

Bookselling: International Market Comparisons

A Benchmark Study of Profitability

A report for The Booksellers Association of the UK and Ireland

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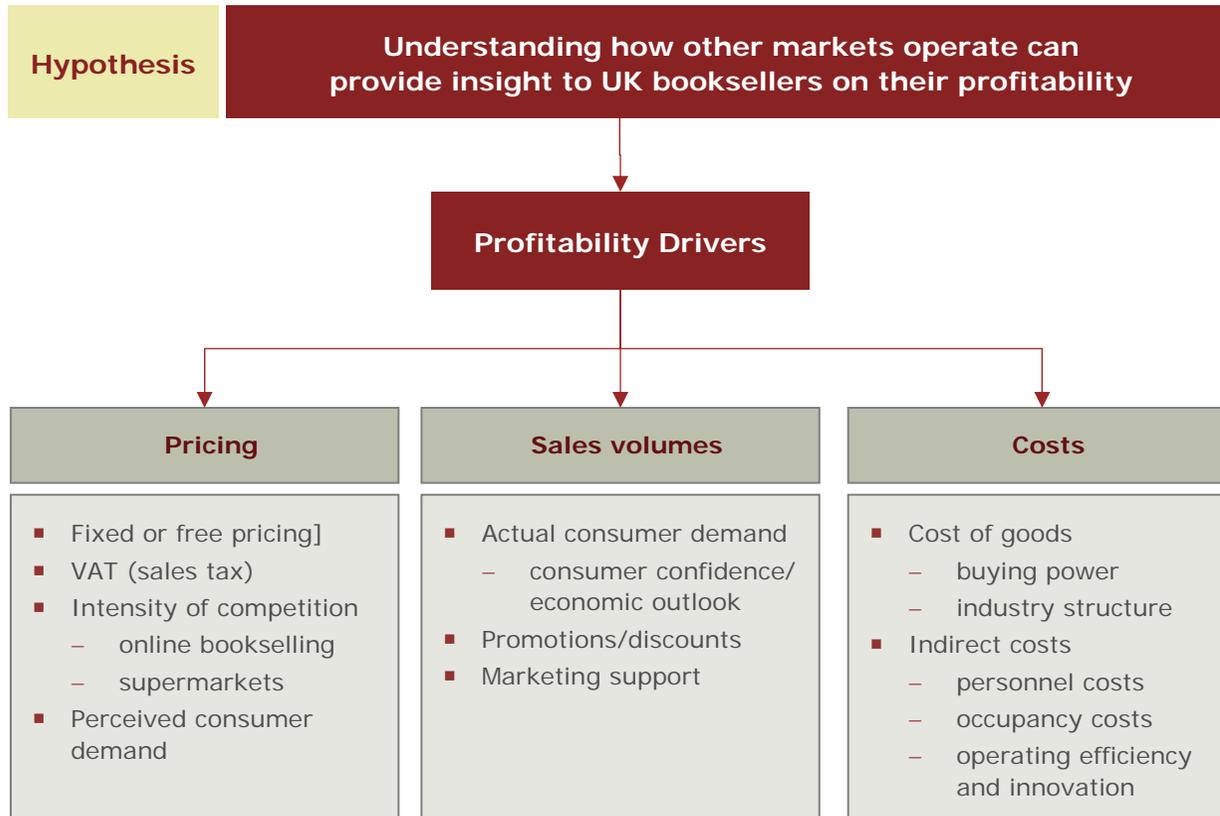
Book industry analysis

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- Industry structure and dynamics

CDs, DVDs, and stationery markets

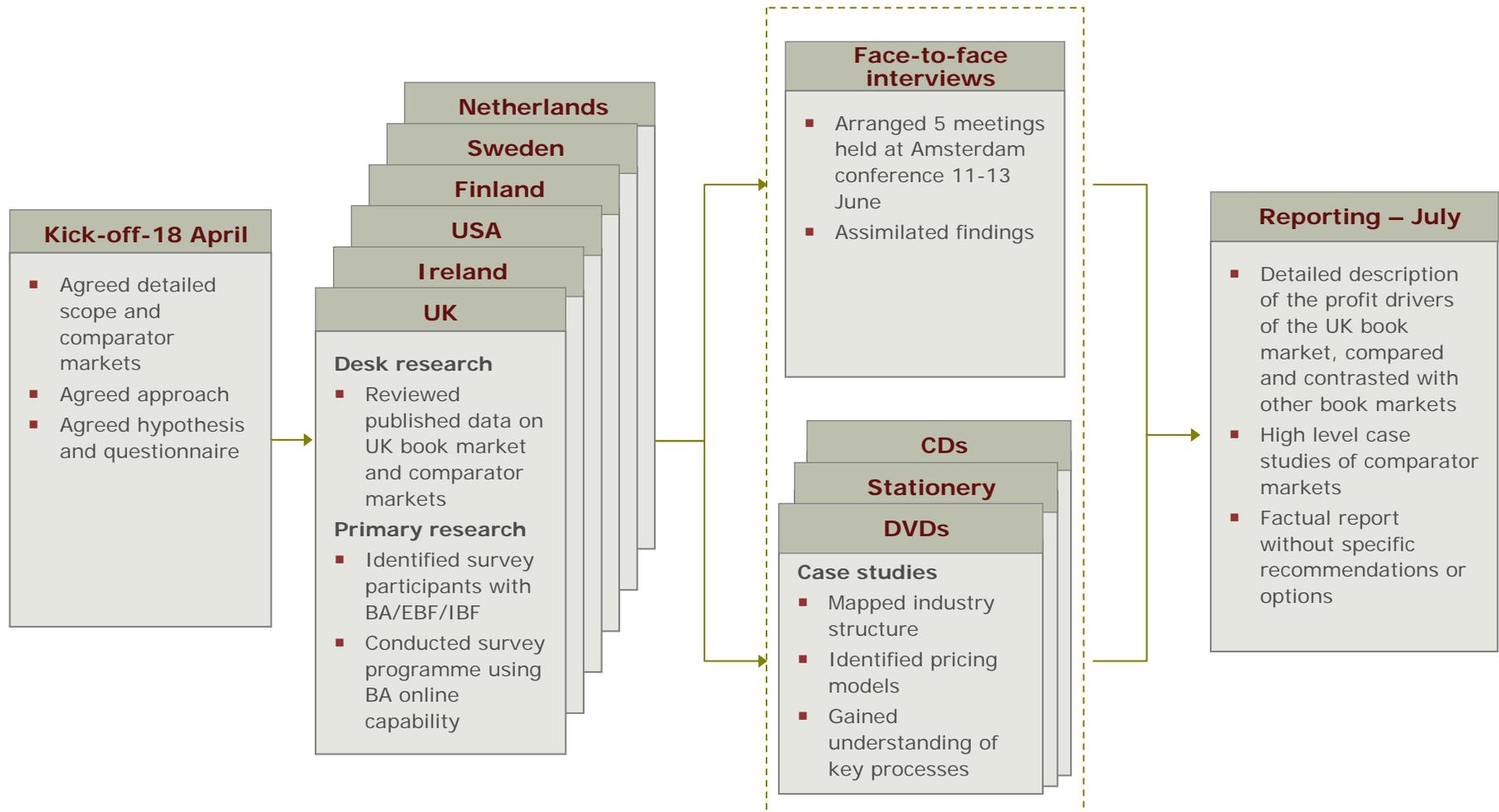
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This report summarises the findings of our benchmarking study

