandemic became apparent...dozens of publishers began slashing library ebook and digital audio prices and easing restrictions...Macmillan abruptly abandoned its embargo on new release library ebooks.”

As the author of the article noted, “the question remains: will this spike in usage be a game-changer for digital content in libraries? Or, will the library ebook market settle back into its old, contentious ways once the nation finds its post-pandemic footing?”¹

THE IMPACT OF COVID-19 ON LIBRARIES

(i) Data

Library ebook aggregator Overdrive reported that, by the summer of 2020, weekly library ebook lending had increased by nearly 50%.² Also, according to Overdrive, in K-12 schools borrowing was up to nearly three times the levels of 2019.³

(ii) Impact on budgets

At the same time that ebook borrowing was exploding, libraries were facing potential budget cuts because of the fallout of COVID-19's impact on state funds. On December 8, the American Library Association (ALA) issued a news release “urging library advocates to contact their U.S. representatives and senators with an ask to provide funding for libraries in a COVID relief package as House and Senate members work to pass an emergency assistance plan before adjourning for the year.” (The bill proposed in late December did not include special funding for libraries.)⁴

According to an Ithaka S+R study of academic libraries released in December, “most libraries have experienced budget cuts in the current academic year and there is great uncertainty about longer-term financial recovery.” At the same time, the “pandemic reinforced and accelerated trends in library investments toward digital resources and services.”⁵

(iii) The Internet Archive tries to come to the rescue

In March, the Internet Archive suspended waitlists for the 1.4 million books in its lending library, creating a National Emergency Library “to address our unprecedented global and immediate need for access to reading and research materials.” The suspension, they said, would run “through June 30, 2020, or the end of the US national emergency, whichever is later.”⁶

The outraged reactions were immediate and loud from the Authors Guild, the Association of American Publishers (AAP) and the Independent Book Publishers Association (IBPA). Facing threats of legal action and government intervention, the Archive closed the library in mid-June, reverting to controlled lending of its collection.⁷

(iv) Library workers' safety during COVID-19

Andrew Albanese, in his thorough year-end review of 2020 library news, highlighted a #CloseTheLibraries campaign, from the early days of the pandemic, “that raised critical awareness of the dangers facing library workers.” Further, he noted, the collective efforts of librarians in 2020 have demonstrated that “the public library’s commitment to serve its community cannot come at the expense of the health, safety, and physical and mental wellbeing of library staff.”⁸

(v) Amazon Publishing finally in libraries?

Amazon, on its website, explains that “you can check out a Kindle book from your local library and read it on any generation Kindle device or free Kindle reading app.” This works well for most independent self-published authors and for some ebooks from independent publishers. But you will not find in any public library the ebook versions of books published under Amazon’s sixteen home-grown publishing imprints. They are available for lending, but only through paid Amazon subscription services.⁹

While it doesn’t seem to be directly connected to the pandemic, in December *The Hill* broke the story that Amazon is in negotiations to allow the books published under its varied imprints to be made available for public lending.¹⁰

Barack Obama's autobiographical *A Promised Land*, published in November by Penguin Random House, set a recent record for first-day sales, reaching nearly 900,000 copies in North America on publication day. Less remarked was the record it set for the ebook price of a major new trade book release, \$17.99, by law undiscountable by retailers. (By comparison, the ebook of Michelle Obama’s *Becoming*, published two years before, retails for \$14.99.) It’s a reminder that public libraries serve many communities, including those that simply cannot afford to buy new books on a regular basis. The *New York Public Library*, for example, has 800 copies of *A Promised Land* in print and digital available for loan, not likely to deprive the former President of substantial royalties—by mid-December sales had reached 3.3 million copies in the U.S. and Canada.^{11, 12}

CONCLUSION

Libraries, both public and academic, have never been so important a source for digital lending as during the pandemic. At the same time, they are lending only a fraction of the print books they were lending last year. Surely those loans will resume post-vaccine. Or does a segment of the reading public have a now settled distaste for sharing print books, a putative source of viral infection?

