



SOUTH AFRICAN  
BOOK DEVELOPMENT  
COUNCIL

**FACTORS INFLUENCING THE COST OF BOOKS IN SOUTH AFRICA  
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<sup>1</sup> Study conducted by: Genesis Analytics (Pty) Ltd, Tel: +27 11 214-4080; Fax: +27 11 214-4099

## Foreword

The book publishing sector forms a strategically important part of the cultural industries, which can be defined as those industries that combine the creation, production and commercialisation of content which is intangible and cultural in nature and generates values for individuals and society. These industries are two-fold in nature, on the one hand they have economic value through commercial activities, while, on the other hand, they offer a less tangible cultural value.

Quite often, the commercial nature of the book is not known and understood. The price of books is seen by many as the key barrier in creating a reading culture. Ongoing research has been identified as a priority for all the sectors across the value chain. Research into the cost of books to identify unnecessary cost drivers or factors were conducted to ensure that any barriers are addressed.

The study confirms that there is no excessive pricing and profits being made along the value chain. Often comparisons are made as to the pricing of books in South Africa versus countries like the United Kingdom, India etc. The study illustrates the importance of economies of scale, and how bigger print runs decreases the cost of reproduction. For example, one book's printing costs decrease from R60.65 for a print run of 250, to R9.20 for a print run of 10,000. In the UK, the annual titles published (new and revised) were 161 000 in 2005, while in South Africa it was 8177.

This is the most straightforward reason for difference in price. One has to look at book development in general in order to make relevant comparisons. The UK being a developed country needs no further explanation. India, being a developing market, has other reasons for its very successful book sector. This country implemented book development strategies since 1957, initiated by the First Prime Minister Nehru, after they gained independence. India for example is the 3<sup>rd</sup> largest producer of English books, while at the same time publishing in 22 local languages. To date South Africa has no comprehensive book development strategies in place.

So until we see comprehensive implementation of sound, well-informed strategies, as detailed in the Draft National Book Policy 2005 and studies such as these, increasing access to books remain something in the distant future.

Elitha van der Sandt  
SABDC Chief Executive Officer

## EXECUTIVE SUMMARY

This study comprises an investigation of the factors that affect the cost of books in South Africa, conducted in order to identify possible ways in which government, industry members and other stakeholders can work together to reduce the cost of books and make books more accessible.

The factors that affect the cost of books are dealt with by examining each of the five principal segments of the book value chain separately, namely paper, printing, publishing, distribution, and bookselling, and by furthermore investigating the sector-specific drivers of cost in the following three book market segments:

- **Educational books**, comprising books used in primary and secondary education, i.e. books for Grades 1 – 12.
- **Academic books**<sup>1</sup> aimed at the tertiary education sector.
- **Trade books**, which include both fiction and non-fiction books aimed at the general market.

### Paper inputs

Most trade, educational and academic books are printed on locally produced bond paper, with a minority of trade books printed on specialised imported paper. Industry role-players believe locally produced paper to be comparable to imported paper both in quality and price. While larger printers are able to negotiate directly with Sappi and Mondi (the local producers of paper), most printers buy their paper from paper merchants. These merchants source their paper from the cheapest source (be it local or offshore), and thus constrain the pricing power of local paper producers.

The high fixed cost involved in printing a book means that the cost contribution of paper can range from as little as 4% of the physical production cost of a book for small print runs, to about half the cost for bigger runs, as is shown by the table below.

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<sup>1</sup> This category also includes books produced for the legal, accounting and similar professional industries.

Print run	250	500	750	3 000	5 000	10 000
Paper cost as percent of total paper, printing and binding cost	4.0%	7.3%	10.2%	34.0%	40.7%	46.6%

**Table 1: Paper cost as percentage of total paper, printing and binding costs of a textbook.**

Source: Industry role-player, 2006 and Genesis Analytics calculations

Note: The three smaller print runs are for a teacher's guide and the three larger ones for a textbook. The teacher's guide is printed on less expensive paper and has fewer pages than the textbook. The increase in paper cost from 750 copies to 3000 copies is thus overemphasised. Nevertheless, the trend remains clear.

