

## **THE ECONOMIC CONSEQUENCES OF PENGUIN RANDOM HOUSE MERGER WITH SIMON & SCHUSTER**

### **Introduction**

The merger between two publishing giants – Penguin Random House and Simon & Schuster- was in the news in 2022, raising many questions about publishing consolidations and their effects on other presses, authors, literary agents, and other players in the market. This article aims to determine the impact of mergers and acquisitions activity on the merging publishing houses and authors, readers, and other publishers. Using LSEG Eikon technology, the first part of the paper provides a case study of one of the most significant mergers in publishing history– between Penguin Group and Random House. The blocked merger between Penguin Random House and Simon & Schuster is discussed in the next part, which includes information from in-depth interviews conducted with the publishing field experts and court documents from the antitrust trial.

### **1. Literature review**

Traditional publishing describes an industry of publishing houses that help the author with the printing of a novel<sup>1</sup>. In the United States of America, the traditional publishing industry is a multi-billion-dollar industry, earning yearly on average USD 26.80 billion between 2010 and 2020<sup>2</sup>. In 2021, the revenues hit a record high of USD 29.33 billion<sup>3</sup>. Trade book publishing refers to the branch of

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<sup>1</sup> K. Strauss, *Book Publishing for Entrepreneurs: Top Secrets from a New York Publisher*, Hybrid Global Publishing, New York 2021, p. 8.

<sup>2</sup> Statista – *Net Revenue of Book Publishing Industry in the United States From 2008 to 2020*, <https://www.statista.com/statistics/271931/revenue-of-the-us-book-publishing-industry/> (accessed: 09.11.2022).

<sup>3</sup> Association of American Publishers, *AAP StatShot Annual Report for 2021: Book Publishing Revenues Up 12.3% For the Year, Reaching All-Time High of \$29.33 Billion*, <https://publishers.org/news/aap-statshot-annual-report-for-2021-book-publishing-revenues-up-12-3-for-the-year-reaching-all-time-high-of-29-33-billion/> (accessed: 23.02.2023).

publishing books oriented at the general public<sup>4</sup>. Genres include literature for children, general non-fiction, biographies, romance, etc.<sup>5</sup> Harry Potter books by J.K. Rowling, the Robert Langdon series by Dan Brown, and *The Lord of the Rings* by J. R. R. Tolkien all fall into the category of trade publishing.

Trade book publishing in the United States of America represents a concentrated market, with 60% of the industry controlled by the five most prominent publishers, also known as the Big Five<sup>6</sup>. Big Five are HarperCollins, Simon & Schuster, Macmillan Publishers, Penguin Random House, and Hachette Book Group. Although possessing only 60% of the market, the Big Five are quite influential on the bestsellers list, controlling around 91% of hardcover bestsellers and 77.4% of paperbacks in 2021<sup>7</sup>.

Besides publishing houses, there are other parties active in the traditional publishing environment that is affected by the changes and mergers of publishers, such as writers, who regularly interact with publishers and receive payment from book sales; literary agents, who act as intermediaries between authors and publishers; and smaller publishers, whom the competition on the market can threaten.

Mergers and acquisitions activity and consolidation of publishing houses have been a constant in the publishing industry for decades. It is theorized that mergers might have influenced the industry concentration and might have led to an oligopolistic market as a result. On the other hand, the book market in the United States of America stays mainly monopolistically competitive, regardless of mergers and acquisitions activity<sup>8</sup>.

There were approximately 20 transactions on average per year, calculated for the years 2014-2019. However, there was an increase in completed deals, with 27 mergers and acquisitions finished in 2019. Only in the first five months of 2020, 8 M&A transactions were announced, with Paramount Global announcing one of the biggest deals in the publishing industry to sell Simon & Schuster. The number

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<sup>4</sup> B. Martin, X. Tian, *Books, Bytes and Business: The Promise of Digital Publishing*, Routledge, Abingdon-Thames 2016, p. 15.

<sup>5</sup> A. Phillips, *Trade Publishing*, [in:] *History of Oxford University Press: Volume IV: 1970 to 2004*, ed. K. Robbins, Oxford University Press, Oxford 2017, pp. 332-351.

<sup>6</sup> *United States District Court for the District of Columbia*, Memorandum Opinion, Civil Action No. 21-2886-FYP.

