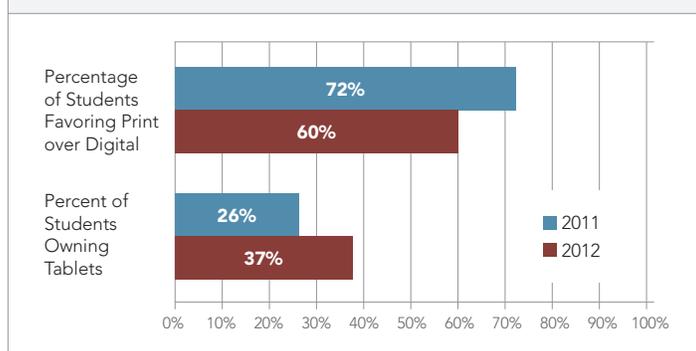


Are eTextbooks the Future of Higher Education?

Electronic textbooks (eTextbooks) provide students with nearly instantaneous access to content anywhere and anytime. Students can conveniently tag and exchange information and search through content with one simple click. Today, many eTextbooks are not simply digital textbooks. With interactive software applications, enriched with multimedia content embedded into Learning Management Systems, today's eTextbook provides a seamless learning experience for students. In addition to providing rich content in an easy to use format, eTextbooks appeal to the student on a budget. Production costs for eTextbooks are much lower than the traditional textbooks, allowing publishers to provide them at a more affordable rate.

Despite the obvious advantages of eTextbooks, the Chronicle of Higher Education stated in a recent article that for many traditional students, "print is still king." Recent trends published by the Book Industry Study Group (BISG) (see Exhibit 1), however, clearly favor eTextbooks: Students' preference for print over digital textbooks has dropped from 72 percent in 2011 to 60 percent in 2012. During the same period the number of students owning tablets, which enable them to conveniently read eTextbooks, rose from 26 percent to 37 percent. Furthermore, the BISG found that students preferring printed textbooks liked their look, feel, and ability to be resold while students preferring eTextbooks liked their price point, convenience and portability.

Exhibit 1: Book Industry Study Group (BISG) eTextbook Trends

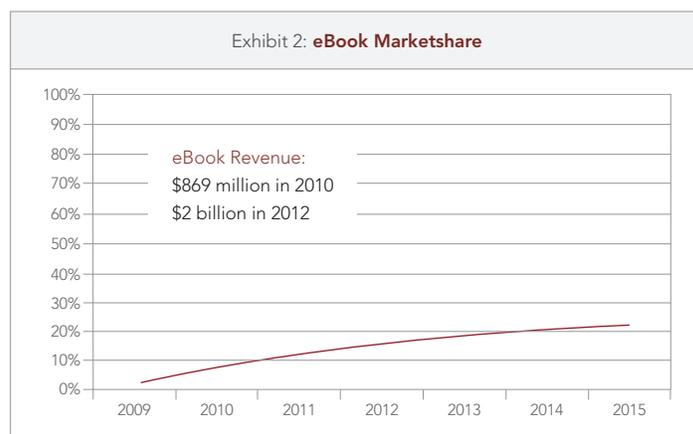


With 60 percent of students still preferring traditional textbooks, Education Secretary Arne Duncan's call for our nation to move swiftly toward digital textbooks in order to keep up with other countries might sound somewhat over-ambitious; however, the market is rapidly moving in this direction. Tim Stookesberry, Vice President to publisher Wiley & Sons, said in a recent interview with the Chronicle of Higher Education that he sees signs of a fast transition from a print to a digital world, with less than 50 percent of the company's higher-education revenue still coming from "pure print." This is down more than 5 percent from two years ago. Similarly, Jones & Bartlett Learning has produced products, such as Navigate eFolio: Pathophysiology (<http://www.jblnavigate.com/pathophysiology-ef-story>), where more than 30 percent of its revenue is digital.

PricewaterhouseCoopers found in a recent study that the market for eBooks (not just eTextbooks) has grown rapidly over the past few years (See Exhibit 2). In 2009 the electronic book market share was 2.9 percent, in 2012 it had increased to 14.9%, and it is projected to rise to 22.5 percent in 2015. These trends show that readers across all generations are getting more and more accustomed to the electronic format. Similarly, Jeremy Greenfield, Editorial Director of Digital Book World has reported that eBook revenue across the publishing industry has more than doubled in the past few years, from \$869 million in 2010 to \$2 billion in 2011, a trend that is opposed to the trend currently seen in print publishing.

The most striking trend for higher education publishing emerges when we look at the reading habits of our future college students (See Exhibit 3). Scholastic found in a 2012 study on the reading habits of children ages 9-17 that the percentage of

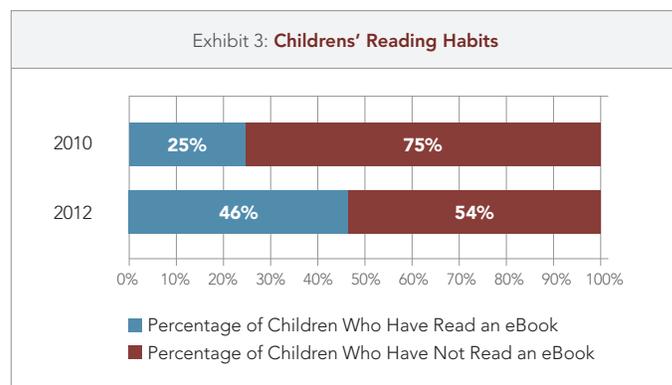
Exhibit 2: eBook Marketshare



children reading eBooks had nearly doubled since 2010, from 25 percent to 46 percent. The same study also showed that today's children have an increasing interest in eBooks. Of those who have not yet read an eBook, 51 percent are interested in doing so in the near future; however, interest in eBooks is higher among younger children who are more immersed into technology than among older children.

Scholastic reported that children prefer eBooks because of their convenience, but also because they are "more interesting to read" than the traditional printed book. While many of today's textbook customers might still be nervous about going entirely digital, tomorrow's textbook customers are unlikely to have these concerns. As products improve—become more stable and user friendly—and the next generation of technology immersed students enters colleges and universities, print textbooks will most likely be completely replaced by eTextbooks. In the meantime, publishers offer "print-plus" models that provide material in multiple formats, often with eTextbooks being the more affordable option. Beyond that, publishers offer eTextbooks embedded into entire courses or learning experiences, which are convenient to use, engaging and result focused.

Exhibit 3: Children's Reading Habits



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