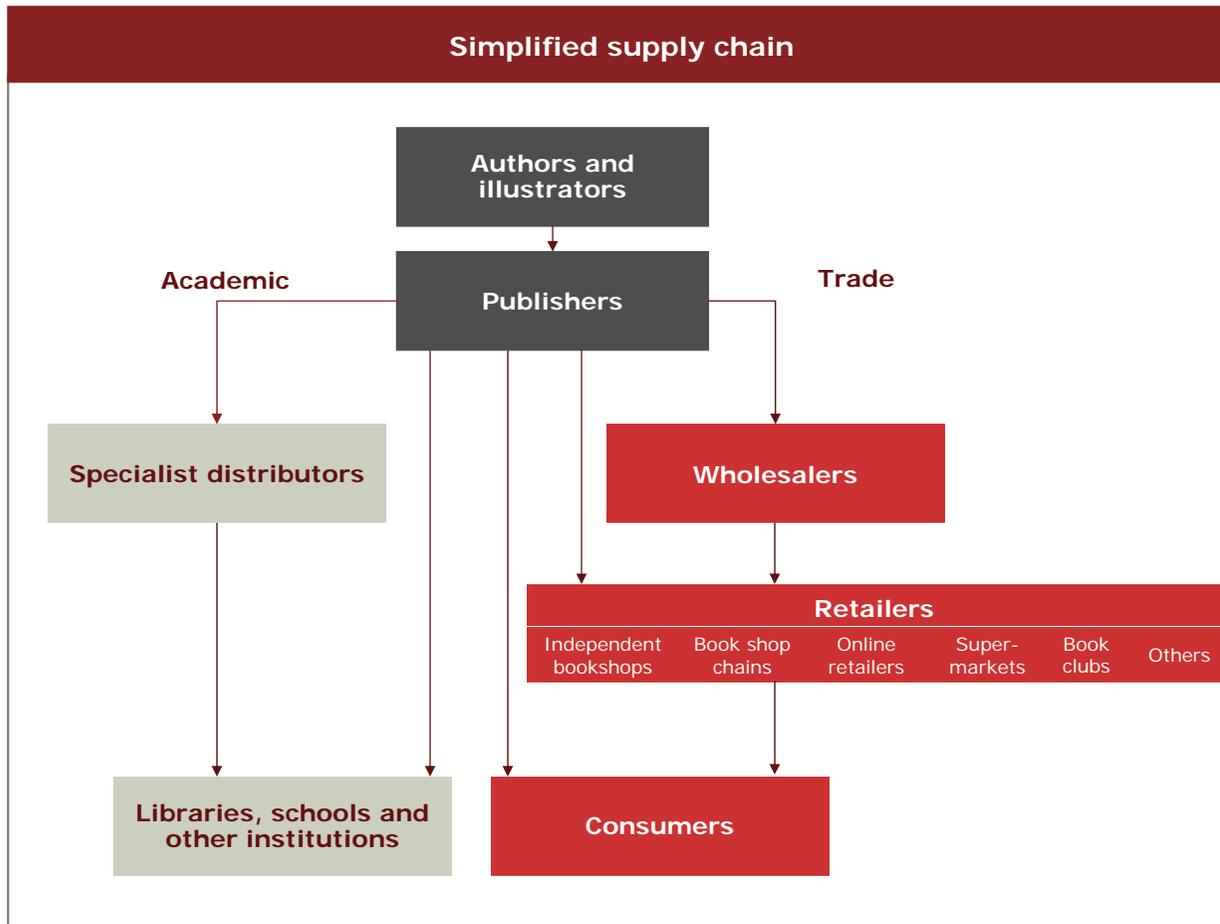


- Our report examines how profitability in the UK compares with that of other markets, and the possible causes of differences in profitability
 - it considers the main drivers of change in UK profitability
 - it also looks briefly at the related retail markets for CDs, DVDs and stationery
- We have drawn on a combination of published information, our bespoke online survey, and face to face interviews with trade associations and other experts in each of the markets included in this study to produce our own estimates of key data where necessary

Our approach employed both primary and secondary research



Although the academic sector is included in this study, both primary and secondary sources focussed on trade



- We researched both academic and trade sectors
 - the trade (consumer) sector, defined as bookshops which focus on fiction, non-fiction/reference and children's books, selling to the general public
 - the academic/professional sector, sold through retail and also by specialist distributors to academic institutions and the professions. For the purposes of this study we have also included within this sector school and English language textbooks (ELT), which are primarily sold through specialist distributors
- There is significant blurring across the boundaries of these sectors. Partly because many books do not fall neatly into a single category (e.g. children's books are bought by schools, and professional texts bought by the general public) and partly because the booksellers do not necessarily fit neatly into one category (e.g. bookshops may sell both consumer and academic titles)

Our findings are qualified by the significant limitations and constraints in the data available

- Our estimate of bookshop profitability is restricted to independent bookshops and book chains. We have excluded online retailers, supermarkets and other mixed retail outlets from this analysis since their business models and therefore profitability drivers are materially different to that of a bookshop
- In general, there is no comprehensive source of data on the profitability of bookselling, and the data that is available can reflect different accounting treatments, adversely affecting its comparability. Key issues include the treatment of:
 - drawings by the owner-manager of an independent bookshop, and whether these are treated as salary (personnel costs) or dividends (taken from profits after tax)
 - occupancy costs when a shop is owned, rather than mortgaged or leased
- There is insufficient data on the numbers and sales mix of general, academic and consumer bookshops to analyse their business models separately. Our analysis takes a blended average view across independents and chains, and across the academic and consumer sector
- Online survey participation of booksellers in the agreed countries was less than anticipated and therefore less reliance can be placed on the detailed information regarding individual markets and business economics; UK results are more robust
- Case study results were limited by the availability of published data. Gross margin data was not available for music and video. The only data available for stationery was expenditure.

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The UK is a more competitive, lower-than-average profit market for booksellers; some lessons from other markets can be learned

Key Findings

- The strong combination of supermarkets, online retailers and polarisation makes the UK market relatively more challenging than others
- The UK is more engaged in a 'vicious circle' of promotions and discounting to drive volumes which reduces value
- Discounting is believed to devalue books in the mind of the consumer
 - The combination of competition and commoditisation of best sellers results in lowest margins on potentially highest margin product
- The UK has the lowest average retail price and lowest average gross margin on books of all the markets in this study
- Although the level of competition has resulted in lower prices for consumers the dynamics imply an issue with longer term economic viability for booksellers
- The UK has already focussed on the returns process and is ahead of the other countries studied
- UK per capita spend on books far exceeds video, recorded music and personal stationery
- The book sector has maintained price levels better than the video and recorded music sectors

Potential Lessons

- UK booksellers could offer a broader product mix to leverage higher margin categories.
- Strong marketing cooperation in the Netherlands drives book sales through events and other activities organised by CPNB
- The UK could potentially cooperate more in buying and merchandising between independent booksellers as other markets
- Other markets drive volume without as much discounting
- UK booksellers could potentially reduce their labour cost margins which are not as low as other markets

Our findings suggest that the UK is more challenging than the others across all market forces

Supplier power

- The UK's publishing sector is proportionately larger and more powerful than the other markets apart from the US with large domestic and export markets
- It is more consolidated than most, with six supplier companies controlling 50% of the overall market, giving them a strong negotiating position with regards to all but the largest booksellers

Substitute products

- A decline in the time spent reading books is a universal trend across all markets
- Audio books and e-books offer alternatives to the conventional format, but books in general are competing with an ever growing range of alternative personal leisure products, notably electronic games, music and other media

Rivalry

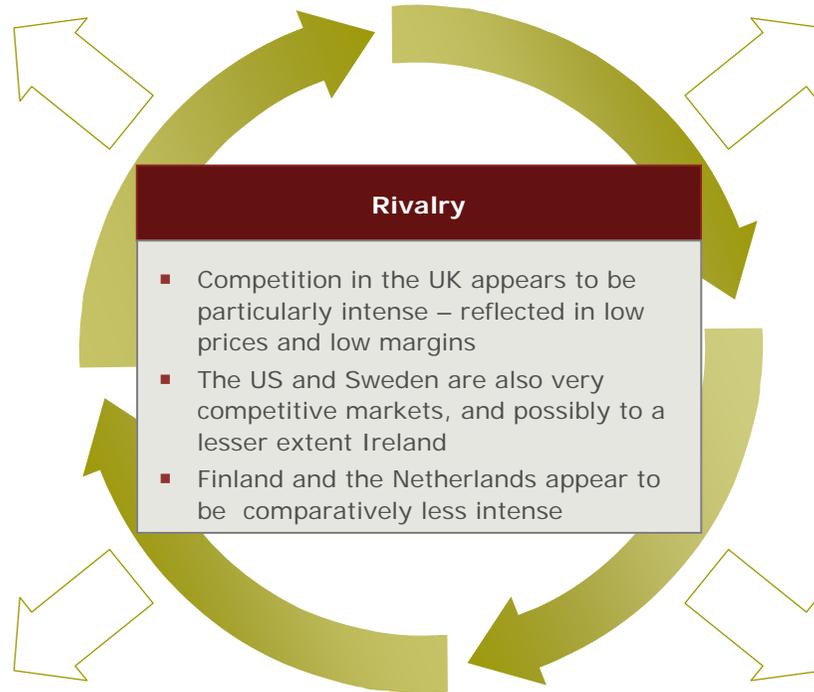
- Competition in the UK appears to be particularly intense – reflected in low prices and low margins
- The US and Sweden are also very competitive markets, and possibly to a lesser extent Ireland
- Finland and the Netherlands appear to be comparatively less intense

Customer power

- Across all markets, individual consumers have limited negotiating power, but have the freedom to switch their business to any of the very many sales channels now available to them
- Institutional customers yield varying levels of buying power depending on their size