<sup>7</sup> *Publishers Weekly – Breaking Down 2021’s Bestsellers by Publisher*, <https://www.publishersweekly.com/pw/by-topic/industry-news/publisher-news/article/88301-breaking-down-2021-s-bestsellers-by-publisher.html> (accessed: 13.12.2022).

<sup>8</sup> R.P. Joseph, *Book publishing – competition, technological innovation, and structural changes: an examination of the US book industry*, “*International Journal of Strategic Business Alliances*” 2017, vol. 5, issue 3-4, pp. 224-233.

of transactions will grow in the following years because publishing houses look for powerful allies and scale efficiencies<sup>9</sup>.

## 2. Research methods

Eikon technology from the London Stock Exchange Group was used to provide financial information and build a case study of the post-merger performance of Penguin Random House. A case study is a thorough research into a particular topic that provides qualitative information<sup>10</sup>. Two in-depth interviews were conducted with publishing experts between November and December 2022. The respondents provided insight into the current publishing environment. One of the interviewees was an expert in the field of publishing studies and interview took place on December 5<sup>th</sup>, 2022, through social platform Zoom. While another was an employee of a small American independent publisher, who answered the questions through email on November 30<sup>th</sup>, 2022. In-depth interviews represent interpersonal communication to find some expert knowledge or detail that might be unavailable in other forms of research, such as focus groups or questionnaires. Usually, in-depth interviews are combined with other research methods to prove or disprove the theories one previously had<sup>11</sup>.

## 3. Findings and discussion

### 3.1. Penguin Random House merger

To consider the merger between Penguin Random House and Simon & Schuster, it is necessary first to look into one of the most significant mergers in trade publishing history – a merger between Penguin Group and Random House.

In October 2012, Pearson and Bertelsmann, parent companies of Penguin Group and Random House, respectively, announced their plans to merge their two businesses<sup>12</sup>. The joint venture was an example of a horizontal merger be-

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<sup>9</sup> D. Lamb, *Trends in U.S. Trade Book Publisher Mergers and Acquisitions*, "Publishing Research Quarterly" 2020, vol. 36, pp. 323–334.

<sup>10</sup> M. Tight, *Understanding Case Study Research: Small-scale Research with Meaning*, Sage Publications, Thousand Oaks 2017, p. 6.

<sup>11</sup> J.M. Johnson, T. Rowlands, *The Interpersonal Dynamics of in-Depth Interviewing* [in:] *The SAGE Handbook of Interview Research: The Complexity of the Craft*, eds. J.F. Gubrium, J.A. Holstein, A.B. Marvasti, K.D. McKinney, Sage Publications, Thousand Oaks 2012, pp. 99–100.

<sup>12</sup> Bertelsmann, *Bertelsmann and Pearson to Combine Book Businesses*, <https://www.bertelsmann.com/news-and-media/news/bertelsmann-and-pearson-to-combine-book-businesses.jsp?atn=2862170&abp=2862170,2862222>, (accessed: 13.12.2022).

cause Penguin Group and Random House were active in the trade book publishing industry. Pearson and Bertelsmann both had stakes in the newly created entity, with Bertelsmann holding the majority of shares (53%). Through the years, Bertelsmann began to buy out Pearson, finally acquiring full ownership of Penguin Random House in 2019<sup>13</sup>.

The first result of the merger is the increased revenue of Penguin Random House since 2013 (Fig. 1). Before the merger, the average revenue for the period of 2010-2012 of Penguin Group and Random House was EUR 1.259 billion, and EUR 1.906 billion, respectively. Post-merger, the profit has continuously increased with a few dips over the years. The year 2021 showed a record-high revenue result with more than EUR 4 billion in income. Penguin Random House became one of the biggest publishers in the world, selling around 700 million copies and releasing more than 16 000 new books per year<sup>14</sup>.

