

Trends in the Electronic Book Market (Abstract)

The market size of electronic book sector in Japan for FY2011 was approximately JPY62.9bn, displaying amazing growth when compared with the FY2002 market size of JPY1bn. Even so, this sector still only accounts for less than 5% of the overall publishing market, further expansion is expected for this sector. The electronic book sector displays characteristics not seen in the conventional publishing industry including the network effect and the lock-in effect which are attributable to platform businesses (*NB) model, and it is critical to secure fair competition in the sector's early days for both the healthy development of the sector and to ensure consumer benefit.

Based on the above awareness, this research analyses the current status of the electronic book sector in Japan that is still at its dawn, along with the mindset and actions of the major players in the electronic book sector. It then analyses the mature music distribution sector and verify an actual case (DOJ v. Apple Inc.) which raised legal issues regarding competition laws in the United States and Europe where the electronic book sector is mature. Taking these analyses into account, this paper tries to suggest the predicted paths it could develop upon and the perspectives of competition policy.

The above Apple case is where the company conspired with five major publishers in the United States and Europe in order to vie with market leader Amazon by changing from contract arrangements based on a wholesale model, where retail prices are determined by the electronic book stores, to an agency model, where retail prices are determined by the publishers, thus leading to raised prices of electronic books etc. The anti-competition authorities in the United States and Europe took up this legality of this case. This paper studies the processing of this case in the United States and Europe and suggests that in Japan, where currently the negotiating power of publishers is comparatively strong, a similar case could occur when the power of electronic book stores increase, therefore, there should be focus not only on the joint actions of publishers and their laterally positioned peers, but also on their joint activities with the vertically positioned electronic book stores.

From the analyses of the similarly-structured music distribution industry, this paper suggests that the platforms for electronic books will hold the major position of the sales,

and electronic books will be purchased via specialized book readers. And this paper suggests that it is possible that sales increases in the electronic book sector would not cover the sales decreases seen in the traditional paper books when closed strategies are employed for the various platforms (electronic book stores) as was observed when users changed platforms in the music distribution sector. In order to prevent such a scenario it would be preferable for; (1) growth in platform providers competing against the platform provider with the top share, and (2) electronic books can be purchased which are not tied to a specific book reader,

Based on the above studies and analyses, this research observes the perspective of competition policy in regards to the electronic book sector in Japan as follows. An important point from an economics perspective when the electronic book sector shifts from its early days to a period of growth is the balance of negotiating strength between platform providers and content providers (mainly publishers) due to the special characteristics of electronic books ((1) Considering that author's permission must be sought when to digitalize each published work, publishing companies play important role to popularize electronic books, and (2) in the business environment in which when releasing a work in electronic format, the paper version is published simultaneously (or in advance) and it is rare that only an electronic version is published, it will be necessary to consider platforms that are sensitive towards businesses related to book distribution). From the view point of economics, it can be said that the Apple case occurred in a period of market transformation in the electronic book sector as negotiation power was being transferred from publishers to platform providers and the publishers were attempting to recoup that power. The point of view to promote mutual competition with multiple platforms during the growth phase of the platform industry is important and in a market which will shape the platform industry it is critical to pay due notice to violations of competition laws including trading on exclusive terms, and abuse of a dominant bargaining position. Additionally, attention must also be given to the possibility that most-favored nation treatment may result in restricted competition even though it normally aims towards promoting improved competition.

(NB) From economics perspective, platforms contain the following three elements. They are (1) multiple differing user groups exist, (2) the trades between the differing groups are made via a platform and (3) the benefits of users in one of the groups from participating in the platform depend on the degree of activity of another groups (participant numbers, transaction frequency etc.).