## Printing

The collapse of educational spending in the late 1990s led to a drastic reduction in the number of South African printers that are able to produce a complete book. This contributed to increased concentration of this market: the two biggest dedicated book printers (CTP Books and Paarl Print) are at present believed to have a combined market share of 60%-80%. The distribution of a large printer's direct and overhead costs is shown in the Table 2.

Cost item	Percentage of total cost
<b>Direct material costs</b>	<b>45%</b>
Paper	30%
Ink	3%
Plates	6%
Other	6%
<b>Overheads<sup>1</sup></b>	<b>55%</b>
Folding and finishing <sup>2</sup>	13.75%
Other overheads	41.25%

**Table 2: Breakdown of printer's costs**

Source: Industry role-player, 2006

<sup>1</sup> Other overheads include labour, machine time and other general costs

<sup>2</sup> Percentage relates to softcover books - for hardcover books it could go up to 27,5%

Possibly the biggest single factor driving the printing cost of a book is the size of the print run. The setup cost of a print run is high since the press needs to be calibrated (which is time-consuming and can use a large amount of paper) before use and thoroughly cleaned after use. The time needed for these processes is very expensive – machine time ranges from R500/hour to as high as R6 000 – R7 000/hour for new presses. Because overheads are so significant, the per-unit cost of a large print run drops sharply as the size of the run increases. This effect is illustrated in Figure 1 below.

The physical dimensions of the book, the number of colour pages and the size of the print run all affect printers' operating costs, as does the current shortage of

skilled labour in the printing industry. Gross margins in the book printing industry are fairly low, and are generally in the order of 17.5%-20%.

A number of factors contribute to making smaller printers less competitive. For example, printers without in-house binding facilities use finishing houses to bind and cover books, but finishing houses are increasingly diversifying away from book finishing. As a result, smaller printers must find the capital to make substantial investments in binding facilities. The cost of paper to smaller printers is also often higher than that of bigger printers, since they can typically not convince paper merchants to keep cheaper dedicated (indented) stock for them.

### **Publishing**

The South African publishing industry is dominated by educational publishing, which accounts for 74% of locally published material and 60% of all books sold locally. Maskew Miller Longman is the largest local educational publisher, and is believed to have a market share of around 30% (although some industry role-players believe that it may be more). Trade publishing accounts for 30% of books sold in South Africa, with more than half of these books being imported. Academic books make up the remaining 10% of the South African book market, with around a third of academic books being imported.

Cost drivers unique to the publishing industry include cost of content (i.e. author royalties), origination costs (typesetting, editing and so forth), the very real risk that the book will fail to sell, and cross-subsidisation costs (which are on occasion incurred in educational and academic markets, but which are very rare in the trade market). To put the contributions of the different segments of the book value chain into context, a typical cost breakdown of the recommended retail price of an educational book (excluding VAT) is provided in the table below.

<b>Cost breakdown of book retail price</b>	<b>Percentage</b>
Printing, paper and binding	11.5
Origination	13.5
Royalties	10.5
Publisher's overheads	29.0
Distributor/ distribution	5.5
Bookseller	30.0
Total	100.0

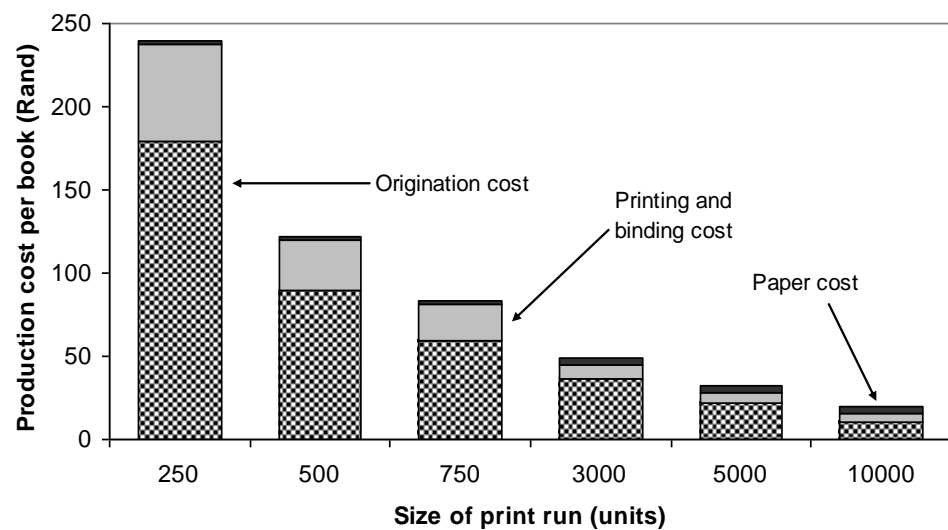
**Table 3: Cost breakdown of the retail price of an educational book**

