

Internationalization of Brazilian Book Publishers: Challenges and Barriers

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Abstract

This study, of a technical nature, aims to provide an overview of the publishing industry and, specifically, of its internationalization process. For the development of this study, secondary sources were used and interviews were conducted with two companies in the industry, the Gen Group and Cosac Naify. The results show that due to the existing barriers, the internationalization of firms in the publishing industry is still incipient and predominantly reactive.

Introduction

According to data from the International Trade Centre (ITC), exports of books from Brazil represent only 0.16% of world exports, around 1% of the industry annual gross revenue in Brazil and 0.02% of the country's exports in the last decade. Nevertheless, Brazil was, in 2013, the guest of honor at the Frankfurt Book Fair, the largest and most traditional fair of the industry, which is an indication of the international interest in Brazilian production. In fact, major events like the World Cup 2014 and the Olympic Games in 2016 have generated a considerable increase in interest regarding the Brazilian culture, including its literary production. Thus, some publishers started to look at foreign markets in order to meet this demand, although still in an incipient way.

The focus of this study is on publishers, which are defined as: "Person or entity to which it is assigned the exclusive right to reproduce the work and the obligation to disseminate it within the limits set in the publishing contract" (Law No. 9610 of February 19, 1998, Art.5). From the perspective of the book's production chain, the publisher adds value to the manuscript produced by the authors through services such as layout, proofreading, illustration, photography, translation and cover. In sum, it is the responsibility of the publishers to change a manuscript into a finished product ready to be sold.

Based on data from secondary sources and supplemented by personal interviews with executives responsible for the international area of two Brazilian publishers, this study aims to identify the main characteristics of the internationalization process of companies in this sector.

The paper is organized in seven sections. After this introduction, we describe the Brazilian publishing industry, followed by a description of the international market for books. The next two sections describe the exports of books from Brazil and the characteristics of the internationalization process of Brazilian book publishers. Then we delineate the main problems and barriers faced by these firms in their efforts to go abroad. Finally, we present the conclusions of the study.

Characteristics of the Brazilian Companies of the Publishing Industry

This section briefly presents the main characteristics of Brazilian publishers and then discusses the specificities of each segment.

In their study on the economics of book production chain, [Earp & Kornis \(2005\)](#) highlight three characteristics of the publishing industry: economies of scale, economies of scope and transaction costs. In general, when a firm operates with economies of scale, the increase in production is followed by a reduction in average unit cost. Since the costs of development of books are much higher than the costs of reproduction, the more books are produced, the more the average unit costs tend to fall. According to Earp & Kornis (2005), there were two optimal levels for print runs: (1) three thousand copies (for general works), and (2) 30,000 copies (for bestsellers and textbooks). The most significant economies of scale occur when the print runs pass from 2,500 to 3,000 copies.

In addition, whenever a publishing house works with a wide range of titles, it enjoys technological and commercial complementarities, that is, the firm makes use of common inputs and shares the cost of publicity and brand promotion, thus generating economies of scope (Earp & Kornis, 2005). This phenomenon explains why companies in this sector invest heavily in diversified catalogs of titles.

In the particular case of the publishing industry, the common practice of consignment sales increases the need for mutual trust between the publisher and its dealer, whether a distributor or bookstore. Quite often, to reduce transaction costs it is necessary to maintain sales concentrated only in companies with which publishers had good experiences in the past. The choice of distribution channels depends on the type of product, the size of the market, the size of the publisher and the size of the bookstore. For the publishing houses, distribution can be performed (Earp & Kornis, 2005): (1) directly by the commercial department of the firms, (2) using independent commercial representatives or independent salespeople; (3) using integrated distributors with bookstores; and (4) through independent distributors or wholesalers. Except for direct sales to the government, the main channels, in terms of number of copies sold, are bookstores, distributors, and door-to-door selling.

The most usual segmentation in Brazil for the publishing market is: general works (G), textbooks (TB); scientific books, technical and professional (STP) and religious books (R), but there is no international standard for classifying titles ([Mello, 2012](#)). Although they share the characteristics described above, each segment has its own peculiarities.

The TB segment, which accounted for more than half of the revenues and units sold in Brazil in 2009, had 89% of revenues and 94% of the number of copies of textbooks sold concentrated in just 16 companies. Competition is based on product differentiation and after-sales service, for example, educational content support, training and pedagogical support (classroom and online) to teachers, and tools for measuring learning and for reinforcing learning, depending on the results of the student's evaluation. The sales team plays a key role in disseminating the titles to teachers. As a result, the network of relationships of the publishing house is an important asset in this segment. Accordingly, the acquisition of existing firms is the main strategy used by new competitors wishing to enter this segment.