Libraries are also public spaces, significantly so. How will COVID change people's perception of those spaces? Moving into 2021, libraries will be facing increased demands for non-book related services (job training, computer access and more), thus facing substantial physical plant-related costs. Many libraries will have to be reconfigured; something is going to have to give. In one scenario, multi-branch library systems might encourage more use of their online resources and close smaller branches to save money.

U.S. libraries get the vast majority of their funding from their local communities (city, county and state). Academic libraries are funded both by governments directly and via their host institutions. Virtually all of them are facing budget cuts. (Ebooks are, on the whole, more expensive than print books, exacerbating this crisis.) 2021 is certain to be a challenging year for all libraries.

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8. BOOKSTORES

INTRODUCTION

Book retail is really a set of businesses. First, it's both physical and digital. More than half of book retail takes place online (with Amazon accounting for at least half of those sales). Physical retail, on its own, has several components, broadly speaking: chain bookstores, independent bookstores, big box retailers like Costco, and “newsstands” at drug and grocery stores, airport stores, etc.

Then there's digital, capturing more than 10% of most book publisher sales, and the vast majority of self-publishing sales. Amazon controls at least three-quarters of that market.¹

Academic and educational publishing have different retail profiles.

This section of the report pulls together much of the media coverage of bookstores during the current crisis. We hope this will illuminate, and in turn be illuminated by, the non-publishing sections, while addressing the fundamental question: how have bookstores tried to weather the COVID storm, and what are the implications for publishing?

THE IMPACT OF COVID-19 ON BOOKSTORES

(i) Data

Despite all of the positive news around publisher sales based on AAP and NPD data (see the Publishing section), the U.S. Census data show that bookstore sales declined 28.8% in October 2020 vs 2019 and 31% YTD.^{2,3}

Keep in mind that these data do not include book sales from online-only retailers like Amazon, Apple or Google Books (neither print nor digital).

There's a wide disparity of retail book sales change across type of outlet. Non-traditional physical retailers like drugstores, grocery stores and big box stores have remained open during the epidemic and generally carry a small, curated selection of popular titles. Several retail categories show improved sales versus 2019, and many of those that do also sell some books, including grocery stores, are up 12%, with warehouse clubs and superstores up 7%. These sectors probably account for an increased percentage of brick-and-mortar book retail sales.

A significant share of book purchases appears to have shifted to large non-traditional physical retail outlets. As we report elsewhere, major brick-and-mortar retailers, like Walmart and Target, have also seen a huge boost in sales this year, both in-store and online.

One result is that the increases in sales through these outlets are accruing to a limited number of titles, further widening the gap between the top bestsellers and the vast majority of titles available for sale.

(ii) Amazon, bookstores and COVID

As noted elsewhere in this report, Amazon sales have exploded during the COVID crisis. In the three months ended September 30, Amazon’s net sales increased by 37% over 2019. (Amazon never breaks out book sales revenue separately.)⁴

Early in the pandemic Amazon prioritized what it deemed to be essential items and let book order fulfillment lag. This had a negative short-term impact on book publishers, but seems to be no longer a significant business issue impacting overall book sales. It did, however, further highlight Amazon’s central position in the bookselling ecosystem.

On August 17, 2020, three of the largest writing and publishing associations—Association of American Publishers, the Authors Guild, and the American Booksellers Association—sent a joint letter to the U.S. House Antitrust Subcommittee investigating the online presence of the largest tech firms (Amazon, Apple, Facebook, and Google), protesting Amazon’s dominance in book publishing.⁵

Specific to COVID they wrote: “The ongoing COVID-19 crisis is exacerbating the problem: it continues to threaten the financial well-being of authors, publishers, and booksellers, some of whom will not survive the year. Amazon, by contrast, with its ever-extensive operation and data network, has grown only more dominant, enjoying its largest-ever quarterly profits during April, May and June.”⁶

The Antitrust Subcommittee released its 450-page report on October 6 with a series of recommendations, none addressed specifically to publishing, but several that would impact the publishing industry.⁷

(iii) Bookshop.org

Launched in January 2020, just before COVID struck, Bookshop.org rose to prominence as the lockdown continued. The site enables bookstores to offer just about any book in print to their online customers—and retain 30% of the sale price. (Ebooks are not part of the service.) The organization gained substantial coverage as a potential challenger (or at least an alternative) to Amazon for the portion of the buying public willing to give up some savings and convenience in order to support their local independent bookseller.