*Source: Industry role-players, 2006 and Genesis Analytics calculations*

Factors like the prevalence of graphs and diagrams increase editing costs and thus origination costs. Royalties in the educational market range from 10% to 20%, and

are often controlled by either paying higher royalties on books that are cheaper to produce, or only paying royalties once a certain number of books have been sold.

Since origination is a fixed cost, its contribution to the cost of a book diminishes as the print run of the book increases. Origination costs, coupled with the fixed cost of printing, is the reason why the retail price of a book reduces sharply as the number of copies of a book printed increases. The effect of spreading the origination cost of a book and the setup cost of a print run over a large number of units printed is shown in Figure 1.



**Figure 1: Origination costs, printing economies of scale and print runs**

Source: Genesis Analytics calculations based on Industry role-player discussions, 2006

Note: Print runs of 3000, 5000 and 10 000 are for books printed on more expensive paper. The economies of scale are thus slightly underestimated. The trend remains clear.

Marketing and sales expenses make up the bulk of educational publishers' overheads. They distribute large numbers of free sample books to schools – for example, it is believed that the publishing industry gave away R80m in books in the run-up to the implementation of grades 8, 9 and 11. High marketing costs may reduce the profitability of educational publishing, but are also likely to increase the end price of books. In addition, small publishers which cannot afford the marketing expenditure required may be forced out of the market.

Overhead cost item	Percentage
Human resource costs	1
Publishing costs	18
Warehousing and distribution	15
Administration	23
Marketing and sales expenses	42
Total	100

**Table 4: Educational publisher's overheads**

Source: *Industry role-player, 2006*

For trade books, the relative cost of paper, printing and binding is much higher (roughly twice origination costs for example), due to the fact that they have much smaller print runs than the average educational book, and thus realise very little in the way of printing economies of scale. Origination costs for non-fiction trade books do however tend to be proportionally more similar to education books, as they often require specialised editing skills and additional costs for artwork, pictures and permissions and so forth. Royalties in the trade market are typically in the order of 10%- 15% of net receipts, and publishers manage their exposure to royalty costs by paying lower royalties on more risky titles and increasing royalties as sales rise. Royalties on academic books tend to be higher than on educational and trade books – the exception being scholarly books, which often carry no or low royalties.

Cost breakdown of book retail price	Percentage
Printing, paper and binding	12.7%
Origination	6.5%
Royalties	7.7%
Publisher's overheads (excluding distribution)	20.8%
Distributor/ distribution	5.6%
Bookseller	46.7%
Total	100

**Table 5: Cost breakdown of the retail price (excluding VAT) of a trade book**

Source: *Industry role-players, 2006 and Genesis Analytics calculations*

The relatively small print runs cause printing, paper and binding to make up a large proportion of the price of an academic books. Like non-fiction trade books, academic books have high origination fees, associated with factors such as their greater length, and the need for specialist editing skills. Royalties on academic books tend to be higher than on educational and trade books – the exception being scholarly books, which often carry no or low royalties.