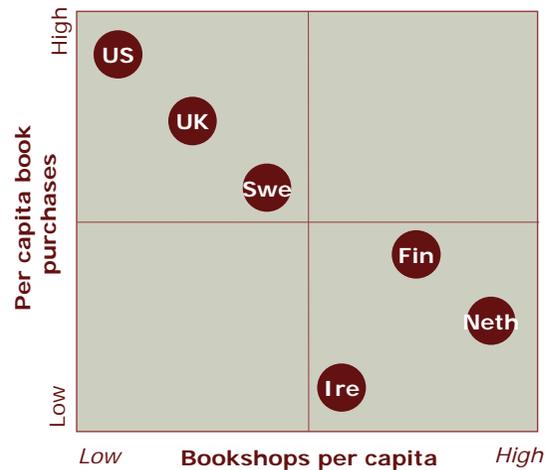
New entrants

- The UK is experiencing very high levels of activity by new entrants into the bookselling sector, most notably supermarkets and online retailers
- A similar situation exists in the US, while in Sweden supermarkets are less active, but internet sales are growing extremely quickly
- Finland and Netherlands have seen the least activity from new entrants in recent years

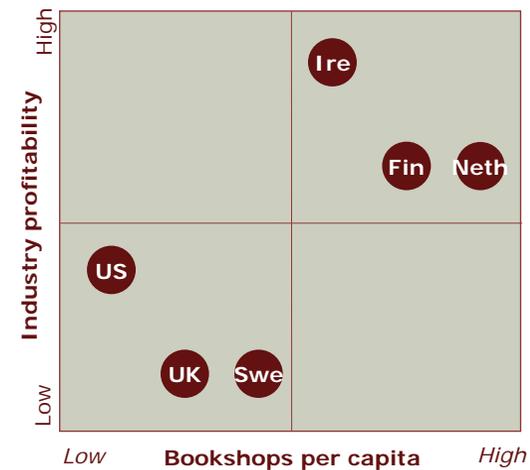


Low UK bookshop penetration suggests that high volumes are driven through other channels creating lower profits for booksellers

Purchases per capita vs. bookshops^(a) per capita



Profitability vs. bookshops^(a) per capita



Note: (a) includes only independent bookshops and book chains

Key: Fin = Finland, Ire = Ireland, Neth = Netherlands, Swe = Sweden, UK = United Kingdom, US = United States

- The markets with higher numbers of bookshops^(a) per capita have lower per capita book purchasing but are higher profit markets
- The UK has a relatively low number of bookshops (not including other retailers that sell books) for its population
- This correlates with it being a relatively low profit market, with high volumes of sales (rather than high margin sales)

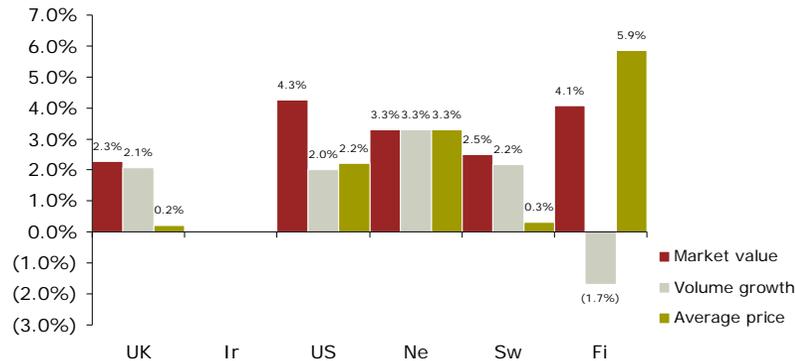
Each market characteristic has a negative effect on UK booksellers

Market	Profitability	Fragmentation	Influence of		Discount and promotions	Market volume growth	Bookseller share
			On line	Super markets			
U.K.	L	H	H	H	H	M	↓↓
U.S.	M	L	H	H	H	M	↓↓
Netherlands	M	H	L	L	L	H	↓
Ireland	H	L	M	M	M	H	↓
Sweden	L	M	VH	L	H	M	↓↓
Finland	M	M	L	L	M	L	-

- With independent bookshops having about the same market share as book chains, the UK bookshop sector is relatively fragmented when compared to other markets
- At the same time, competition from online retailers and supermarkets is relatively high in the UK, which is contributing to, if not driving, the high levels of promotions and discounts
- With only moderate growth in market size by volume, and with online retailers and supermarkets growing at a faster rate than the market, UK bookshops are losing market share

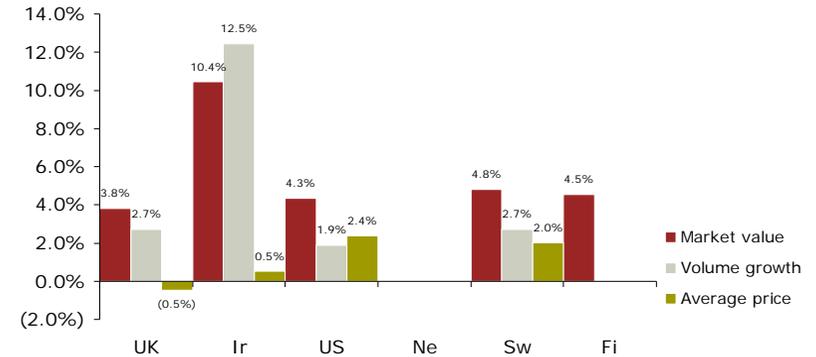
Total UK market growth appears to be one of the slowest in the sample, held back by the performance of the academic sector

All books (CAGR 2004-2007)



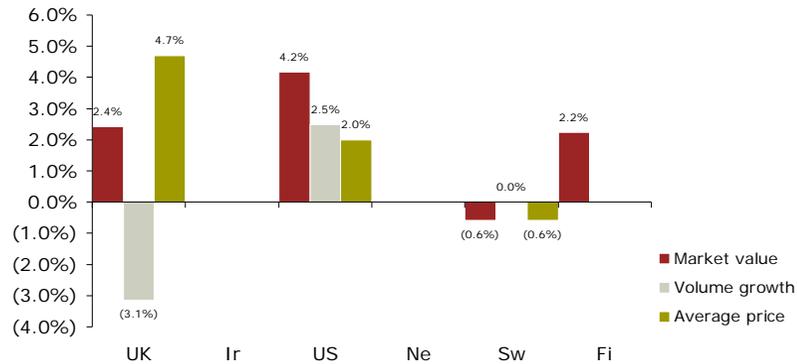
Source: Estimates based on published data and interviews

Consumer books (CAGR 2004 - 2007)



Source: Estimates based on published data and interviews

Academic books (CAGR 2004-2007)

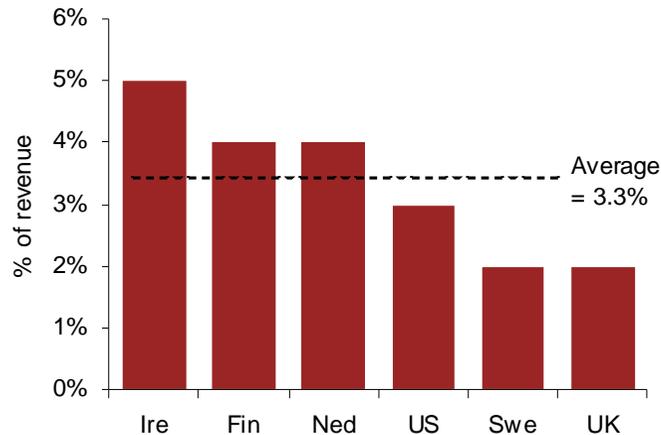


Source: Estimates based on published data and interviews

- All the markets for which we have been able to produce estimates appear to have grown in value with the exception of the Swedish academic market, where volumes have been flat and prices declined slightly
- The most dramatic growth in market value appears to be occurring in the Irish consumer market, driven almost entirely by volume increases, while prices have remained almost flat
 - according to Nielsen Bookscan, the Irish consumer market is growing slightly faster than the Chinese Market
- The greatest price increases appear to have occurred in Finland, where they have off-set volume declines to drive growth in market value

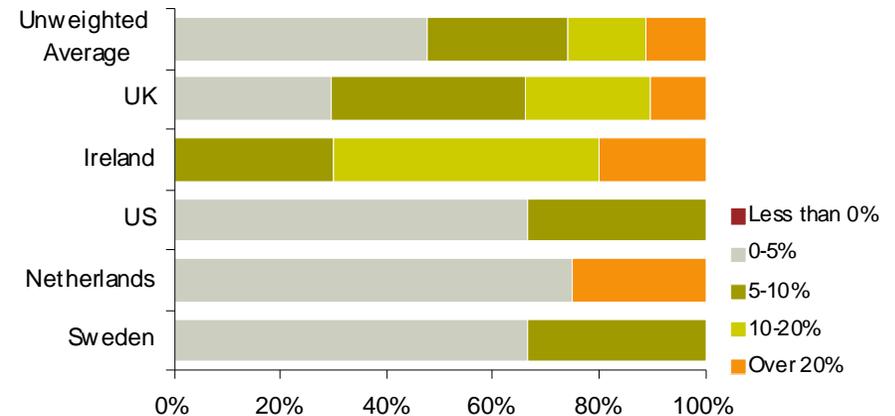
Although all of the markets in this study are experiencing profit pressure, UK and Swedish bookshop net profit margins are lowest

