



Competition in the Age of Amazon

Amazon's dominance is changing the power structure of publishing – a pattern that may be borne out in several other industries.

If digital disruption amounts to a demolition of the old order, consider digital platforms the bulldozers. By allowing producers and consumers to connect with unprecedented ease and immediacy, they have shaken entire industries to their foundations. Some examples: Taxi medallions in New York City have lost more than half their value in just a few years, owing primarily to competition from Uber and Lyft. In a recent **Morgan Stanley survey**, 49 percent of Airbnb guests said they had specifically chosen the home-sharing platform over a traditional hotel stay.

Disruption, however, has not always meant revolution. In the music industry, the shift from digital downloads to streaming services has proven to be a **very positive development** for major labels, while independents reportedly **struggle for a place** on streaming platforms' all-important playlists. Platforms are designed to level an industry playing field by broadening access for large and small players alike. But in reality, unknowns must be agile indeed to compete with the incumbents' deep pockets and name recognition.

Our recently published paper in ***Advances in Strategic Management*** examines e-book sales to determine whether the democratising effect of digital platforms (in this case, Twitter and Amazon) presents a serious threat to industry giants. If so-called “earned” marketing such as social media

buzz or consumer reviews were to provide a revenue boost comparable to a major “paid” marketing campaign, the case for platforms as industry game-changers would be strengthened. We were also interested in how platforms developed for very different purposes can jointly reshape markets and thus, potentially, industries.

The Kindle effect

We chose publishing as the subject of our study because of two interesting industry trends from the past few years. As the market for e-books has grown, the overall market share commanded by the biggest publishing houses – Hachette, HarperCollins, Macmillan, Simon & Schuster and Penguin Random House, otherwise known as “The Big Five” – has declined. Counter-intuitive though it may seem, the little fish (i.e., small and indie publishers) are eating the leviathan's lunch. We decided that the connection, if any, between the ascendancy of the e-book and the retreat of the Big Five might have something to do with Amazon – by far the largest retail platform for English-language e-books.

Amazon has arguably initiated a revolution in self-publishing through its Kindle Direct Publishing unit. Introduced in 2007 alongside the Kindle e-reader, the scheme enables any author – regardless of

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ability – to sell his or her e-books directly through Amazon, just like the major publishers. It is a far cry from the days when independent authors had little hope of sharing space on bookstore shelves with conventionally published fare.

Self-publishing through Amazon is not only more respectable than the vanity press of the past, but it can also be far more profitable than working with the Big Five: Indie authors keep a 70 percent share of the revenue, as compared to approximately 23 percent for Big Five authors. Direct publishing on Amazon also means authors can track their sales without having to wait six months for a royalty statement.

The bottom line for e-books

Of course, more favourable financial terms mean little if you are unable to sell books due to the Big Five consistently stealing your thunder. However, social media and Amazon customer reviews can act as a leveller, ensuring that all crowd-pleasing e-books have a chance at finding a broader audience.

To determine whether digital platforms were, in fact, changing the balance of power in the publishing industry, we analysed Amazon e-book sales over seven fiscal quarters in juxtaposition with Twitter activity and Amazon customer reviews over the same period.

Several patterns were repeatedly confirmed by our data models. First, the number of Amazon customer reviews – especially four- or five-star reviews – had a much larger effect on sales for small and independent publishers than for the Big Five. For conventionally published titles, customers appeared to be filtering out positive reviews as redundant information, rather than viewing them as authentic confirmation of the Big Five's marketing hype.

The models also consistently show that the volume of tweets about a book also directly affects sales, but to a lesser extent than Amazon reviews. However, sentiment analysis of the tweets revealed that, unlike with Amazon reviews, the overall positivity or negativity of Twitter buzz about a book made no difference to sales. In fact, our data suggests that on Twitter, high diversity of opinion (i.e., controversy) drove more sales than uniformly positive reactions.

On the whole, it seems that Twitter and Amazon play different roles in the e-book customer journey. Twitter is more often used as a discovery platform where interesting titles come to the reader's attention – hence the importance of controversy. Once their interest has been piqued, the potential customer heads over to Amazon to learn more about the book. If there are enough positive reviews, a sale is far more likely to occur. Therefore, Twitter's

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effect on e-book sales – as the entry point to the customer journey – may be more significant than our findings indicate, but it's not easily quantifiable.

Why the Big Five should worry

The industry-wide implications of all this became crystal-clear after we compared the sales advantage derived from publisher size (from the Big Five down to the independent houses) to the advantage derived from tweets and Amazon reviews. The data showed that even a self-published book with a flood of positive Amazon reviews could outsell a Big Five title with no reviews.

To be sure, only a tiny minority of self-published books will become blockbusters through Amazon. Still, that it is even possible implies that the Big Five's market share will continue to drop as the underdogs capitalise further on the commercial advantages afforded by Amazon and social media. The Big Five will have to grow much more nimble in order to adapt – not an easy task, considering their size and entrenched bureaucracy.

Moreover, the less dominant they become, the more talent they're likely to lose to self-publishing and smaller houses. During our period of study alone, nearly 7 percent of the Big Five authors in our dataset migrated to smaller publishers. A mass defection of marquee writers would hasten the Big Five's decline.

It is no coincidence that the apparent restructuring of the publishing industry is concurrent with the e-book revolution. We would expect similar patterns to play out in many rapidly digitising fields. However, industries that appear relatively disruption-proof can also be vulnerable. Major manufacturers, for example, may have to grapple with their own version of an Amazon crisis as 3D printing platforms gain in popularity. Even in the unlikeliest of industries, digital platforms may soon arrive to dull the automatic edge incumbents have long enjoyed.

Henrich R. Greve is a Professor of Entrepreneurship at INSEAD and the John H. Loudon Chaired Professor of International Management. He is also the Editor of ***Administrative Science Quarterly*** and a co-author of ***Network Advantage: How to Unlock Value from Your Alliances and Partnerships***. You can read his ***blog*** here.

Jamie Seo Yeon Song is a PhD student in Entrepreneurship and Family Enterprise at INSEAD.

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