Cost breakdown of book retail price	Percentage		
	Academic textbook		Scholarly title
	1st edition	2nd edition	
Printing, paper and binding	10.0%	13.1%	16.4%
Origination	12.4%	10.8%	19.9%
Royalties	12.6%	10.5%	6.3%
Publisher's overheads (excluding distribution)	28.7%	29.3%	8.9%
Distributor/ distribution	6.3%	6.3%	11.3%
Bookseller	30.0%	30.0%	37.1%
Total	100%	100%	100%

**Table 6: Cost breakdown of the retail price (excluding VAT) of academic books**

*Source: Industry role-players, 2006 and Genesis Analytics calculations*

Gross margins for educational publishers are in the order of 35%-45%, and net margins are around 5%-15%. After book returns, trade publishers typically earn gross margins of about 44%, and the net return over a trade publisher's entire portfolio is typically less than 10%. Gross profits of 40%-50% are the norm for academic publishers, while net profits of 12%-15% are considered acceptable.

### **Distribution**

Distributors in the book market typically also perform additional functions like invoicing and debt factoring. There are three main distributors of books in South Africa: On the Dot, Jonathan Ball Publishers and Booksite Africa. In the educational market, a variety of different distribution models are used by the provinces. While all three distributors mentioned above are active in the trade market, only On the Dot has a significant presence in the educational market, where publishers usually use couriers to distribute their own books. Distribution in the trade market is still mostly paper based, and electronic data interchange (EDI) – a system of electronic order transmission – has to date found limited application. Distribution in the academic market is relatively simple, since it usually involves bulk deliveries to tertiary institutions, and is often administered by the publishers themselves. The scholarly market, however, is mainly served by library suppliers.

### **Booksellers**

The distinguishing feature of the South African book retailing sector is its high level of concentration. In every market segment there is one player that is noticeably bigger than its competitors. Afribooks is the largest retailer of learning and teaching support materials (LTSM) in South Africa, and the only retailer to be active in all nine provinces. Exclusive Books is the largest trade retailer and is believed to have a market share of 39%-43%. In the market for non-fiction books, however, its

market share is believed to be around 20%. Van Schaik Bookstores has a market share of around 50% in the academic market.

Booksellers generally buy books from publishers at a set discount on the publishers' recommended retail price, and then sell the books on to their customers at a price close or equal to this price. Educational booksellers receive a 30% discount, while trade discounts range from 35% - 68% and academic discounts from 30% and 40%. Scholarly works, however, are often sold in trade bookstores, and then trade discounts are applicable.

In the trade market, a number of factors increase the cost of retailing books. Books do not age well, and there are usually limits on the amount of unsold stock that can be returned to publishers. Bookstores need to be large in order to properly display their merchandise, and need to carry a large and diverse range of stock, in order to satisfy customer requirements and cope with the highly cyclical nature of bookselling. The customer base prefers to shop in high-rent shopping centres, and requires the presence of knowledgeable staff. As a result, rent (41%) and salaries (35%) make up the bulk of booksellers' overheads.

Academic booksellers have cost structures similar to trade booksellers. Academic bookstores are mostly situated on or near the campuses of tertiary institutions. The textbook market is cyclical with the bulk of sales made in February to March. As a result, booksellers plan for most of their prescribed books to be in-store at the start of the academic year, which increases stockholding costs. It takes 6-8 weeks to import books via relatively cheap sea freight, but courses are often moved between semesters at short notice, resulting in a reliance on relatively expensive airfreight. Academic booksellers often face significant write-offs of stock due to unreliable lists of prescribed books from institutions. Most academic booksellers have moved away from carrying scholarly works.

Based on the discounts received, gross margins in bookselling are 30% for educational booksellers, 47% (on average) for trade booksellers, and 35% for academic booksellers. Unfortunately, net margins were not disclosed.

### **Pricing of imported books**

The majority of books imported to South Africa are brought in by publishers or publishers' representatives. Imported books are priced to achieve margins similar to locally produced books, with the possible exception of obscure scholarly titles or textbooks, on which academic booksellers may look to make a small additional margin from time to time.