Estimated 'typical' bookshop's net profit margin



Source: Online survey

Estimated operating margins

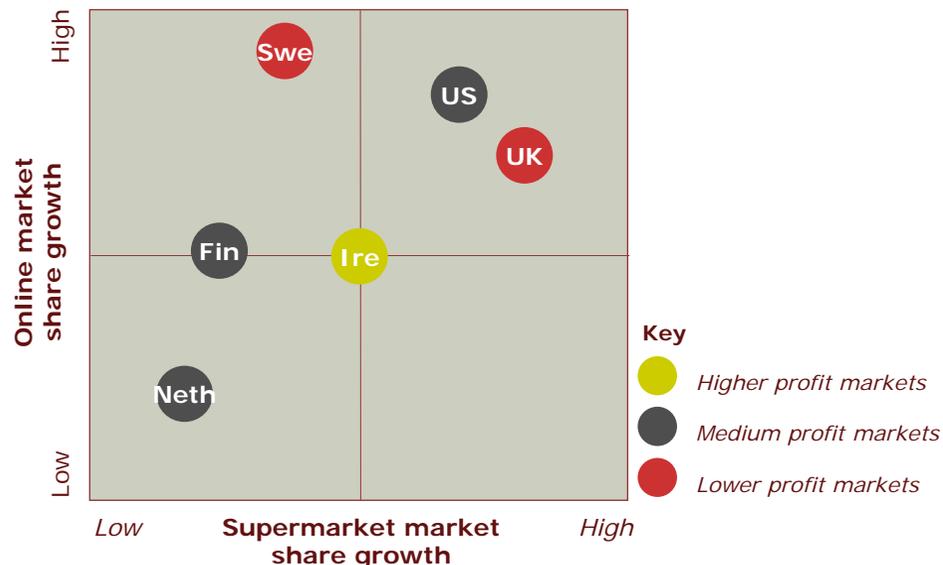


Source: Online survey

- In the Netherlands, a fixed price system has prevented discounting becoming as widespread and extensive as it has in the UK, which has both protected gross margins, and just as importantly, deterred supermarkets and online retailers from aggressively taking sales volumes away from bookshops
- In Finland, where there has been free pricing since 1971, supermarkets are not new to the sector and are not aggressively trying to grow market share. At the same time, online retailers have not aggressively targeted the book market, possibly due to the small size of the Finnish language market. Significant cooperation can be seen in purchasing and marketing
- In the US, there is significant price competition, with supermarkets, mass merchandisers and online retailers all very active in the book market. Independent bookshops as a whole are loss-making, but they account for just 10% of the market, whereas the bookshop chains, accounting for 35% of the market, have been able to stay profitable with their greater economies of scale
- Similarly in Ireland, bookshop chains account for about 45% of the market (driven by Eason's retail market share of 45%), compared with about 15% for independents. Irish booksellers may also be making greater use of cross-selling than their UK counterparts, using sales of higher margin goods such as stationery and gift cards to improve their overall profitability
- Sweden is the only market in this study that appears to suffer similarly low levels of profitability to the UK. In Sweden's case it appears that aggressive growth of online retailers has led to increased discounting as in the UK

The combination of online and supermarket growth has significantly influenced the UK's position as a lower profit market

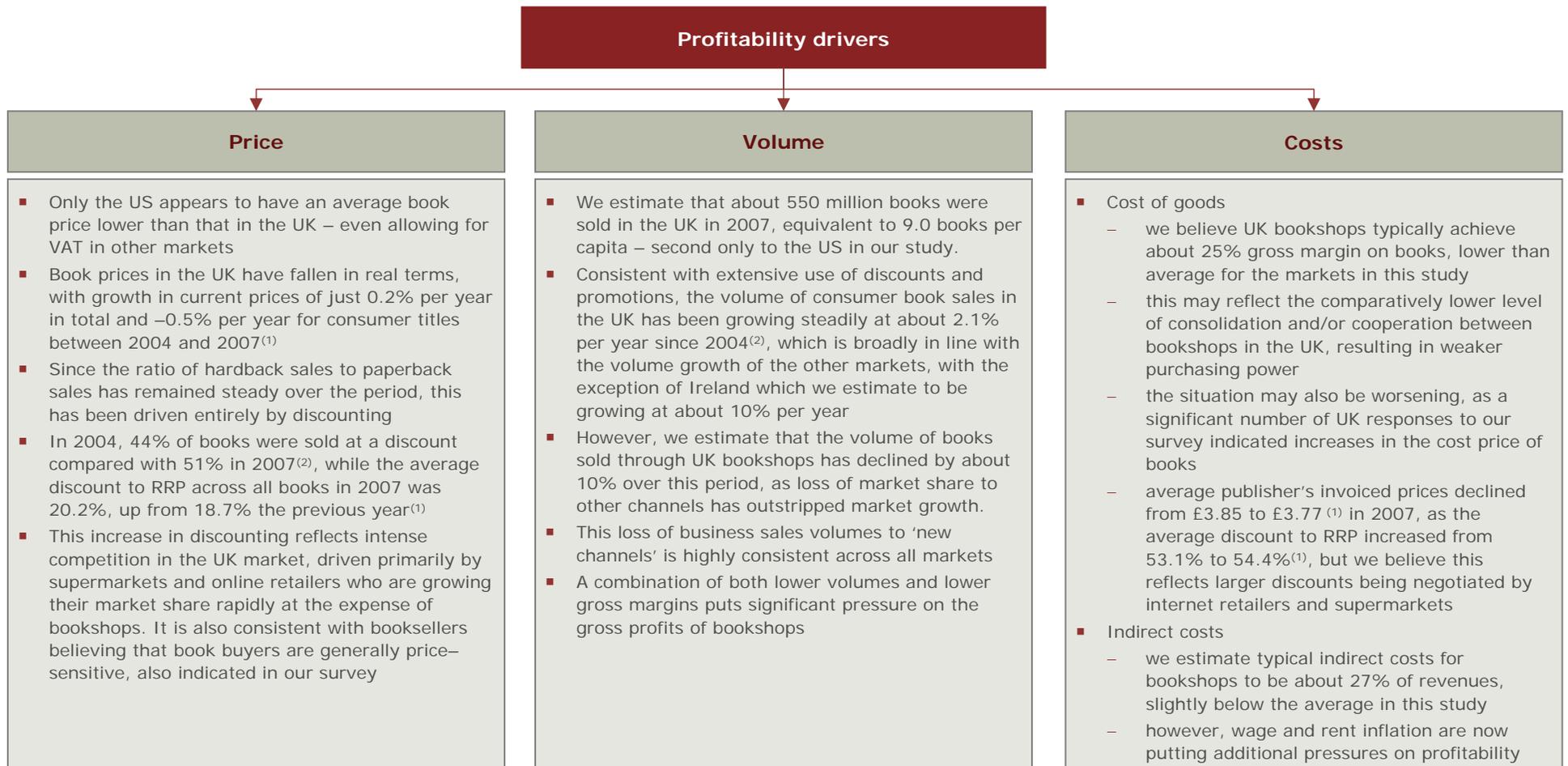
Industry profitability and market share growth of supermarkets and online retailers



Key: Fin = Finland, Ire = Ireland, Neth = Netherlands, Swe = Sweden, UK = United Kingdom, US = United States

- There is not a clear relationship between the absolute market share of online retailers and supermarkets and market profitability
- However, a possible relationship can be seen between the growth of supermarkets and online retailers, and market profitability
- This is consistent with the new entrants growing share though discounting and other promotional activities
- The UK is positioned with the US in the high/high box but is less profitable