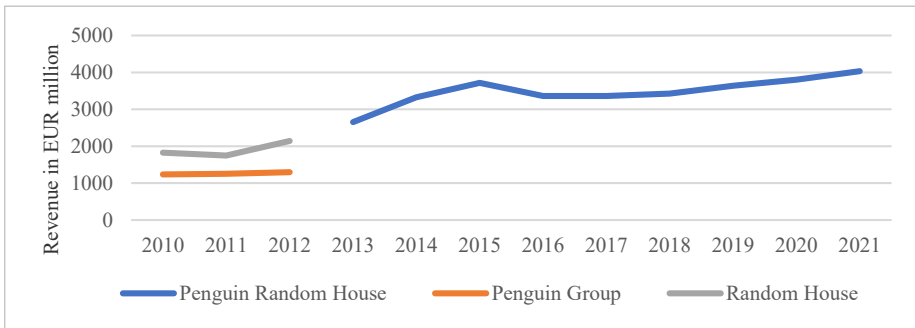


Figure 1. Revenues of Penguin Random House

Source: own elaboration on LSEG Eikon information (accessed: 14.12.2022).

Earnings Before Interest, Taxes, and Depreciation (EBITDA) give an insight into the company’s profitability<sup>15</sup>. The EBITDA of Penguin Random House has been on a steady rise and most notably grew by 9.2% between 2020–2021 (Fig. 2).

Working capital, a difference between current assets and current liabilities, can reveal the solvency and liquidity of the business<sup>16</sup>. Statistics from Figure 3 depict that Penguin Random House has been struggling for a few years, showing

<sup>13</sup> Bertelsmann, *Bertelsmann Completes Full Acquisition of Penguin Random House*, <https://www.bertelsmann.com/news-and-media/news/bertelsmann-completes-full-acquisition-of-penguin-random-house.jsp?atn=2862170&abp=2862170,2862222>, (accessed 13.12.2022).

<sup>14</sup> Bertelsmann, *Annual Report 2021...*, p. 5.

<sup>15</sup> R. Thomas, B.E. Gup, *The Valuation Handbook: Valuating Techniques from Today’s Top Practitioners*, Wiley, Hoboken 2009, p. 527.

<sup>16</sup> R.L. Weil, K. Shipper, J. Francis, *Financial Accounting: An Introduction to Concepts, Methods and Uses*, Cengage Learning, Boston 2013, p. 327.

negative figures. The positive change happened in 2021, when current assets exceeded liabilities by GBP 101.4 million, becoming the highest working capital figure in the history of Penguin Random House.

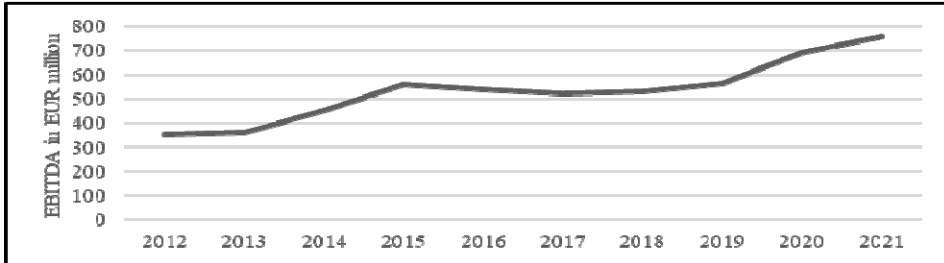


Figure 2. Earnings Before Interest Taxes and Depreciation of Penguin Random House

Source: own elaboration on LSEG Eikon information (accessed: 14.12.2022).

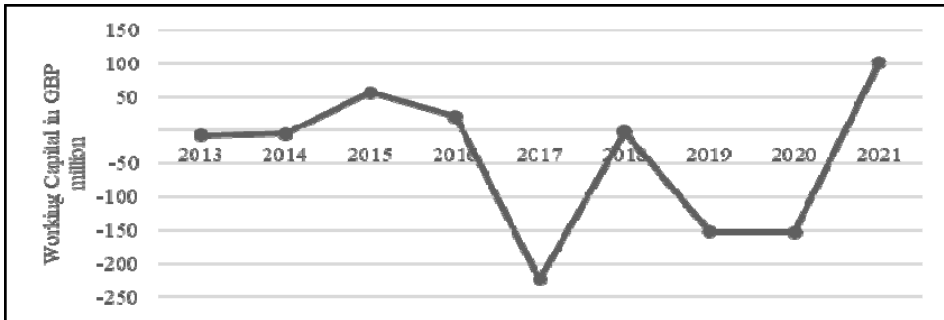


Figure 3. Working Capital of Penguin Random House

Source: own elaboration on LSEG Eikon information (accessed: 14.12.2022).

