

# **Self-publishing and the Supposed Downfall of Publishing Houses: Contributions of the Transaction Cost Theory to Analyze the Publishing Value Chain**

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# Outline

1. **Motivation**
2. Transaction Cost Theory: Basis Idea
3. Value Chain of the Publishing Industry
4. Utility of Transaction Cost Theory
5. Conclusion

# The digital world supersedes some players (!/?)



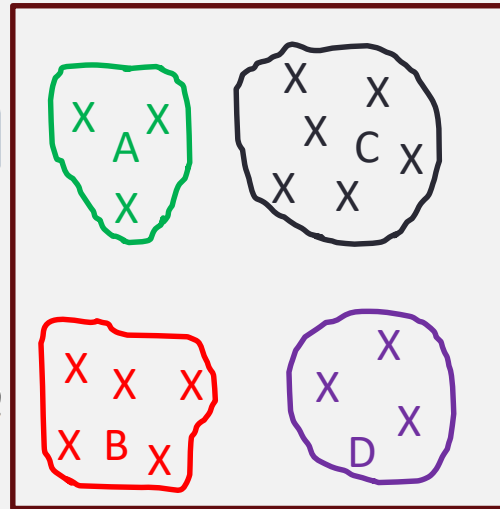
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# Why is added value organized like this?

BERTELSMANN

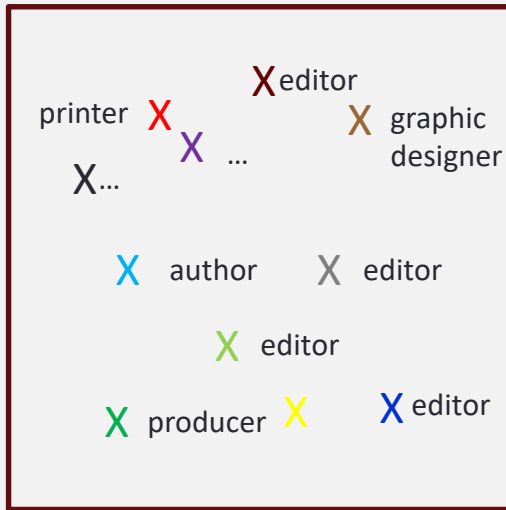
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Vandenhoeck & Ruprecht

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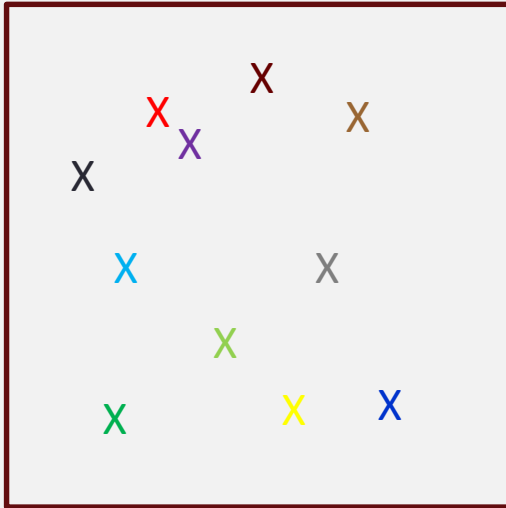
# And not like that?