The STP book market has a larger number of publishing companies and is less concentrated compared to TB. Yet, this segment shows characteristics of maturity, with low growth and conditioned to the expansion of technical and university courses, or niche market, such as public tenders (Mello, 2012). Since STP books present low substitutability, highly-regarded textbooks are important assets to compete in the industry. Therefore, firms' strategic actions tend to be geared more towards their products than new market opportunities. The growth of publishing houses usually occurs through acquisitions, takeovers, mergers and

partnerships that allow them to expand their market positions. Another determinant of competitiveness is the editorial experience in industry segments.

The G segment encompasses literary titles such as novels, short stories, poetry, and biographies. This segment represents around 25% of the market, both in volume of units sold and revenue. Among the three segments analyzed by Mello (2012), segment G presents the lowest level of concentration, with a significant number of small and medium-sized publishing companies. Similarly to the other segments, the most important asset for a publisher is the catalog of titles, the publisher's experience and the network of relationships. However, entry barriers in this segment are considerably smaller and the emergence of new competitors is more feasible.

The International Book Market

According to a survey by the **International Publishers Association** (2013), the main international markets for books in terms of revenues are: (1) USA, (2) China, (3) Germany, and (4) Japan. Brazil occupies the 9th position in the ranking.

The international trade of books, brochures, leaflets and similar printed products showed a turnover of 16.7 billion dollars in 2012. Between 2008 and 2012, both the value and the volume showed a decline of 3%. The United States leads the ranking of both importers and exporters, followed by the United Kingdom. Countries such as Germany, Canada and France also occupy prominent positions in both rankings.

The BRICS appear as strong importers: Russia occupies the 15th position in the ranking, China the 18th (with Hong Kong on 6th), South Africa the 22nd, Brazil the 25th, and India the 26th position. Mexico appears above other emerging markets, ranked in the 12th place. Concerning the exports, it should be noted that if the exports of China and Hong Kong (in 5th and 4th place respectively) were added, the country would rank 3rd, ahead of Germany. India (ranked 14th) and Russia (18th) also appear as relevant exporters. Brazil is in a much less prominent position (47th) in the ranking of exporters in 2012.

Information from the Association of American Publishers (**Sporkin, 2013**) indicate the following trends in international markets:

- The genre that showed the largest growth was in books aimed at children and youth. This growth occurred in all markets, particularly in Asia.
- The Asian market is of greater interest to publishers from English-speaking countries, since there are already several countries with a significant portion of the population speaking English (e.g., India and South Korea) and skills in the English language are expanding in countries like China, Malaysia and Indonesia.
- The growth of online sales is considered particularly promising in markets such as Italy, Spain, Japan, France, China, Germany, and Brazil.

The study by consultancy **PricewaterhouseCoopers (PwC, 2011)** presents a ranking of the leading publishers, based on published sources, including sales of books, newspapers and digital products. The study shows the dominance of publishing houses from developed countries. The United States appear with 10 publishing houses, followed by Germany and Japan with seven each, France with five, and four houses from the United Kingdom. The position of the BRICS also deserves mention. Brazil appears with three publishing companies and Russia with two. China, despite its large exports of books, has only one native publisher of that country on the list, in the 38th position. This suggests that to a large extent China exports books whose content is developed in other countries. Likewise, the lack of publishing

houses from Hong Kong and India is an indication that exports from those countries are books published multinational publishing houses.

Earp & Kornis (2005) analyzed the strategies of three large multinational publishing houses: Bertelsmann (from Germany, in the 8th position in the ranking), Scholastic (U.S., 10th) and Thompson (belonging currently to The Woodbridge Co., Canada). The authors stressed the differences between multinational and Brazilian domestic competitors considered significantly smaller and unable to challenge these giant corporations.

All major multinational publishing houses have activities outside the publishing industry. In general, activities are correlated and allow the creation of synergies (for example, the case of Bertelsmann, that also operates in the media segment). These companies show a high degree of internationalization. In fact, they have made direct investments in several countries, in addition to exporting their products. However, despite being internationalized, large publishers have their sales concentrated in the United States: the German firm Bertelsmann has 69% of its revenues in that country, while Scholastic had 80%.

It is observed that this process has accelerated in recent years. In 2012, the merger of Random House (owned by the Bertelsmann Group from Germany) with Pearson Penguin (K) occurred. According to [Werneck \(2012\)](#), one of the reasons for the merger between the two companies was "the desire to consolidate the interests of the two conglomerates in Latin America, China and India", being the Random House already well embedded in the hispanic market.

The interest in emerging markets is due in large part to their high growth rates, compared to the much more modest growth of developed markets. This interest has been shown by several multinationals that entered the Brazilian market through direct investment, sometimes by acquisition, sometimes through greenfield investment.