The merger of Penguin Random House made it one of the most prominent players in the US trade book market. As a result, it has a stronger negotiating position with Amazon, Barnes & Noble, and other booksellers. The increased economies of scale offered them different efficiencies and cost savings, thus leading to greater profitability. Higher-income levels let Penguin Random House offer higher advances to top writers, thus securing novels with great bestseller potential<sup>17</sup>.

Effects on other agents in the market are the following: literary agents were able to negotiate higher advances for their authors due to the heightened competition in the market. However, too much concentration might have created more barriers for new writers to break into the industry; readers got more published

<sup>17</sup> In-depth interview on December 5<sup>th</sup>, 2022.

books. However, the attention of the Big Five on the bestsellers list also increased<sup>18</sup>.

### 3.2. Penguin Random House and Simon & Schuster merger

After a successful merger, Penguin Random House continuously purchased smaller printing presses, thus expanding its business and global reach<sup>19</sup>. However, the most significant acquisition came in 2020, when Penguin Random House announced its plans to buy Simon & Schuster, another member of the Big Five<sup>20</sup>. The problem arose because acquiring Simon & Schuster raised many questions and concerns about the concentration and power of the Big Five in the United States trade book market. Valued at USD 2.175 billion and expected to close in 2021<sup>21</sup>, the transaction drew the attention of the United States Department of Justice to the concerns that the merger might significantly lessen the competition (Section 7 of the Clayton Act)<sup>22</sup>.

The defense of Penguin Random House's merger with Simon & Schuster was built on several arguments<sup>23</sup>. The first argument is that new publishing houses would dilute the competition in the market. Indeed, there are many smaller presses, but they need much more significant capital and resources even to be in the same arena as the Big Five<sup>24</sup>. Therefore, they compete on a different level. The second argument was that literary agents would try to find the highest advance and negotiate the most beneficial contract for their authors. Indeed, literary agents have a specific power in asking the publishing house to pay higher advances. Still, even they cannot jump the advanced ceiling set by the most prominent publishers<sup>25</sup>. The following argument is connected with the fact that the newly created entity of Penguin Random House and Simon & Schuster would have an in-house competition for authors. Although there is competition between imprints of a publishing house, it may not be very beneficial when all those imprints are subsidiaries under one company. Lastly, the argument about merger efficiencies was presented. Merger and acquisition activity is usually about in-

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<sup>18</sup> *Ibidem*.

<sup>19</sup> Penguin Random House, *Company History*, <https://global.penguinrandomhouse.com/company-history/> (accessed 15.12.2022).

<sup>20</sup> Deal Sheet from LSEG Eikon (accessed 14.12.2022).

<sup>21</sup> *Ibidem*.

<sup>22</sup> United States District Court for the District of Columbia, *Memorandum Opinion*, Civil Action No. 21-2886-FYP.

<sup>23</sup> United States District Court for the District of Columbia, *United States' Pre-Trial Brief*, Civil Action No. 1:21-cv-02886-FYP.

<sup>24</sup> In-depth interviews on November 30<sup>th</sup>, 2022.

<sup>25</sup> United States District Court for the District of Columbia, *United States Pre-Trial Brief*, Civil Action No. 1:21-cv-02886-FYP.

creasing efficiency and achieving synergy between the merging entities, but it should not be attained at the expense of perfect market competition<sup>26</sup>. The positive and negative impact of the merger on different parties in the publishing industry is summarized in Table 1.

Table 1. The Impact of M&A Activity on the Publishing Industry

	<b>Positive impact</b>	<b>Negative impact</b>
Merging publishing houses	Increased capital and size that can be invested in producing new titles or purchasing printing presses. Increased capital and size enable the publisher to offer advances, thus securing famous authors. Mergers bring scale efficiencies.	
Authors	Several big publishing houses in the market raise competition for authors, thus increasing advances and bidding. In-house competition might help authors get higher advances.	Concentrated market might lead to industry obstacles for debut authors. Big Five might not sign on experimental writers. In-house competition might not be efficient, as all of those imprints exist under one publishing house.
Smaller publishing presses	<i>No direct competition from the mergers of big publishing houses as they don't compete on the same level.</i>	
Literary agents	Several big publishers might help literary agents negotiate better contract terms with higher pay for their authors.	Too much concentration might lead to the biggest publishing houses having an "advance ceiling".
Readers	The growth of publishers means a higher number of new books.	Bestsellers lists are already occupied mainly by Big Five. Further consolidations might give them more books on the bestsellers lists.