The company is not without its naysayers, including complaints that bookshops earn less through sales on Bookshop.org than from selling direct to customers, and that the site is diverting shoppers away from in-person store visits.⁸

(iv) Barnes & Noble’s tough year

In June, 2019, when the hedge fund Elliott Management acquired Barnes & Noble’s then 627 stores, for a deal valued at over \$680 million, there was not even an inkling that the money-losing chain would face perhaps the toughest year in its history starting just eight months later.⁹

Things were souring even by February, 2020, before the extent of the COVID threat was clear. James Daunt, CEO of Barnes & Noble (and of Waterstones in the UK), described Barnes & Noble as “not very good bookshops, not looking very nice. It’s a big mess.”¹⁰

COVID made things worse. By mid-March Daunt was hoping that governments would recognize bookstores as essential businesses. “Demonstrably, books are a necessity,” he said. “If we keep the bookshops open, not just our bookshops, but all of them, that is a significant social benefit.”¹¹

Through the summer, Barnes & Noble, like most independent booksellers, balanced opening restrictions against offering online order pickup and greatly expanded online sales. It temporarily shuttered more than 400 of its 600-plus stores in the United States in April and May. By late fall, cafe and magazine newsstand sales were still down significantly, but book sales were actually running ahead of a year ago, aided by a doubling in online sales.¹²

(v) Barnes & Noble Education—a separate company

The Barnes & Noble retail chain spun off Barnes & Noble Education into a separate publicly-traded company in 2015, effectively divorcing its performance from the larger bookstore operation. Barnes & Noble Education bears most of the signs of pain inflicted by changes within the education market, alongside all of the challenges of book retail. The company operates 772 physical campus bookstores. In its most recent quarter, ending October 31, the company reported sales down 22.9% compared to a year ago.¹³

(vi) Bookstores as an essential service

Barnes & Noble, individual bookstores, and bookstore associations lobbied governments to declare bookstores an essential service. Pharmacies, restaurants, hardware stores and dry cleaners could remain open, they pointed out, but “bookshops are not on the list.”¹⁴

Besides the many differences between medicine, food and books, a counterpoint to the booksellers’ claim is the obvious fact that millions of books can still be accessed online, many for free (or for the equivalent of free from a public library). However, Heather Reisman, CEO of Indigo Books in Canada, says that “a good 40 per cent of the population does not shop online,” and, indeed, several studies suggest that some 6% of the population is not online at all. Whether that group has access to a physical bookstore, or are even book readers, is difficult to determine.¹⁵

CONCLUSION

While publishers are, for the most part, sitting pretty, bookselling is facing a reckoning. In the retail section of this report we considered that many consumers view small, independent stores in their neighborhood as much-loved places to shop. This augurs well for established neighborhood independents. At the same time, questions remain whether the pandemic-occasioned shift to online purchasing represents a trend that will outlive the vaccine(s), and whether independent booksellers can take a larger share of it from behemoths like Amazon.

Barnes & Noble is also a question mark. The company has clearly taken a heavy hit during the pandemic, something that its new owners, Elliott Management, could not have foreseen when they acquired the firm in 2019. But Elliott knew they were buying into a challenged retail sector, and presumably were prepared for some stormy sailing.

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9. PUBLISHING

INTRODUCTION

How has COVID disrupted the publishing sales and supply chain? Less than we might imagine. Whatever doom and gloom surround the publishing industry in the midst of the COVID crisis, sales cannot be singled out for scorn. Trade sales are almost uniformly ahead of 2019, and in several categories unit sales are up over 20% through mid-December.

With sales strong, there have been no major bankruptcies. Supply chain issues, which early in the pandemic appeared dire, have for the most part resolved themselves. It's not perfect, but things are working—books are being printed, distributed and purchased.