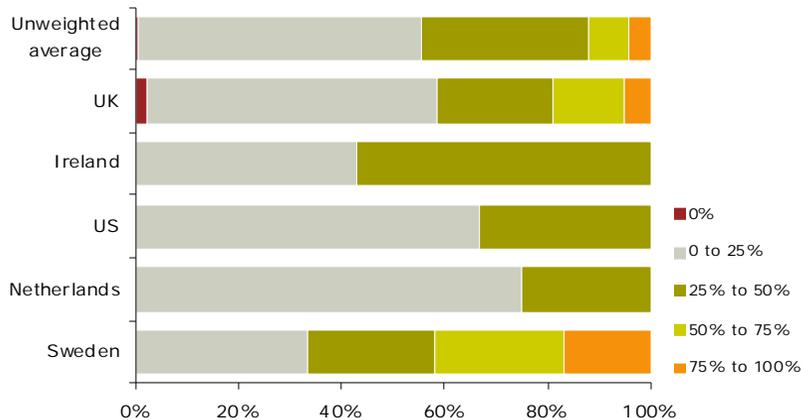
The profitability of UK bookshops is suffering from a 'triple whammy' of declining prices, declining volumes, and rising costs



Sources: (1) Analysis of Publishers Association data
(2) BML data

Promotions and discounts are widely believed to drive volumes, and account for a significant proportion of sales in all markets

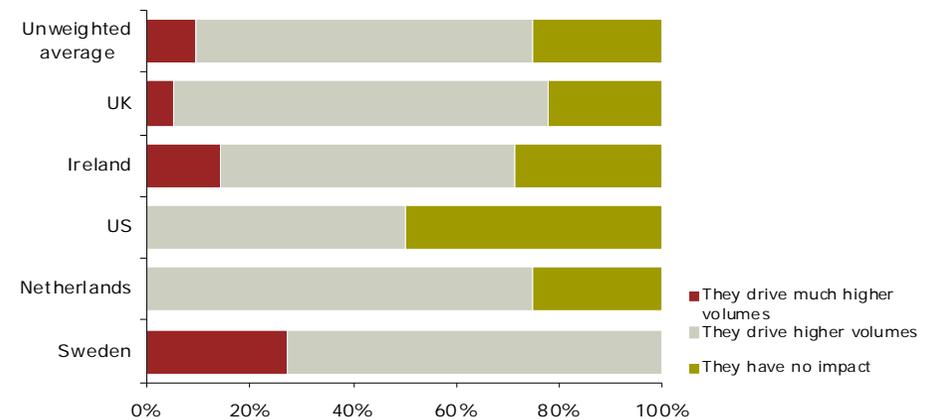
What proportion of sales do promotional and discounted volumes represent?



Source: Online survey

- 60% of respondents believe that promotions and discounts represent up to 25% of sales volume
- Our survey suggests that most UK respondents underestimate the proportion of books sold through promotions and discounts in the UK
 - according to research by Book Marketing Ltd, 51% of consumer books sold were bought at a discount in 2007

What impact do promotions and discounts have on sales volume in your market?

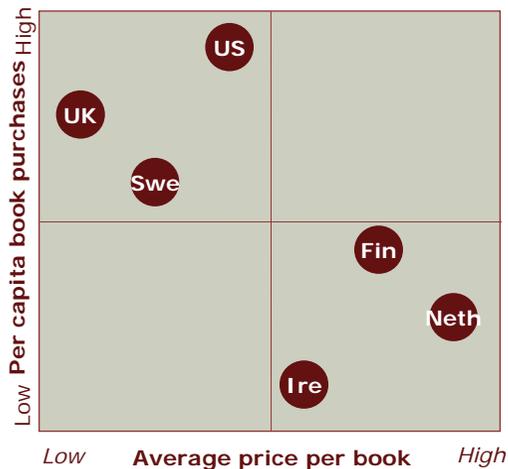


Source: Online survey

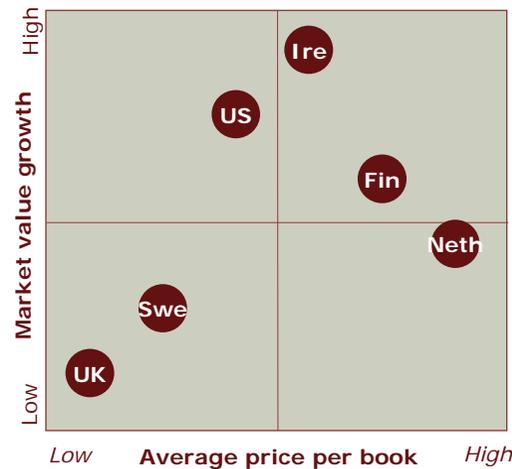
- 80% of UK respondents believe that promotions and discounts drive volumes
- The Netherlands also registered a strong belief in the sales impact of promotions and discounts despite being a fixed price market

Low prices drive book purchases although market value and profitability suffer as a result

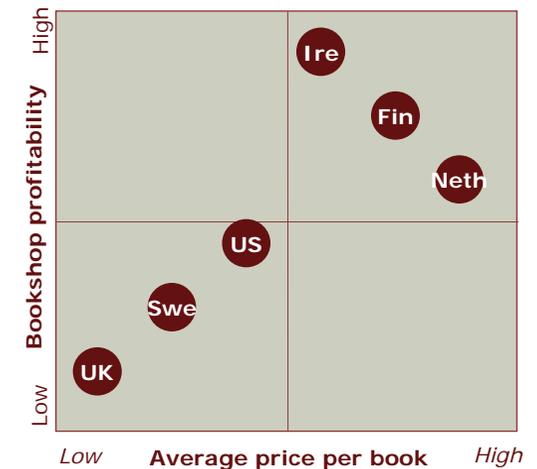
Purchases per capita vs. average price



Market value growth vs. average price



Profitability vs. average price

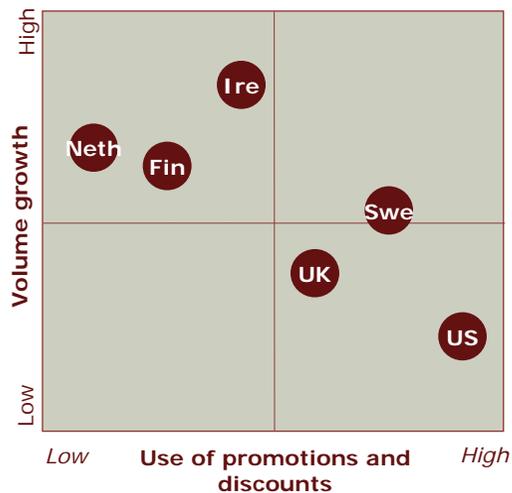


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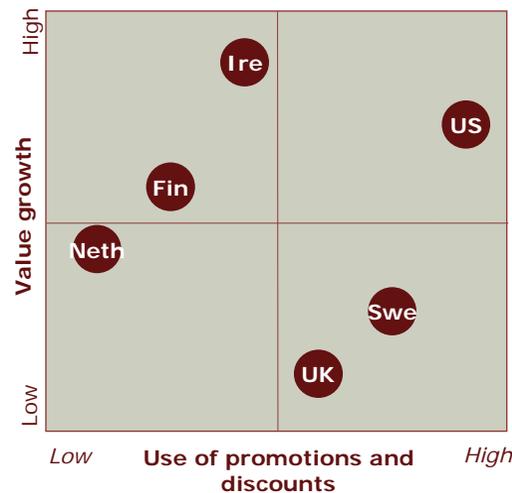
- While the number of books being bought by UK consumers appears to be relatively high, the heavy discounting and promotional volumes erode value and profitability
 - the UK has higher book purchases per capita with the lowest prices and market value growth
 - UK bookshop profitability is the lowest driven in part by the lowest average book price

The use of promotions and discounts creates a 'vicious circle' for UK booksellers

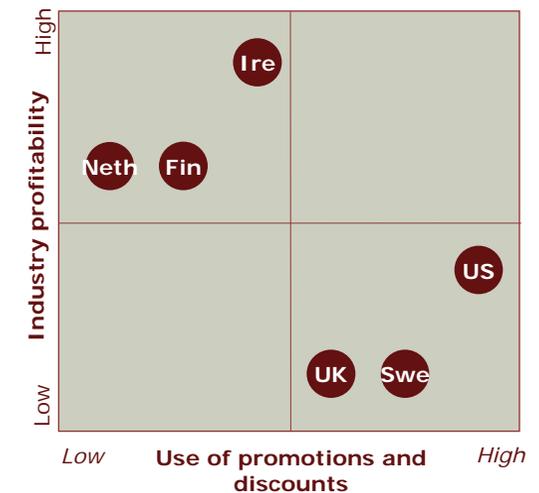
Market volume growth vs. use of promotions and discounts