Source: own elaboration.

After a court hearing in August 2022, the Department of Justice blocked the merger between Penguin Random House and Simon & Schuster. Department of Justice declared that the merger would make the market "anti-competitive". The main reason for the verdict was that if the merger went through, it would have influenced the pay of the top-selling authors, who earn more than USD 250 000 in advances. The new Big Four would have comprised 91% of the top-selling book market.

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<sup>26</sup> *Ibidem*.

As for the future, Penguin Random House will pay a termination fee of USD 200 million to the parent of Simon & Schuster, Paramount Global<sup>27</sup>. Paramount Global wants to divest Simon & Schuster, as they would like to focus more on their video/TV business. Other members of Big Five, Hachette Book Group, and HarperCollins, have previously expressed interest in acquiring the publisher<sup>28</sup>.

## Conclusions

In conclusion, publishing houses need to be significant to survive and succeed in the current publishing environment. If a publishing house has sufficient size and capital, they can offer higher advances to their authors and spend more money on developing new books. If publishers have capital, they can expand their list of titles by printing new books or buying smaller presses with their published books.

For authors, having several large publishers means that the competition might drive up their advances. On the other hand, too much concentration might decrease their pay level, making it harder for debut authors to break into the industry. Experimental writers might be in different demand; therefore, they would be published mainly by indie publishers.

Having more prominent publishers for readers means a broader choice of literature. However, it might also affect the type of articles published. Smaller publishing presses do not present sufficient competition to more prominent publishers because of their lower level of capital and size. They also usually focus on different kinds of books than Big Five publishers do. Therefore, they compete on a different level.

There are many advantages and disadvantages of the mergers of big publishing houses. Still, the failed merger between Penguin Random House and Simon & Schuster opened a conversation about the future of publishing and what is beneficial for publishers and other agents in the market.

## Acknowledgements

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<sup>27</sup> United States Securities and Exchange Commission, *Commission File Number 001-09553*, Paramount Global, Form 10-Q, p. 12.

<sup>28</sup> A. Summerville, A. Sen, *Simon & Schuster's Owner to Let Sale to Penguin Fall Apart, Sources Say*, Reuters, <https://www.reuters.com/business/simon-schuster-let-sale-penguin-fall-apart-sources-2022-11-20/> (accessed: 19.12.2022).



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## Summary

The article addresses the Mergers & Acquisitions activity in the United States trade book publishing industry. The first part explores the merger between Penguin Group and Random House and its performance following the merger into one of the biggest publishers in the United States of America. The second part of the paper looks into the failed

merger of Penguin Random House with Simon & Schuster and its antitrust trial. The Penguin Random House case study was built with financial information taken from LSEG Eikon, and the impact of the big publishing houses' mergers on other agents in the market was identified with the help of in-depth interviews with publishing experts.

**Keywords:** book publishing, Mergers & Acquisitions, publishing market, Big Five, anti-trust trial

## **EKONOMICZNE KONSEKWENCJE FUZJI PENGUIN RANDOM HOUSE I SIMON & SCHUSTER**

### **Streszczenie**

Artykuł dotyczy fuzji i przejęć w branży wydawniczej w Stanach Zjednoczonych. W pierwszej części przeanalizowano fuzję Penguin Group i Random House oraz wyniki działalności powstałego w wyniku tej fuzji jednego z największych wydawców w Stanach Zjednoczonych. Druga część artykułu poświęcona jest nieudanej fuzji Penguin Random House z Simon & Schuster oraz toczącemu się w tej sprawie postępowaniu antymonopolowemu. Studium przypadku Penguin Random House zostało opracowane na podstawie informacji finansowych zaczerpniętych z LSEG Eikon, natomiast wpływ fuzji dużych wydawnictw na inne podmioty na rynku został zidentyfikowany na podstawie pogłębionych wywiadów z ekspertami zajmującymi się rynkiem wydawniczym.

**Słowa kluczowe:** wydawnictwo książkowe, fuzje i przejęcia, rynek wydawniczy, Big Five, postępowanie antymonopolowe