There are some reports of smaller publishers, facing a cash crunch, offering themselves up for sale, but no reports of this as a significant trend within the industry. (The M&A story of 2020 is Penguin Random House offering to buy Simon & Schuster. *See below.*)

This section of the report pulls together much of the media coverage of publishing during the current crisis both from industry and non-industry sources. We've created a single-source round-up and analysis of the major publishing trends in 2020, and used that to inform the other sections of the report.

THE IMPACT OF COVID-19 ON THE PUBLISHING INDUSTRY

(i) The data

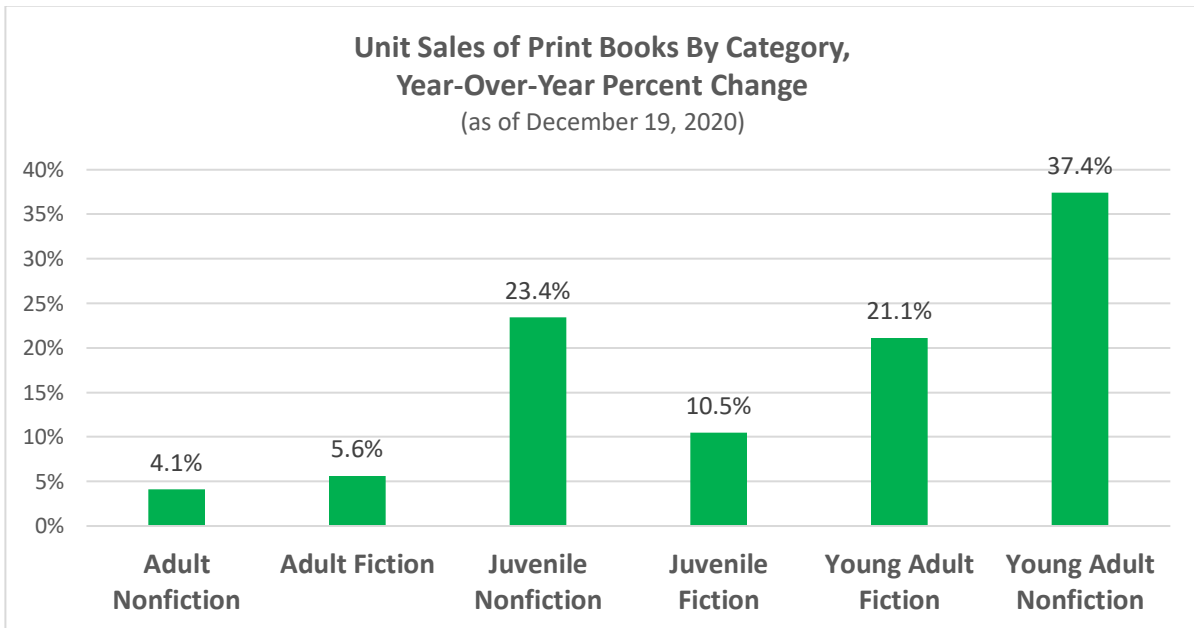
The most recent data from the Association of American Publishers (AAP) and NPD shows solid gains across most publishing sectors. The AAP tracks publishing sector sales.¹

Even higher education (which fell by 10.9% in 2019) is up 2.3% through the end of October (see separate Education section). In the largest sector, trade publishing (including children's and young adult), sales are up by 7.5% to October 31, after a mere 0.4% increase in 2019 (and 1.5% in 2018). It seems inconceivable that the industry would have enjoyed these gains without the COVID catastrophe.