# Or like that?

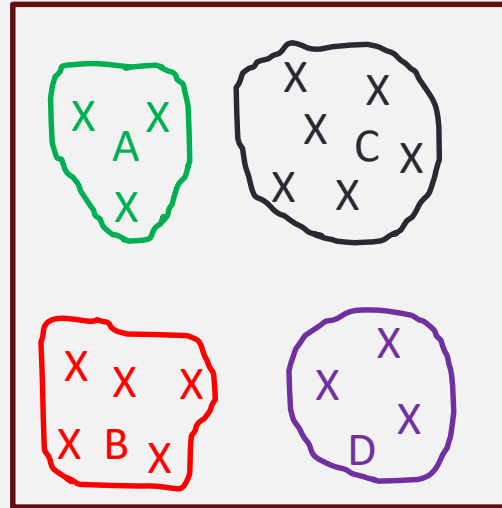


# Different institutional arrangements



Atomistic division of labour:  
17 manufacturers being  
autarchic

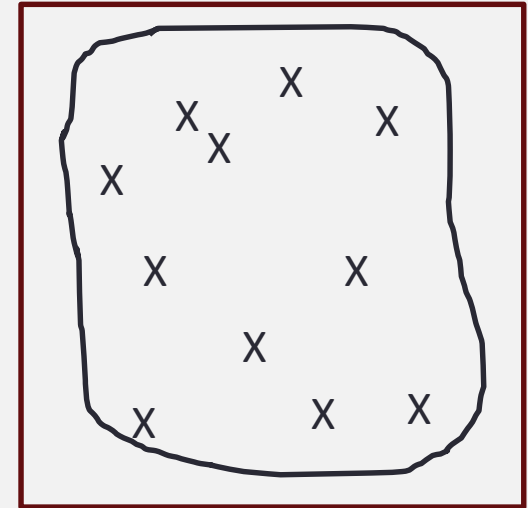
Organization **among** the  
producers through short-  
term exchange contracts



Division of labour: smaller  
and bigger firms

Organization through long-  
term employment contracts  
**within** the firms

Organization through short-  
term exchange contracts  
**between** the firms



Planned economy:  
one big firm

Organization through lifelong  
employment contracts



# Why do we have firms?

- Question: “Outside the firm, price movements direct production, which is co-ordinated through a series of exchange transactions on the market. [...]. Yet, having regard to the fact that if production is regulated by price movements, production could be carried on without any organisation at all, well we might ask, why is there any organisation?”

*(Coase 1988)*

- Answer: in a collaborative economy transactions are processed and understood as the transfer of property rights. Since costs develop through this, it cannot happen without some friction.

# Transaction costs

- Costs that develop during the transfer of property rights
- Rated consumption of resources for the organization and execution of this transfer
  
- Transaction phases *(Picot 2003, p. 49)*
  - Initiation
  - Agreement
  - Processing
  - Control
  - Adjustment
  
- Costs mainly arise for information and communication processes  
*(Wohlgemuth 2002, p. 49)*

# Determinants of Transaction Costs

- Factor specificity:
  - Customization of the transaction object for the respective exchange relation
  - Alternative usage possibilities of the transaction object
- Strategic significance of the transaction: the transaction's contribution to the competitive position
- Insecurity of transaction factors regarding the number and extent of changes
- Transaction frequency: number of transactions of a certain type

# Yet, the market is less efficient if...

- Factor specificity is high  
(high opportunity costs, high transaction costs for replacement transactions, high grade of dependency of the transaction partners, no partner to be found)
- The transaction is of high importance  
(need for hedging and improvement of transaction conditions is high)
- A high level of insecurity exists  
(alternative plans, hedging)
- A type of transaction is repeated often

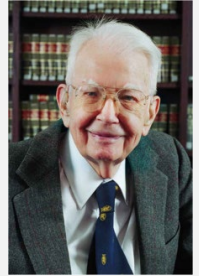
# Who has had these ideas?

- Ronald Coase (1910-2013)

- Nobel Memorial Prize in Economics 1991:

*“for his discovery and clarification of the significance of transaction costs and property rights for the institutional structure and functioning of the economy”*

- Main contribution: The Nature of the Firm (1937)

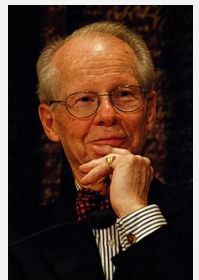


- Oliver Williamson (\*1932)

- Nobel Memorial Prize in Economics 2009

*“for his analysis of economic governance, especially the boundaries of the firm”*

- Main contribution: Markets and Hierarchies (1975)



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# Activities within the value chain

## Production

- Generate content
- Select content
- Refine assets
- Aggregate assets

Result: First Copy

- Producing varieties



## Distribution

- Acquisitive distribution
  - Qualitative function
  - Information function
  - Sales fulfillment
- Logistic distribution
  - Covering time
  - Covering space