Imported books are either acquired at a discount in a foreign currency, or publishers negotiate an all-in price for the book in rand. An all-in price is used in special circumstances (particularly if the book is otherwise considered too expensive for the local market), where the local publisher is part of a larger publishing group, or where the book is co-published with a local publisher. Discounts on imported books are typically 60%-65% on educational books, 60%-75% on trade books, and 55%-60% on academic books. Where a rand price is not negotiated, the freight cost of the book is added to the foreign currency discounted price and converted to rand at the prevailing exchange rate, to derive the landed price of the book in rand. This landed price is then scaled up to account for the importers gross margin and the bookseller's discount, and thus to calculate the recommended retail price of the book.

### **Specific factors increasing the cost of books**

A number of both general and sector-specific factors were identified as affecting the cost of books in South Africa, as follows:

#### General Issues

- *Skills shortages.* Across the value chain (with the exception of distributors), there are concerns about the availability of qualified staff. Competition for skilled staff may be increasing overheads.
- *Coordination between publishers and printers.* Without advance warning of orders from publishers, printers cannot source the cheapest available paper.
- *Implementation of new technology.* The potential of print on demand has not been fully investigated by the industry, and book distribution can be made more efficient by the wider adoption of EDI technologies (which would also provide small publishers and independent booksellers with easier access to larger booksellers and the lists of large publishers).
- *Off-shoring of printing.* As a result of lower capital and labour costs, printing in the East is about 30%-40% cheaper than in South Africa, and anecdotal evidence suggests that an increasing amount of South African book printing is being outsourced to the East.

*Other issues which are often flagged as affecting the cost of books are Paper pricing and VAT on books.* Paper is priced locally at import parity. This implies that the price of local paper is equal to the international price of paper plus all the cost associated with importing the paper. Since the cost of importing paper ranges from 4%-11%, local paper could be up to 11% more expensive than the world price of paper even if the paper is produced locally. This is likely to increase the cost of books. In practice, however, the impact of import parity pricing on the cost of books

is relatively small. An 11% reduction in the cost of paper would only reduce the cost of educational books by 2.53% and of trade books by 2.47%. The removal of VAT from books is often seen as a relatively simple way to reduce the cost of books. There are, however, important issues that need to be considered. If the gains from increased sales of books are to outweigh the increased administrative burden and loss of tax revenues, sales would need to increase significantly (i.e. books need to be relatively price elastic). A study of the price sensitivity of books is thus needed before a convincing argument can be made for the removal of VAT from books. It would also be difficult to justify a reduction of VAT on trade books on equity grounds; the type of books that do not carry VAT would thus have to be carefully specified. This creates administrative difficulties since the distinction between the different book market segments are often arbitrary.

#### The educational book market

- *Decentralised procurement.* The decentralised system of textbook procurement, where each provincial department of education is responsible for screening and ordering its own textbooks, introduces large operational inefficiencies to procurement, and increases the cost of schoolbooks. Multiple and differing submission processes are costly to publishers. The decentralised system also reduces economies of scale since the cut-off dates for orders in the different provinces are not synchronised and publishers are thus not able to pass on consolidated orders to printers. Orders are often relayed to publishers in drips and drabs and are often late, further increasing the cost of printing.
- *Uncertainty.* Publishers often receive requests to submit new textbooks for approval within unrealistic timeframes. This increases origination costs, as pressure is put on publishers' time resources, and authors need special incentives to work under extreme conditions. Rapid, unforeseen curriculum changes have also caused many publishers to rethink their pricing models, and they now look to make profit on a textbook from its first year in publication, as it may not make it to a reprint.
- *Barriers to entry.* High marketing costs in educational books act as a barrier to entry to new or small publishers, who are typically less able to afford the large expenditures required. The large amount of free sample books distributed to schools seems to be the greatest single driver of marketing costs. Other cost factors include the fact that grades are implemented at different dates throughout the year, necessitating multiple marketing trips to the same school, and the uncertainty surrounding the implementation of new grades, which drives the additional costs of unexpected curriculum changes and unrealistic book lead times.
- *Price insensitivity.* Educational departments currently do not use price as a criterion for judging textbooks submitted for approval.

- *Allegations of corruption.* There are widespread and consistent allegations of corruption in the educational market. In addition to the direct cost of bribes, lost sales and so forth, corruption reduces the ability of publishers to forecast sales and thus further increases uncertainty in the educational market.
- *Government contracting practices.* Concerns exist about the level of discretion given to certain private sector entities to purchase books on behalf of educational authorities, as this removes government oversight on public spending. It is believed that government contracts often do not adequately address potential conflicts of interests on the part of service provider.