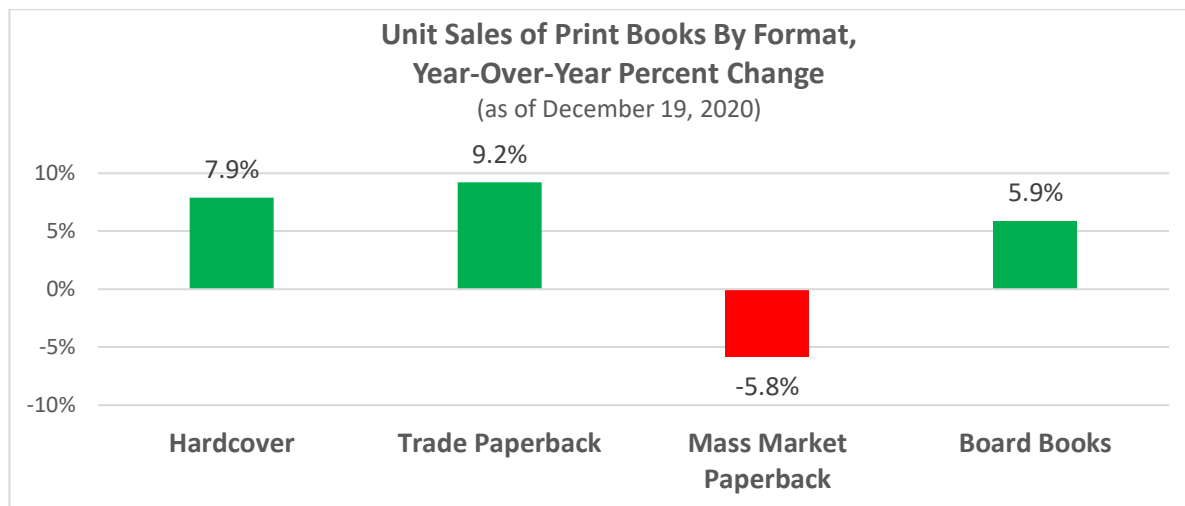
Source: Association of American Publishers, December 2020

NPD data on print sales (as reported by *Publishers Weekly*), based on retailer reports not publisher data, is even more impressive. Unit trade sales are up overall by 8.2% through December 15, 2020. Juvenile and young adult fiction and nonfiction all enjoy double-digit increases; adult books far less, in the 5% range.



Source: NPD BookScan and *Publishers Weekly*, December 2020

Unit sales by format show the greatest gains in hardcover and trade paperback formats. Mass market is down 5.6% YTD.



Source: NPD BookScan and *Publishers Weekly*, December 2020

As you've seen in the section on retail, publishing is far from the only product sector that has benefited directly from the disruption of the virus. But as we've shown in the bookstore section, the upward trend stops when you reach the front door of most independent booksellers, and at many of the 600 or so Barnes & Noble chain stores.

(ii) *Book fairs falter*

"Book Buzz Without a Book Fair" is *Publishers Weekly's* aptly-titled look at the aftermath of a virtual Frankfurt 2020. Most publishers interviewed said that they were not facing the kind of drop in rights sales that they might have feared, rather "it was the loss of something more intangible—the rush of hearing about an exciting new book in a place that so many associate with career-defining moments."²

Jane Friedman, in her *Hot Sheet* newsletter (subscription-only), reporting on the November virtual FutureBook conference based in the U.K., quotes Hachette U.K. CEO David Shelley: "It's one of those intangible things," he said, "but it's really valuable. Virtual Frankfurt Book Fair is functional, but not the same."³

Then on December 1, Reed Exhibitions announced the cancellation of BookExpo and BookCon, in part because of the pandemic. Ordinarily held in May, the impact of the loss of the show is difficult to determine. On the one hand, it was an excellent platform for publishers to promote their lists, face-to-face, while offering an opportunity for smaller publishers to connect directly with booksellers. On the other hand, the industry consensus was that the show had lost much of its oomph, and not many tears have been publicly shed.⁴

(iii) The supply chain

The greatest worry publishers faced in the early days of the pandemic was supply chain disruption. Could remote publishing teams get books to their printers? Did printers have sufficient capacity to meet demand? Would publishing distributor's warehouses be knocked out by employee illness? Would bookstores, with truncated operating hours, be open to receive publisher's orders? And would Amazon pause from shipping disinfectant wipes long enough to fill the backlog of consumer print orders?⁵

All of these questions were answered with a 'yes' if not immediately, within a few months. Printing capacity remains a challenge, but this issue pre-dates COVID, reflecting bankruptcies and consolidation in the book printing segment over several years.