Market value growth vs. use of promotions and discounts



Profitability vs. use of promotions and discounts

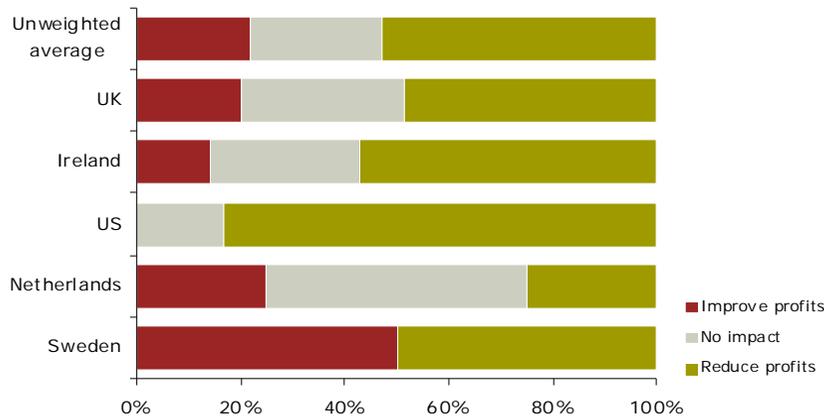


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- The UK and the US make significant use of promotions and discounts but this does not translate into higher growth in volumes when compared to the other markets we have studied
- The UK has the lowest growth in market value while the US has managed to achieve higher value growth reflecting increases in average prices despite its use of promotions and discounts
- UK industry profitability is the lowest of the markets studied, on a par with Sweden which is also a 'high user' of promotions and discounts

Few booksellers believe promotions and discounts improve profitability or that more use of them would benefit the industry

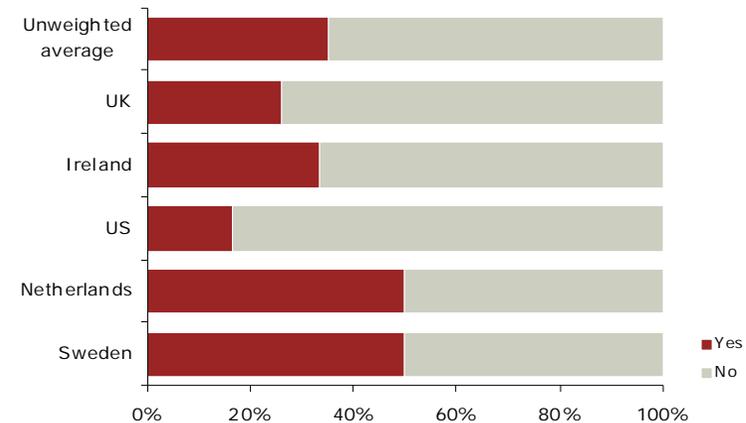
How do promotions and discounts impact on your profits?



Source: Online survey

- 50% of UK respondents believe that promotions and discounts either improve or have no impact on profits; the other 50% believe that they reduce profits
- Respondents' from different markets revealed quite different views. In the US, most respondents expressed the view that promotions and discounts reduce profits, but in the Netherlands, opinion was more divided

On balance, do you think more use of promotions and discounts would benefit the industry?

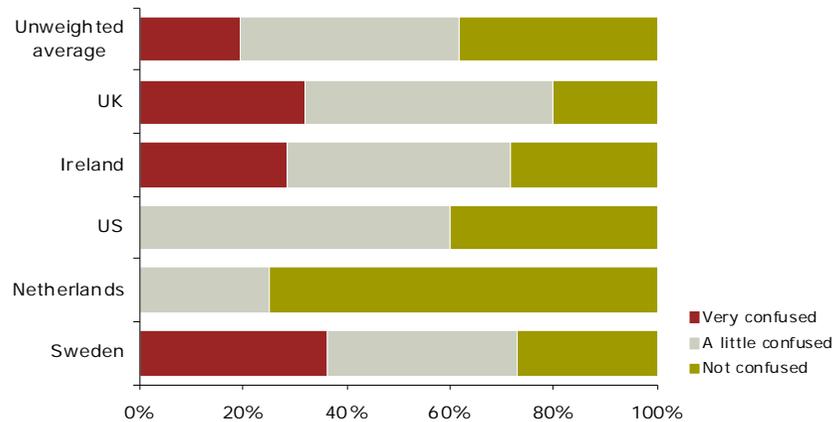


Source: Online survey

- Only 30% of UK respondents believe that greater use of promotions and discounts would benefit the industry, which is slightly lower than the unweighted average across all markets
- Roughly half of respondents in the Netherlands and Sweden felt that promotions and discounts could have a positive effect

In general, booksellers believe that consumers may be confused by the variety of prices available in the market

Do you think the consumer is confused by the variety of prices available in the market?

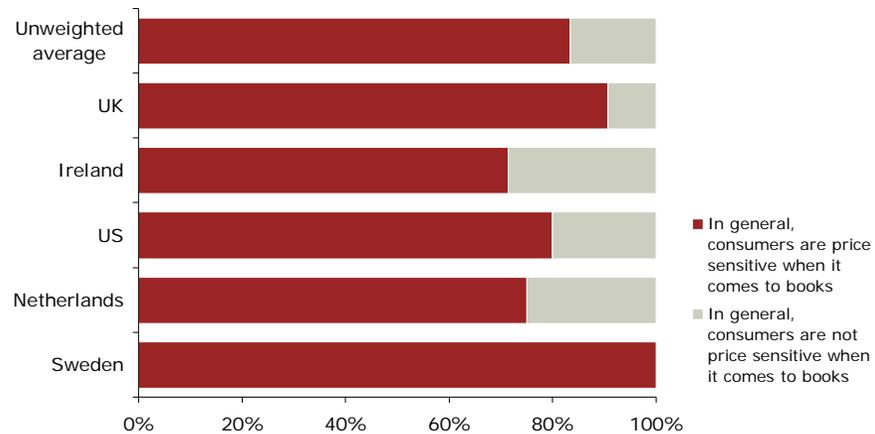


Source: Online survey

- 80% of UK respondents believe that consumers are confused to some degree by the variety of prices in the market
- This view is shared by the majority of respondents in all markets except the Netherlands – which may be explained by the fixed price regime maintaining greater uniformity of prices within the market

Books are at risk of being commoditised if perceptions of customer price sensitivity and product devaluation are correct

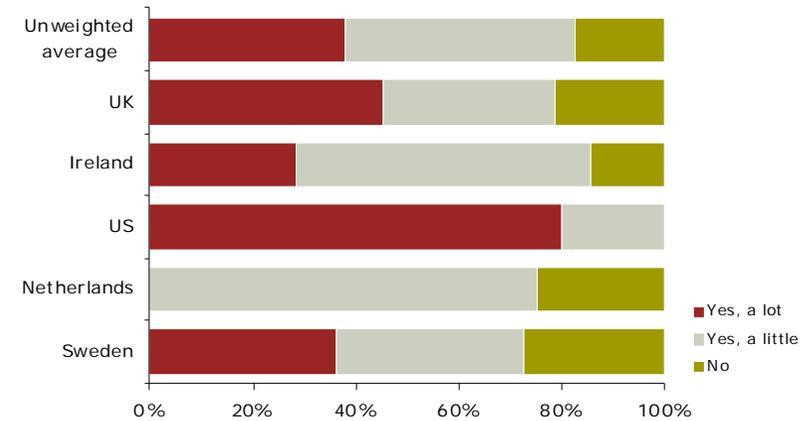
Do you believe that consumers are price sensitive when it comes to buying books?



Source: Online survey

- Most respondents across all markets believe that consumers are price sensitive when buying books – UK respondents more than average reflecting the highly competitive environment

Do you think discounting devalues books in consumers' minds?