#### The trade book market

- *Size of the trade market.* As the trade market is small, print runs are also small, and economies of scale in printing and publishing cannot be realised. Growing the market is thus critical – both via the long term goal of creating a reading culture, and via unearthing new sub-markets that may already exist.
- *Limited distribution points.* A lack of bookstores located outside wealthy urban areas constrains the growth of the trade market. As a result of the tender system in the educational market, many independent booksellers who used to serve rural areas have closed down; they could not survive without the educational business. The lack of a suitable distribution channel has to some extent constrained publishers from branching out into indigenous language publishing.
- *Library system.* The potential of the library system is under-utilised – it could serve as a distribution channel for indigenous language content, and help to increase print runs and reduce the risk associated with publishing new books.

#### The academic book market

- *Size of the academic market.* As in the trade market, the small size of academic book runs constrains cost.
- *Limited sell-through of academic textbooks.* The size of the academic market is further reduced by sell-through rates that are often as low as 50%. Illegal photocopying of books, lecturers not encouraging the purchasing of prescribed books, and a lack of a book-buying culture at certain institutions decrease sell-through rates.
- *Under-ordering by academic booksellers.* Academic booksellers do not have confidence in enrolment numbers because of low sell-through rates, and tend to under-order textbooks. This increases the sell-through problem, since there is a critical period at the start of the year when students both have money and are interested in buying textbooks.

- *Lack of coordination in the academic market.* Lists of prescribed books are given to the bookseller and/or the publisher late, or on an ad hoc basis by individual departments, which decreases the efficiency of ordering.
- *Potential concentration issues.* While not currently a problem, fears exist that the concentrated nature of the academic bookselling market may increase the price of academic books in future

## Conclusion and recommendations

It was reassuring to find little evidence of excess profit-taking at any point in the book value chain. However, a number of cost-reducing initiatives should be considered by government and/or industry. Specific recommendations, ranked roughly according to importance in their given sector, are as follows:

### Recommendations

#### General Issues

- Industry bodies should *research new technologies* like print on demand and EDI, and *champion their widespread adoption* if potential cost savings are likely.
- Greater emphasis needs to be placed on *training*, across all segments of the book value chain, to alleviate a general skills shortage in the book industry.
- *Import tariffs on printing plates* should be dropped.

#### The educational market

- *Price should be included as a criterion* for judging educational material submitted for approval by publishers. This also implies that the over-specification of educational books should be dealt with, by imposing both *minimum and maximum quality* standards.
- Allegations of *corruption* should be investigated and dealt with.
- Opportunities to market books to schools should be structured so as *minimise marketing costs*.
- The *system of ordering* textbooks should be rationalised.
- Administrative and physical structures (like book storerooms) should be put in place to *enable effective book retention* at schools.
- *Government contracting* in the educational market should be made more transparent and efficient, by requiring firms to disclose conflicts of interest, and by specifying a set of verifiable criteria for book selection decisions.

- Procedures and guidelines for the approval of educational readers should be clearly specified to encourage an *overlap between trade and educational books*, and thus enable greater scale efficiencies to be reaped.
- The use of *own-buy markets for Section 21 schools* should be encouraged to stimulate the development of new general booksellers, particularly in poor and/or rural areas.

#### The trade market

- The *library market should act as a driver for growth* in the trade market through the use of dedicated funding for the purchase of local (and particularly indigenous language) books.
- An emphasis should be placed on growing the size of the trade market. Initiatives should include market research to identify untapped markets that may already exist.

#### The academic market

- *Up-to-date institution-wide adoption lists and enrolment figures* accessible both by academic booksellers and publishers and publishers' representatives are needed. Ideally, one central database for all tertiary institutions in South Africa should be created.
- *Closer interaction between publishers, publishers' representatives and academic booksellers* is necessary to reduce the problem of under-ordering of tertiary textbooks by booksellers.



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