(iv) Ebooks

Energized by the early supply disruption in print books, the ebook format has been to some extent reborn during the pandemic, recovering from shrinking percentages of overall sales, and publisher disdain for the format.

The AAP pegged ebook revenues for October up 20.4% year-over-year. On a year-to-date basis, ebooks sales were up 16.5%.¹

(v) Audiobooks

After years of spectacular sales growth, audiobook sales growth slowed significantly in 2019: 16.4% versus 34.7% in 2018, based on data from the Audio Publishers Association (APA).⁶ NPD Group reported that unit digital audiobook sales were up 15% through May, 2020.⁷

The Association of American Publishers (AAP) calculated that downloaded audio sales were up 17.3% to the end of October.¹

In the library market, Overdrive, which had been seeing year-over-year growth in audiobooks, saw depressed audiobook adoption in the pandemic. A possible reason cited by the company: commuters who had been listening to books in the car (or on mass transit) were no longer going into the office.⁸

Overall, the numbers are positive for audio; only the pace of growth is slowing. Podcast consumption offers an interesting perspective on this data. Spotify reported in July that in its second quarter 21% of users listen to podcasts, up from 19% in Q1. Overall consumption of podcasts more than doubled.⁹ Podtrac recorded 47% download growth for the 52-week period ending November 01, 2020.¹⁰ Are these listeners being lured away from audiobooks? Or are podcasts just part of an overall burgeoning audio trend?

(v) The shift to work from home

The pandemic has had an enormous impact on how publishing companies are staffed and how staff execute their work. And, by all accounts, that impact may mark a permanent shift in publishing workflows. No one expects publishing offices to disappear, but even the largest publishers are finding

that they can keep the boat afloat with hardly a soul in their enormous, and enormously costly, Manhattan headquarters.

Few publishers report publicly on their lease costs. But in its 2020 annual financial report Wiley noted that it is on the hook for nearly \$250,000 in lease payments.¹¹ McGraw Hill's leases include over 135,000 sq. ft. at its Manhattan headquarters.¹² Where leases can be renegotiated, there is money to be saved!

In early August, Penguin Random House confirmed that it will not return to its offices "until sometime next year... until it's safe and it's practical, whenever that may be."¹³

Also in August, Hachette CEO Michael Pietsch sent out a note that "we will not be requiring anyone whose work can be done remotely to return to any of our offices for the foreseeable future." Expanding on that remark he wrote "We do not have any specific plans or timeline to move to further reopening phases at any HBG location at this time. Our strong preference is for employees who can work from home to continue to do so, and we will not fully reopen any HBG office until we can do so safely."¹⁴

An interesting side-note to the work-from-home trend appears in a December Harris Poll. If companies allow a permanent work-from-home option, half of Americans (51%) say they would probably relocate. Nearly three quarters (72%) would be likely to relocate if their company offered them a monetary incentive. Half (50%) would choose to move closer to family and friends, while (45%) would move near a beach!¹⁵

(vi) Penguin Random House bids for Simon & Schuster

One of the biggest publishing stories of 2020 bears little, if any, connection to COVID-19. On November 25, Bertelsmann announced that it had reached an agreement to buy Simon & Schuster from ViacomCBS for \$2.175 billion. HarperCollins and Lagardère were the other bidders; apparently Bertelsmann offered the most cash. The price, over \$2 billion for a company with less than \$900 million in sales and a 2019 operating income of \$143 million, doesn't appear to reflect any discount related to concerns about the health of a post-COVID publishing sector.¹⁶

(vii) Academic publishing faces a separate set of challenges

Before considering the specific challenges faced by academic publishing, there's a broader observation to be made: COVID has cast a bright new light on the value of science, the value of research, the need for the rapid publication of scientific research, and the need for wide access to the resulting research reports. Academic publishing was sometimes the quiet player, just a little out of the limelight. Suddenly it's a superstar.¹⁷

Academic publishing sales are tough to pin down, in part because of reporting, and in part because of industry nomenclature. The only publicly-available data comes once again from the AAP. It monitors a category called "professional books," which includes business, medical, law, technical and scientific.