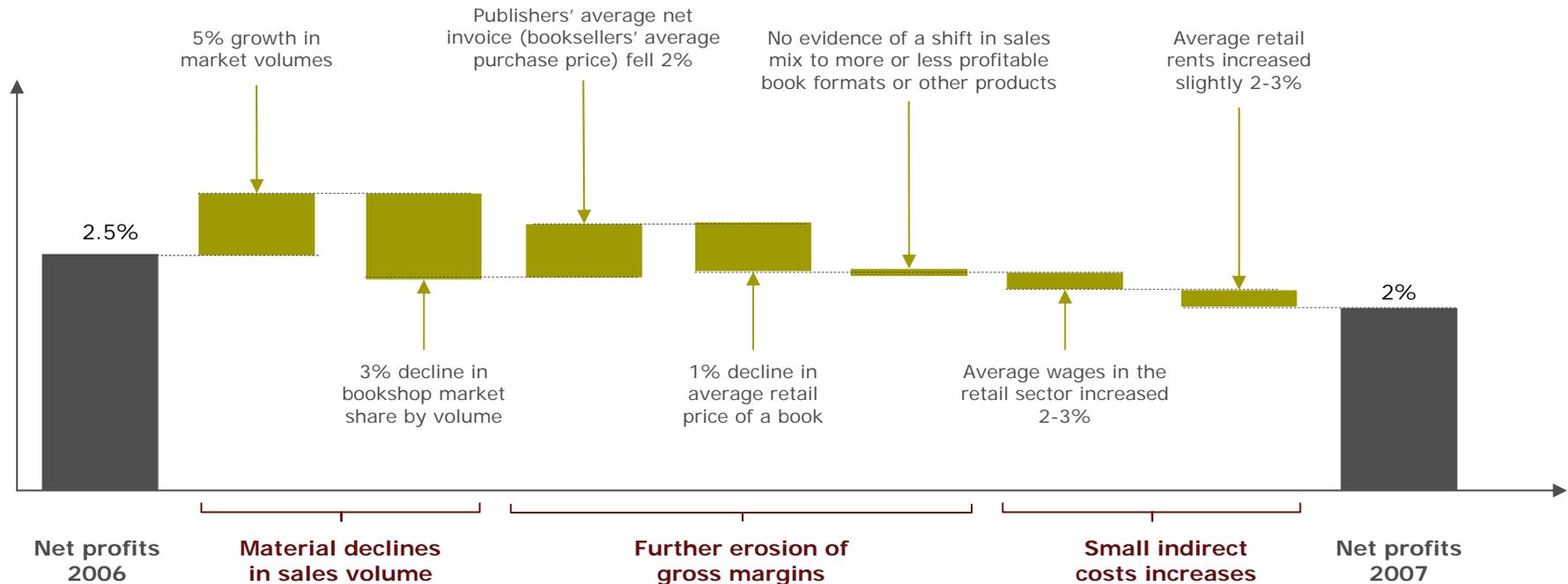


Source: Online survey

- Most respondents across all markets believe that discounting devalues books in consumers minds
- It is interesting that the Netherlands, where discounting is controlled by the fixed price regime, was the only market in our study where no respondents believed that discounting devalues books 'a lot' in consumer minds

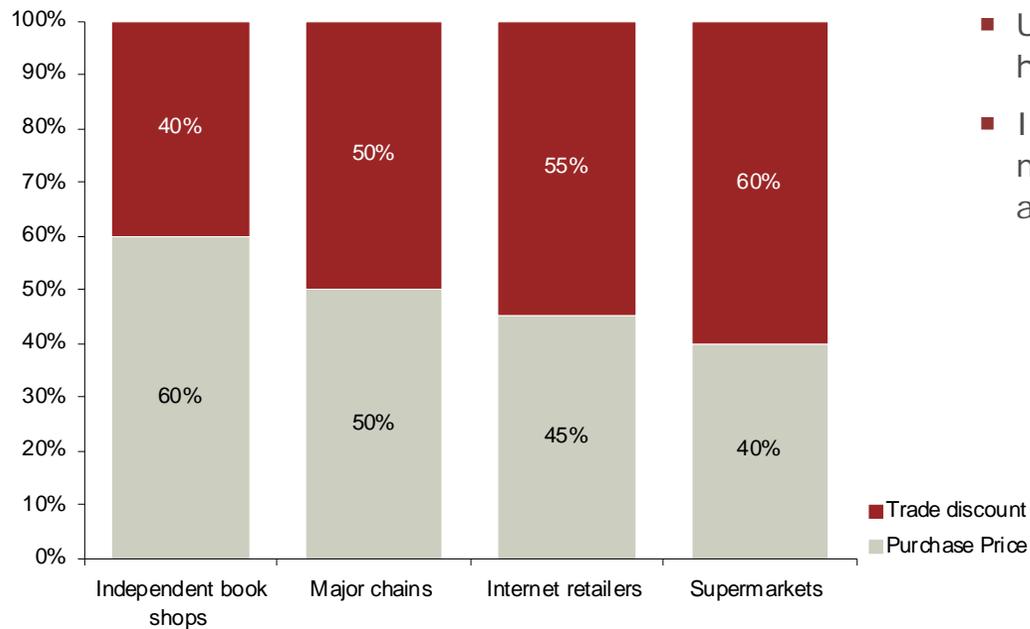
Declining gross profits have left UK booksellers vulnerable to even small increases in indirect costs

Profit pressures on UK booksellers - ILLUSTRATIVE



Lower trade discounts create a more difficult start for UK independents than for higher volume booksellers

Typical UK trade discounts on RRP



- Unsurprisingly, higher volume purchases result in higher discounts
- Independent bookshops are the hardest hit although major chains also suffer relative to internet retailers and supermarkets

Source: UK Competition Commission

UK bookshops offer a narrower product mix with a lower weighted average gross margin than most other markets

2007 estimates	% of revenue accounted for by books	% of revenue from other goods	Typical gross margin on books %	Typical gross margin on other goods %	Weighted average gross margin %
UK	75%	25%	25%	40%	29%
Ireland	65%	35%	25%	40%	30%
US	70%	30%	35%	35%	35%
Netherlands	65%	35%	30%	25%	28%
Sweden	75%	25%	40%	45%	41%
Finland	70%	30%	30%	30%	30%
AVERAGE (unweighted)	70%	30%	31%	36%	32%

Source: Estimates based on a wide variety of published sources and industry interviews

- We estimate that on average across independent bookshops and book chains in the UK, approximately 25% of revenue is generated from sales of goods other than books, primarily stationery, gift cards, news papers and magazines
- In most other markets, these non-book sales account for 30% to 35%

Low prices and low gross margins in the UK combine to drive the lowest gross profit per book in our sample

2007 estimates	Average price per book (£)	VAT (%)	Net revenue per book (£)	Average gross margin on books (%)	Average gross profit per book (£)
UK	6.34	0%	6.34	25%	1.6
Ireland	9.64	0%	9.64	25%	2.4
US	8.82	4%	8.48	35%	3.0
Netherlands	13.29	6%	12.54	30%	3.8
Sweden	6.47	6%	6.10	40%	2.4
Finland	10.71	8%	9.92	30%	3.0
AVERAGE (unweighted)	9.21	4%	8.84	31%	2.7

Source: Estimates based on a wide variety of published sources and industry interviews

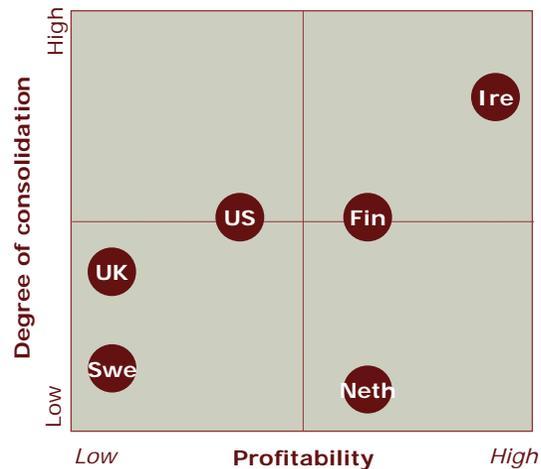


Source: SC analysis

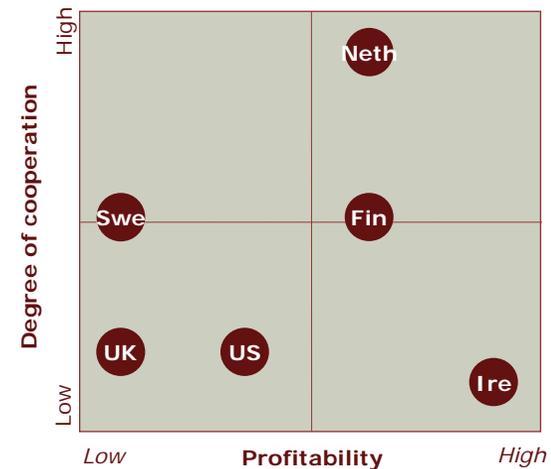
- Even with 0% VAT on books in the UK and Ireland, the average gross profit made per book is lower than all the other markets, due to low margins in both countries, as well as low prices in the UK
- At the other end of the spectrum, the Netherlands benefits from higher prices and better margins, despite 6% VAT on books
- However, the fixed price agreement in the Netherlands means that books cannot be sold at a discount until a year after release, and sets gross margins for books at about 40% during this period

The level of market consolidation and cooperation appears to have an influence on industry profitability