International Trade of Books

According to data from the International Trade Centre (ITC), exports of books from Brazil represent 0.16% of world exports of this product, and the country is ranked 47th in terms of world exports. In fact, Brazilian exports of books are insignificant. The data from ITC show an evolution of the exports of books, by value, in the period 2001-2012. The export value rose continuously until 2007, suffering a sharp decline in the next three years, but recovering in 2011 and 2012.

Data related to the main markets for Brazilian exports show that the five largest importers are: (1) United Kingdom, (2) Angola, (3) Argentina, (4) United States, and (5) Mexico. It is interesting to note that exports to Portuguese-speaking countries account for only 20% of total exports, while sales to the U.K. (main importer) equal 26%. This finding goes against the logic of the expected expansion in Portuguese-speaking countries, which would be facilitated by the fact that Brazilians can sell books without the need to translate. Exports to all Latin countries (including Portugal and Spain), that is, countries culturally close to Brazil, totaled 38% of total exports.

Interestingly informations about the two largest markets (U.K. and Angola) were the most difficult to find. The Angolan market is still very small, but has shown signs of significant growth after the end of the civil war in the country, unlike the U.K. market which showed a decline both in sales as in production in 2011.

Table 1 summarizes the main characteristics of the Argentinean, Mexican and U.S. markets. The data were extracted from market studies published on the Frankfurt fair site, but the information is not standardized and covers different periods.

Box 1 – Summary of the Main Characteristics of Exporters Markets.

	México (2009)	Argentina (2008)	EUA (2012)
Production	Declining	Declining	Growing (<i>self-publishing</i>)
Sales	Growing	Growing	Declining
Main Market	Textbooks for primary school	General	
Exports	8,9% of the production - 61 millions dollars	94 millions dollars	357 millions dollars
Imports	56% of the titles in the market	24,2% of the titles in the market	843 millions dollars
Main Sales Channels	Government (34%) Bookstores (31%)	-	Bookstores - Retail
Geographic concentration	Mexico City- 46%	Great Buenos Aires - 84%	-
Fixed price law	Adopted	Adopted	Not adopted

Source: http://www.buchmesse.de/en/international/book_markets/index.html.

Entry Modes Used by Brazilian Publishing Houses

We identified three entry modes adopted by Brazilian publishing houses: (1) exporting of printed books, (2) copyright sales, and (3) publishing partnerships. Each of these modalities may involve different forms.

Exporting of Printed Books

Within this mode three forms, used by companies, were identified: passive export, export through contract with foreign distributor, and commercial office abroad.

Passive exporting

Passive exporting means simply serving foreign orders, without having made significant commercial efforts to identify foreign customers and markets. This is the case of the publisher Cosac Naify. According to one of the company owners, when Cosac Naify conceives a book, there is no concern about its viability for the international market, in the sense that this is not the focus of the company. The company's website, only in Portuguese, is not used to attract foreign customers and direct sales to bookstores abroad only occurs when a foreign bookseller demand the publishing house. Nor is there any systematic effort to select distributors.

Exporting using a foreign distributor

In this mode, the publisher makes a contract, exclusive or not, with a distributor. The conditions vary from case to case.

The Gen Group has been using a European distributor, since the acquisition of the publishing house EPU in 2010. EPU had an exclusive contract with a distributor based in Germany that the Gen Group chose to continue. Because of this agreement, the company can export only to Portugal and Spain, while the rest of Europe remains in charge of the German distributor. The contract with the distributor is similar to a consignment contract; however,

due to the high costs of transportation unsold books are not returned and the publisher only receives its share from the books that were actually sold. Under this type of agreement, it is absolutely critical that there is a trust-based relationship between the publisher and the distributor.

Cosac Naify also used a distributor, between 2008 and 2012, particularly for art books. This partnership agreement established that books that were not sold should be returned to Brazil. In spite of this, the return of the stranding was not always in time, and the books ended up deteriorating in a warehouse in Spain. This situation was a source of conflict between the company and the distributor. The contract was eventually terminated in a friendly way, but the publishing house intended to sign contracts with other distributors.

Commercial office

The Gen Group has its own office in Portugal, from which the firm serves Portugal and Spain. The office was opened in 1980 by another publishing house, Koogan Guanabara, which is the original company of the Gen Group. The motivation to open an office was the understanding that the Portuguese market, although small, was attractive, considering the kind of books sold by the company at the time.

The active exporting of printed books, using a commercial office or by other means, carries with it the need to develop efforts – not easy – for the publisher to find the right reader for each of the titles. Each piece carries with it the interests of the author, theme and text, which means that there are several specific features of the book that can arouse the reader's interest. Thus each book serves a limited and somewhat different niche. The executive responsible for the exports of the Gen Group emphasizes that the niche of a book market is not subject to geographical limitations, and may be scattered around the globe.