Sales increased 3.3% for the first ten months of 2020. It records a separate category for university presses, which had \$41 million in sales in the same period, up 2.2% from the same months in 2019.¹

The American Mathematical Society (AMS) reported in October that “as academic institutions suffer, researchers and educators suffer—and so do their budgets and ability to buy our content.” The sector in 2020, its report acknowledged, had been in reasonably good shape, as most renewal decisions were made before the pandemic hit. “For 2021,” it noted, “we are just not sure what will happen.”¹⁸

An analysis of university presses in the age of COVID-19 on the Ithaka S+R blog found that the transition to work from home had been largely seamless, amid a greater focus on process reengineering and concerns about funding in 2021. Citing predictions that the ongoing impact of the pandemic could lead to the permanent closure of 100 higher education institutions, several press directors wondered if the crisis might “strangle” some of the smaller university presses.^{19, 20}

While academic publishing may be enjoying a COVID-inspired turn in the limelight, the pressures on library and research budgets, and the shift from subscriber-paid to author/institution/funder-paid open access models may challenge for-profit publishers’ margins, squeeze not-for-profit society publishers into handing their publishing operations to commercial providers, and accelerate an existing trend toward a reliance on philanthropy, which we view as a potentially unhappy development.

CONCLUSION

The strength of the publishing industry in 2020 had much to do with the social impact of the lockdown: people were looking for things to do with their time, and to keep their children entertained within a learning context. Books fit the bill perfectly. As we move out of lockdown could the social imperative for reading decline?

Given that publishing sales increased amid an economically-challenged environment in 2020, a stronger economy may spur sales growth in 2021. Even in a continuing downturn, publishing sales have shown historically to be resilient against depressed economic factors.²¹

What will book publishing in America look like in 2021? Perhaps not so different than the way it looks today. The seismic change is in digital. Amazon increased its market share, again showing that winning strategies are often executed online, not on the ground. The success of non-traditional retail outlets has highlighted that they are sometimes undervalued in sales planning. But these outlets support only a small range of titles, accelerating the “blockbuster syndrome,” an ever-increasing trend in publishing today.²²

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10. CONCLUSION

The implications of COVID-19 on the book publishing sector are both subtle and deep. Most trade publishers enjoyed strong revenues in 2020, but with hugely lopsided sales by category, reflecting short-term social realities more than structural industry developments. Higher education publishers, in the midst of a long sectoral decline, enjoyed a good year, based on the emergency demand for digital educational content for students of all ages. Academic publishers, living in a world where budgets are adjusted by the year, not by the month, escaped 2020 mostly unscathed, yet with much cause for apprehension about their customers' budgets in the year ahead.

But what are publishers to learn when they lift their heads to survey the surrounding landscape?

The economy is forecast to grow, amid considerable uncertainty. As we note at the beginning of this report, until the spread of the virus is significantly diminished for a sustained period of time it will be impossible for anyone to provide a reliable economic forecast.

Libraries, both public and academic, want ebooks more than they ever have before, from suppliers often inclined to treat digital formats as second-class citizens. Publishers ask libraries to be grateful for a “reprieve” from strict licensing terms. Those tables could be turning.

The changes in the retail landscape speak volumes. On the one hand, from now on publishers must treat bookselling as digital-first, physical-second, with no further questions asked. Pre-COVID it was still valid for publishers to ponder “where does Amazon fit within our reseller channel strategy?” The question henceforth is “how do our reselling channels align with an online-first strategy (particularly for Amazon)?” And the mouse in the corner might be heard to squeak “and what should we do about the bookstores?”

The entertainment industries have always held up a bright mirror for publishers to see more than their own reflections, as reluctant as they are to do so. Streaming: games, music, movies, TV shows, podcasts, audiobooks: isn't the message to publishers yet clear? Selling a copy at a time is a pre-COVID mindset. Whatever doubts you may have harbored about streaming, let WarnerMedia put asunder.