## Consumption

- Reading
- Giving away
- Owning

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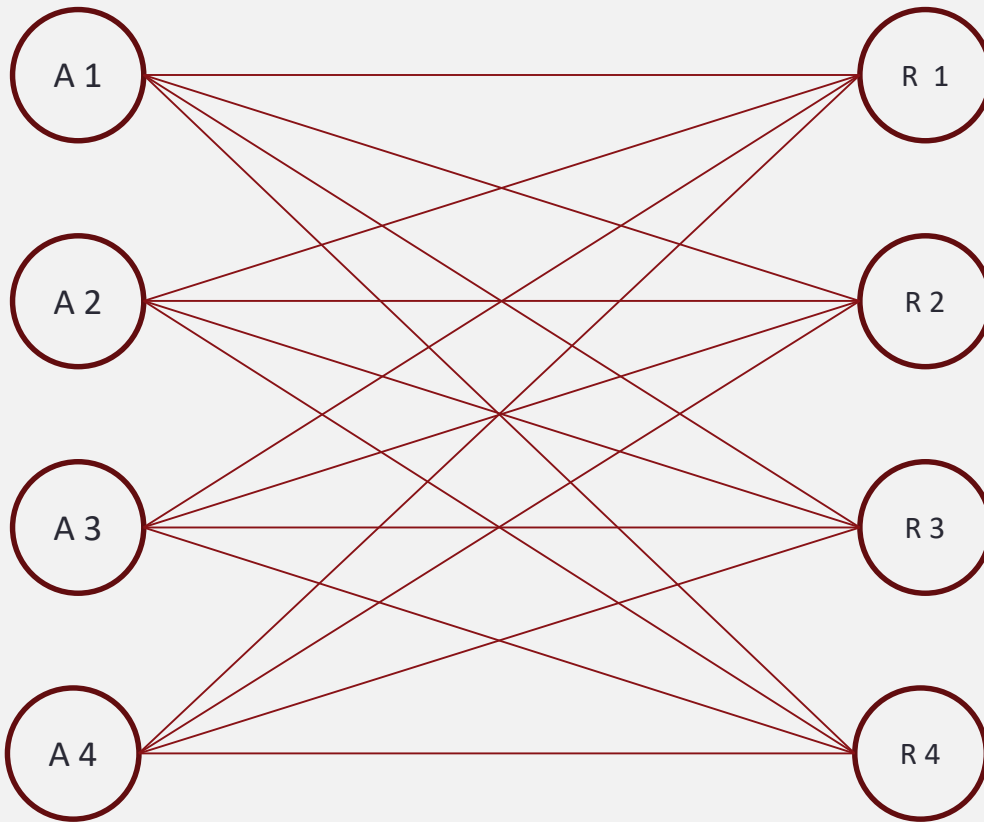


# Frequency Criterion of a Transaction Type

Authors  
(m)

Readers  
(n)

- Number of contacts:  $m \cdot n$
- Here:  $4 \cdot 4 = 16$



# Frequency Criterion of a Transaction Type



- Number of contacts :  $m + n$
- Here:  $4 + 4 = 8$
- Contact cost savings  
 $(m \cdot n) - (m+n)$

m	n	$m \cdot n$	$m+n$	$m \cdot n - (m+n)$
3	3	9	6	3
5	5	25	10	15
10	10	100	20	80
50	50	2 500	100	2400
100	100	10 000	200	9800

## Baligh-Richartz-Effect

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# Lessons Learned and Outlook

- The transaction cost theory is a main theory in the discipline of economics
- It is part of “New institutional economics“:
  - Transaction Cost Theory
  - Property Rights Theory
  - Principal Agent Theory
- It contributes to the question why certain services are performed in specific institutional arrangements which are a market on the one hand or a hierarchy (firm) on the other
- The transaction costs can be used to base the discussion about changes in the publishing industry’s value chains in a digitized world on solid theory instead of opinions and wishful thinking
- For this purpose we have to analyze each activity within the value chain concerning the mentioned determinants of transaction costs