The case of the Gen Group exemplifies how firm size affects competition and orients its strategy of international expansion. Management is aware of the difficulties to compete in the international market of books in English, given the size of international players from the U.S. and the U.K. Foreign multinationals have the capacity to produce print runs up to 30 times larger than the Brazilian publishers, therefore making it impossible for a Brazilian firm to be cost competitive. On the other hand, it is easier for Brazilian publishers to compete with other Latin American firms. These firms, although having a strong catalog of titles, tend to be smaller than leading Brazilian publishers. This logic justifies the choice made by the Gen Group to expand in Latin America.

Copyright

The selling of copyright is a mode of internationalization of low commitment, low cost and also low return. In this case, the publishers transfer the right to publish the titles in other languages to publishing houses abroad, which take care of the translation and the other stages of publication and distribution of the printed book. This is done usually passively, that is, the publisher is sought by publishing houses from other countries.

Publishing partnerships

Partnerships are an interesting mode, reported by Cosac Naify. Two types of partnership editing were indicated: co-run partnerships and co-edition partnerships.

Co-run partnerships are agreements in which a foreign publishing house conceives a book, and domestic partners around the world are responsible for its translation and distribution. Graphic services are centralized and printed books are then sent to the country of destination, ready to be sold in other markets. This kind of partnership allows lower prices while also allowing the simultaneous release in several countries.

In a co-edition partnership, two (or more) partners are involved in all processes of preparation of a book. Cosac Naify held several such partnerships. The most important partnership the company made was with the Museum of Modern Art in New York, to publish a book of art by a Brazilian artist who exhibited his works in that museum.

Barriers to Internationalisation

The internationalization of Brazilian publishing houses is still starting. Although the size and the fact that most firms are still family businesses may hinder internationalization, the most important barriers to internationalization of the sector are the following:

Language / translation

The main barrier to sell Brazilian books internationally is the language; a publisher that decides to export books in Portuguese circumscribes his market to Portuguese-speaking countries and some foreign study centers and libraries. One way around this obstacle is to export the copyrighted work and leave the translation in charge of the partner. Yet, this strategy has some disadvantages when one considers that this type of export remain restricted to partners that are able to read in Portuguese and interested in Brazilian-generated content. Furthermore, margins obtained in this business model are significantly lower than when the printed book is exported.

Access to market information

As the main sales channels used by publishers and distributors are bookstores, contact with the end customer is done by these agents, making it difficult to acquire knowledge about the market. When it comes to consumers in the foreign market, the problem is aggravated, since the little knowledge the firm can get on foreign customers' tastes and preferences is reduced by cultural differences. Some publishers do not know in which countries their books are sold by international distributors. The lack of information makes it difficult to identify opportunities for international expansion. The same situation happens in the case of Internet sales through large portals such as Amazon.

Logistics costs and selling by consignment

Due to its small size, the Brazilian publishing houses have difficulty marketing their products internationally, they still lack sufficient scale and therefore end up having a very high cost of transport, thereby reducing their competitiveness.

As a means of enable exports, Brazilian publishers are partnering with international distributors, however, in many cases, contracts are established disadvantageous due to the low bargaining power of Brazilian publishing houses. The terms of return of the stranding and the required payment conditions, makes the exports become unattractive and, as a consequence, the domestic market turns out to be more interesting and tend to receive more investments. The most common practice in the publishing market is to adopt the deposit system. However, this system transfers the risk to publishers, and requires that they are sufficiently capitalized to withstand until the sale takes place.

Unfavorable exchange rates

The appreciation of the Brazilian real is a major complaint made by exporters; in the case of the publishers, the situation is no different. The appreciation of the Brazilian currency has two counteracting effects on the production of the book: on the negative side, it reduces the competitiveness of the product, making it more expensive in foreign markets; on the other, and it reduces the cost of imports of graphic services performed abroad. To estimate

the net impact of the exchange on the final price of Brazilian books in foreign markets one has to take into account the magnitude of each of these variables, which depends on the structure of production of each publisher in particular.

Final Considerations

This study of the Brazilian publishing industry shows the main challenges facing Brazilian firms in their quest for internationalization. These companies are in most cases small-sized and family-run businesses. Therefore, they do not enjoy economies of scale and scope, particularly in its international operations. In comparison, there are powerful multinationals in the industry, growing by means of aggressive acquisition strategies. Nevertheless, some Brazilian groups have managed to achieve a size compatible with international operations, such as Abril, Saraiva and FTP, among others.

The main existing barrier is the language, which makes it difficult to enter international markets and to compete with already established multinationals. In addition, due to language barriers, most Brazilian authors are unknown in other countries, making it even more challenging to launch Brazilian titles in other languages.

As a result of these and other obstacles, the internationalization process of Brazilian companies in the publishing industry is still incipient and predominantly reactive.

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