Do we live in a winner-takes-all economy?

First of all, it is important to understand that “winner”, in this case, refers to a person -or firm- with an excellent economic performance, that achieves an out-of-the-curve kind of success. And that “takes all'' doesn't literally mean to take all material -or nonmaterial- possessions, but the fact of controlling a specific market and having almost no competition. Two key reasons to explain “winner-takes-all'' are high fixed costs and network effect. However, to see if it is possible to affirm that we live in a “winner-takes-all economy'' let’s take these concepts and apply them into a delimited industry and a delimited area. The traditional book Publishing Industry is a cyclical sector, publishers offer the authors a contract and, in turn, print, publish, and sell a book through booksellers and other retailers. The publisher essentially buys the right to publish a book and pays royalties from the sales to authors. Some people would say that the traditional book publishing industry is dying due to new technologies and new ways of reading , such as the e-books. However, according to the *Book Publishers Global Market Report 2021: COVID-19 Impact and Recovery to 2030* “The global book publishers market is expected to grow from $87.92 billion in 2020 to $92.68 billion in 2021 at a compound annual growth rate (CAGR) of 5.4%.” The report also puts The Book Publishing industry in the US in the “19th ranked Information industry by market size”. Moreover, according to The annual e-book and printed book market report of the National Union of Edition (SNE french acronym) 2019 was a good year for publishers in France, their turnover had a 5% growth, as well as their sales, which went up by 3,8%. There are two aspects to take into account when talking about the publishing market. First, there is the issue of e-books and second there is the competition between traditional printed book publishers. This essay will focus on the traditional printed book publishing market, to demonstrate a “winner-takes-all” economic model. First, it will focus on the way the traditional book market is structured and second, how network effects influence the way they fix their costs.

To know how the traditional printed book publishing industry is structured , it is essential to know that, contrary to what most people believe, it is an industry controlled by a few. Even Though, there is a vast number of options of “publishers” and names availables when people buy books such as “Grand Central Publishing'', “Mulholland Books” , “Harlequin Enterprises” , “Crown Publishing” , “Viking Press” etc , these names don’t belong to actual publishers, they are imprints of much larger structures. In reality, there are four companies that control 60-85% of the English-language book market. These four companies control around 500 imprints with their own names and logos. And at the same time, these big publishers also belong to larger enterprises. As found on stadista, The Big Four worldwide, In 2020, brought in nearly 160 billion U.S. dollars in revenue combined. It is also important to know that these “Big Four” used to be the “Big Five” not long ago. As reported by Michael SCHAUB on Nov.25, 2020 in his article “the Big Five Become the Big Four” Penguin Random House, largest book publisher of the United States has made a deal to buy Simon and Schuster, ranked third largest in the U.S. Becoming in that way “a publishing powerhouse” or a “megapublisher”. Controlling 40% of the U.S market share. Also according to stadista, in 2020, the publishing company generated revenues of 3.8 billion euros, up from 3.63 in the previous year. The publisher was fully acquired by Bertelsmann SE & Co. KGaA in 2019. Thus, before it's recent controversial and strategic acquisition of Simon and Schuster that will rearrange this industry. Feeding the possibility of, in the long run, only having a “Big One”. As for now, the other “Big three” are Hachette, Macmillan and HarperCollins. As mentioned in Hachette website “In France, Hachette Livre covers all editorial genres and the entire consumer and education book markets with some forty publishing houses.” Moreover, they had by 2020 , 2,375 million euros in revenue across all the group’s markets and 246 million euros of EBIT including More than 110,000 titles available in digital format. However, their market is larger than that, considering that Hachette livre was acquired by the [Lagardère Group](https://en.wikipedia.org/wiki/Lagard%C3%A8re_Group) in 1981 , a media company. At the same time they own Editions Larousse and Hyperion Books from Disney, Hachette UK, Hachette Book Group USA, Hachette Australia ; No wonder why Hachette is part of these “Big Four”. As it can be seen, it is all a story of buying smaller firms and making them part of a larger company that eventually would have more control over distribution and sales.

The problem of these powerful publishers having control over the market is that to be their competition smaller publishers or self publishers would have to make incredibly huge investments that they mostly can’t afford or they would have to sell their shares to other huge companies that could set up a merger. Moreover, Big publishers have good established relationships with extensive print and distribution networks, huge publicity budgets and strong contacts in the media, hence a wider range of customers than any small to medium publisher could have. Also, since they have more money they can offer authors better “advances” , which is the money authors are paid before their book starts selling. Another disadvantage for smaller publishers is that big, powerful publishers generally have good contacts with foreign publishers and Film/TV production companies, since they mostly belong to the same owners. Therefore, best selling authors go to them, leaving small and medium businesses aside. Which is not a desicion people can judge because according to the article *23 Gripping book industry statistics [2021] Facts about the U.S Book industry* By Chris Kolmar, “over 4 million new books were published in 2019, Including self-published and commercially published”. Which shows that competition for authors and small publishers is actually rough. Moreover, on top of Network effects there are the fixed prices.

Publishers previously used to be guided by a “wholesale” model. They set a low wholesale price in which books were sold to retailers and after the retailer could set its own price, usually higher, and that’s how the retailer made money on each sale. However, after the appearance of Amazon and its fast-growing industry; the traditional book industry was concerned and had to rearrange itself to face this new giant. Which could explain why Penguin Random House bought Simon and Schuster . As a solution to the Amazon issue , the major publishers adopted a new business model where the publisher would set the retail price and give the retailers a 30% commission. This only under a previous agreement where the retailer accepted not to sell at a discounted price. This new model kept prices artificially high for consumers, who (in most cases) now prefer to buy on amazon because their prices are lower.

To conclude, the traditional book publishing industry is a good example of a winner-takes-all industry. WinnerS, hence it is a small group of four; Penguin Random House, Macmillan, Hachette, and HarperCollins who have had good turnovers in the last couple of years. Therefore, the traditional printed book industry is not dying. However, the bigger the publishers are, the more people and companies they can connect with. Therefore, they can reach more customers, attract more authors, better talents and ideas to be more innovative which at the same time attracts more customers and more money. This operation will repeat itself as in a “snowball effect” leaving almost no place for competition. However, when seen from a positive point of view, it is true that there is no “perfect competition” but it is also true that the market is open and that the winners can always swipe. Of course, we need to keep in mind Amazon and their way of making business. Which led to the question of would Amazon eventually become the “big one “ ?