Although the sudden pandemic-driven shifts may slow or revert toward the mean with the achievement of a “new normal,” we believe that important underlying changes will persist and continue to evolve. As a new year bringing the promise of relief and some much-needed optimism arrives, we hope that this report will serve both as a clarifying review of what has changed in a tumultuous year, and as a useful planning tool. We invite you to contact us to discuss the findings in this report and their impact on your business for 2021 and beyond.

APPENDIX: TOPIC TRENDS IN BOOKS

As you've seen in this report, COVID-19, while mainly an issue of healthcare, and an economic challenge, is also a force bringing change to our society, how we think about things, how we do things. Some of those shifts are no doubt temporary, others may be permanent. We know what travel and tourism looks like as we move into 2021. Will it be back to its "old self" two or three years from now? Will people stop baking bread?

As we were researching this report we took note of blog posts and articles examining ideas and pursuits that are trending during the pandemic. Some are obvious: nearly everyone wants to improve their understanding of viruses and vaccines. Others less so: Who would want to learn a foreign language if there's no way to travel to that country and practice? But apparently a combination of available time and high-quality online training resources have given this pursuit a boost.¹

And so, to conclude our report on *COVID-19 and Book Publishing: Impacts and Insights for 2021*, we thought we would list some of the book topics that could garner strong sales in 2021 and beyond.

Business books

- Managing remote workplaces
- As an employee, thriving as a remote worker.

Computers, specifically

- How-to for home computing hardware and software; networking
- Videoconferencing

Cookbooks

- Baking
- Canning and preserving
- Recipes for healthier eating

Foreign language study

Home education for children

- Kid's activity books

Home repair

Outdoor skills, survivalism

Personal health

- Diet
- Vaccinations
- Digital medicine

- Home fitness vs. gyms
- See also “Self-help”

Pets, dogs and cats

Post-apocalyptic fiction

Puzzle books

Self-help

- Living alone
- Meditation
- Mental health

Travel

- Travelling close to home
- How to run a successful Airbnb
- How to find great Airbnb properties

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ABOUT THE AUTHORS

CLIFF GUREN (SYNTOPICAL)

Cliff Guren, founder of Syntopical, has worked at the intersection of publishing and technology for over 20 years. He has held senior group and product management positions at Apple, Microsoft, Quebecor, Asymetrix, and Bluefire Productions. Syntopical provides strategic planning, business development, and product management services to publishers, technology companies, service providers, and other businesses focused on maximizing the value of content. Recent clients include The Rhizome Collective, Interpersonal Frequency, StoryFit, and Datalogics. Cliff lives in Seattle.

Website: syntopical.com

LinkedIn: [linkedin.com/in/cliffguren](https://www.linkedin.com/in/cliffguren)

Email: cguren@syntopical.com

THAD MCILROY (THE FUTURE OF PUBLISHING)

Thad McIlroy is an electronic publishing analyst and author based in San Francisco and Vancouver, BC. His site, *The Future of Publishing*, provides in-depth coverage of the book publishing industry. He is a partner in Publishing Technology Partners, and an adjunct professor in the Masters of Publishing Program at Pace University in New York. He is the author of *An Authoritative Look at Book Publishing Startups In the United States* (2017), and co-author of *The Metadata Handbook* (with Renee Register).

Website: thefutureofpublishing.com

LinkedIn: [linkedin.com/in/thadmcilroy](https://www.linkedin.com/in/thadmcilroy)

Email: thad@thefutureofpublishing.com

STEVE SIECK (SKS ADVISORS)

Steve Sieck, president of SKS Advisors, is an accomplished strategy and market research professional with a strong specialty in business, professional, and academic markets for publishing and information services. As a strategy consultant, information industry analyst, and research/advisory executive, he has helped many leading providers of information content, services, and enabling technologies to develop new products, enter new markets, make strategic investment decisions and align enterprise resources with business objectives. He is a partner in Publishing Technology Partners.

Website: sksadvisors.com

LinkedIn: [linkedin.com/in/stevesieck](https://www.linkedin.com/in/stevesieck)

Email: steve@sksadvisors.com

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