

# Antitrust and Consolidation in the Book Publishing Industry

Mason Ross Hayes

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(converted from the [web version](#) of this essay)

## Background

Bertelsmann, owner of publisher Penguin Random House, [agreed last year](#) to purchase Simon & Schuster for \$2.2 billion. If the acquisition moves forward, it will bring the number of direct competitors from five to four, giving the merged firms a 30%+ market share in the US book publishing industry.

As Alex Barket of FT puts it, this offer is “15 times Simon & Schuster’s pre-tax operating profits (in 2019), a high multiple in a sector with modest growth potential,” and has invited scrutiny from regulators as well as author groups.

The publishers claim that “they are prepared to defend the deal in court, calling it ‘a pro-consumer, pro-author, and pro-book seller transaction’” ([Brian Stelter](#) from [CNN Business](#)). Consumers, authors, and book sellers, as well as the US Department of Justice, are not as convinced of this so-called “win-win-win-win” situation; the DOJ this month [filed a lawsuit](#) to block the acquisition, citing reduced competition in the publishing industry.

Interestingly, and not very convincingly, Penguin Random House’s attorney Petrocelli responded to the lawsuit saying that “[the Department of Justice] has not found, nor does it allege, that the combination will reduce competition in *the sale of books*” (emphasis added).

But to understand this merger requires more than just looking at the sale of books (publishers → retailers → consumers). The market for books varies greatly by the type and genre of books sold. And perhaps more importantly, we have to consider how the merger would affect the market for manuscripts (authors → publishers).

## The Market for Books

Amazon is uniquely positioned to compete against Penguin Random House (PRH) and other publishers in the sale of books, since it has the advantage of being the retailer of its own books, selling to consumers through either its own Kindle Store or shipping physical prints. It is also very profitable outside of its publishing wing; and, compared to all publishers, it has a significant advantage in direct-to-consumer distribution, so it may be able to sell at margins that other publishers cannot match. PRH is attempting to compete with Amazon by increasing its online direct-to-consumer offerings, although hedging its bets comes at the potential expense of upsetting its retail partners, with whom it now competes.

Threat of competition from Amazon is a core argument that PRH is using to justify the acquisition of Simon & Schuster. PRH claims that the merger will better position it to remain competitive with Amazon — privately, however, PRH has claimed exactly the opposite motivation, indicating its hopes to increase cooperation:

Penguin Random House’s chief executive privately admitted that he “never, never bought into that argument” and that one “goal” after the merger was to become an “exceptional partner” to the tech giant... — [Anna Nicolaou](#) and [Stefania Palma](#) of FT

Even ignoring this statement, if the acquisition does not harm competition in the general book sales market, smaller book-type-markets or genre-markets will likely be swung greatly in favor of PRH; for example, the merger would give Penguin Random House/Simon & Schuster [more than 70% of the literary fiction market](#) in the United States.

And yet, essential for the market for books, and essential for publishers’ success, is the market for manuscripts: publishers compete to attract the best authors and to find the best new literary talent.

## The Market for Manuscripts

Nearly [40% of US adults](#) claimed to read only print books, and hardback + paperback sales represent between 60 and 70 percent of all book sales. For an author to get their book into this market, self-publishing or e-publishing are clearly not sufficient. Authors rely on traditional publishers to get their books printed, distributed, and promoted, and now they will have fewer potential buyers — with the merger, PRH+S&S would control more than half the market:

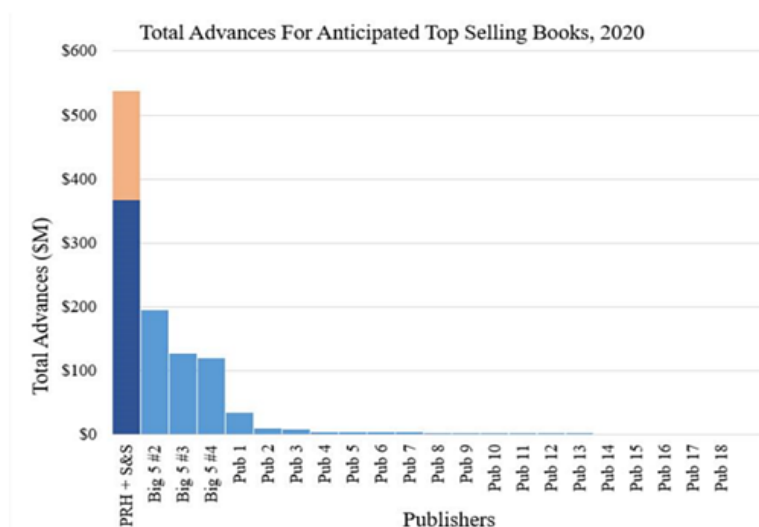


Figure 1: From [National Law Review](#)

To attract these authors, publishers have to compete with one another in payouts to authors and contract terms. But book sales are fickle and notoriously hard to predict — the

average book never sell more than a few hundred copies. However, publishers do know that some books, such as those from celebrities or already well-known authors, are certainly going to sell many copies; with these books, smaller publishers cannot hope to compete in the market for manuscripts. Penguin Random House has the most best-sellers in part because it can afford to purchase those best sellers. And so the circle goes, as the New York Times puts it: “[best sellers sell the best because they are best sellers](#)”.

Unless the merger leads to significant cost savings, the merger will be bad for authors. With sufficient market power, PRH would still be able to attract the “top authors” with lower payouts — this is exactly (part of) [the case that the DOJ is making](#).

## Conclusion

For now, it is not certain if the PRH + S&S merger will proceed. With the concern of both author groups and the DOJ, it seems that this merger will serve to consolidate PRH’s control over the market for manuscripts, with a more ambiguous effect in the market for books, where it competes more fiercely with Amazon.