Consolidation vs. profitability



Cooperation vs. profitability

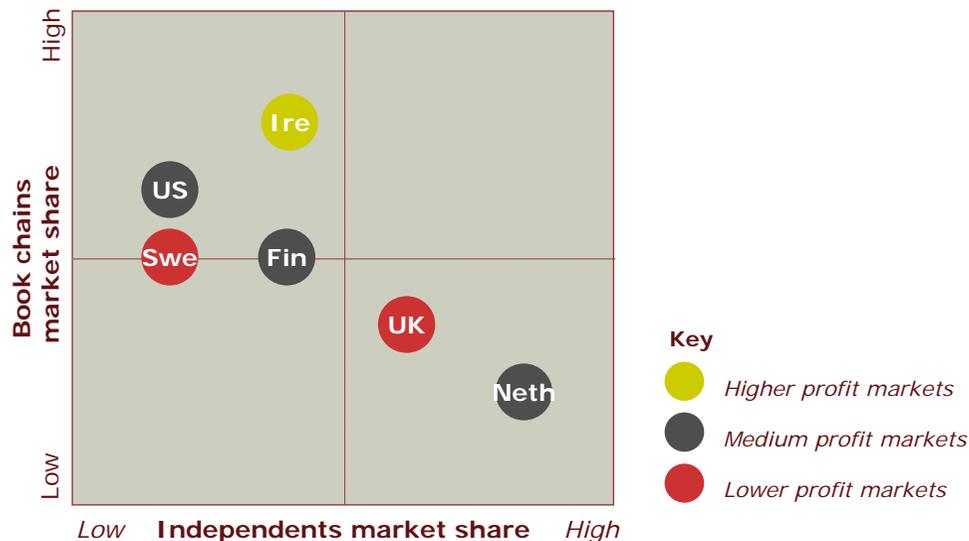


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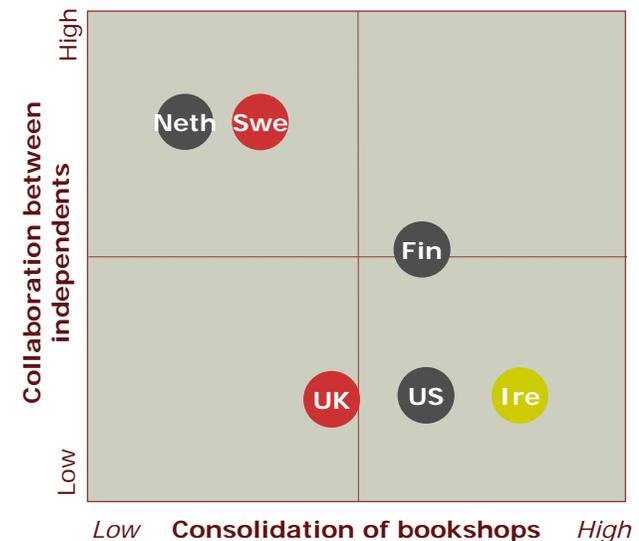
- We measure consolidation of the book shops sector as the ratio of book chain market share to independent market share
- In general, those markets that are more consolidated tend to have higher profitability, the Netherlands being a notable exception
- There also appears to be some relationship between industry profitability, and the degree to which independents cooperate in purchasing and/or marketing

Collaboration between independents is greater in higher profit markets particularly where book chains dominate

Book shop profitability and the market share of independents and book chains



Book shop profitability and the extent of consolidation and/or cooperation

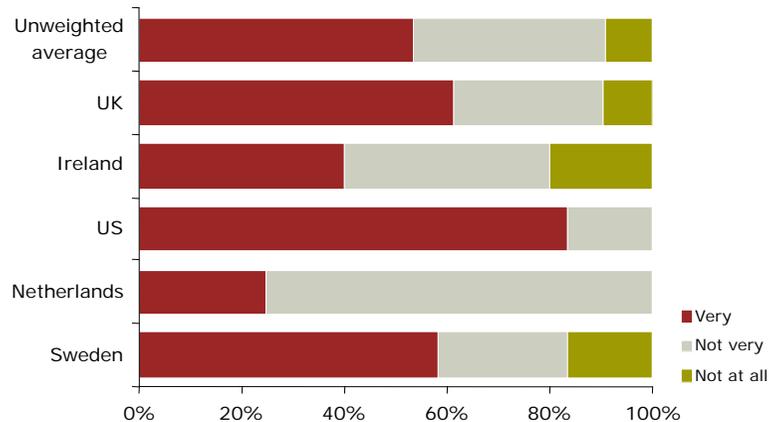


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- Concentration of bookshops into chains might be expected to improve industry profitability due to the larger trade discounts that chains can negotiate, and their potential scale economies in administration and marketing
- These factors may go some way to explain the relatively higher profitability of Irish and US bookshops, where total sales through chains are about three times greater than sales through independents
- The Netherlands' profitability is not only protected by the fixed price system, but there is also significant collaboration in the form of franchising and buying cooperatives as well as the strong marketing collaboration through CPNB which, co-funded by booksellers and publishers, delivers a number of major, themed campaigns each year promoting books
- Sweden is also a notable exception, with its low profitability despite the fact that chains are dominant amongst bookshops. This is most likely explained by the recent aggressive growth of online book retailers in Sweden, taking volumes from bookshops and creating increasing pricing pressure

Many of the markets studied are polarised although cooperation between independents is not dependent on this factor

To what extent has your market become polarised between a small number of large booksellers and a large number of small independents?



Source: Online survey

Co-operation between independents in the Netherlands

- Although 80% of bookshops are independent, almost half of these engage in some form of cooperation
 - 22% of bookshops are part of a franchise
 - 14% of bookshops are members of buying consortia
- CBNB is an independent foundation supported by the industry
 - Organises 10 campaigns a year to drive book sales e.g. Month of Crime, Books as Gifts (specially written book given to all purchasers of other books) etc.
- Cooperation is actively encourage by the Dutch Booksellers Association

(Source: EBF, HBD)

Co-operation between independents in Finland

- Info, Kipa, and Kirja-Q bookshops are composed of more than 100 independent bookshops between them – more than there are unaffiliated independents

(Source: Finnish Publishers Association)

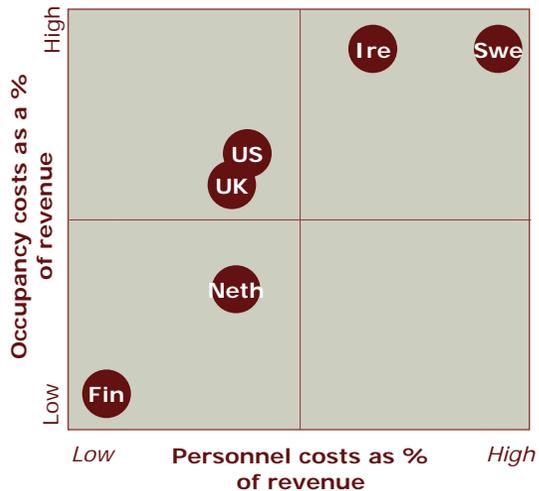
Co-operation between independents in Sweden

- ABG is has about 80 member companies with 100 outlets
- JB is a smaller consortia of independents that collaborate in buying and advertising
- There are only about 20 entirely independent bookshops

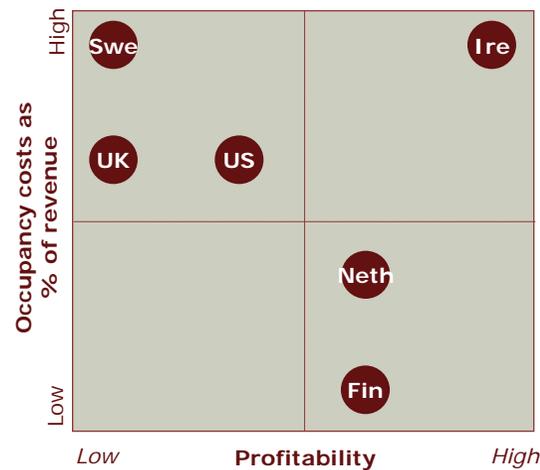
(Source: Swedish Booksellers Association)

Variations in levels of gross profit mask the relationship between indirect costs and profitability in different markets

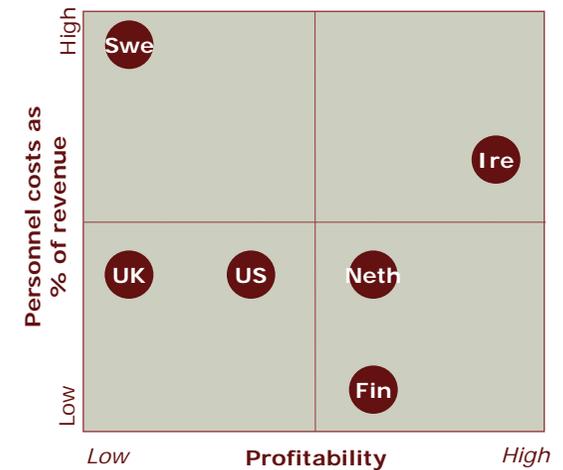
Occupancy costs vs. personnel costs



Occupancy costs vs. profitability



Personnel costs vs. profitability

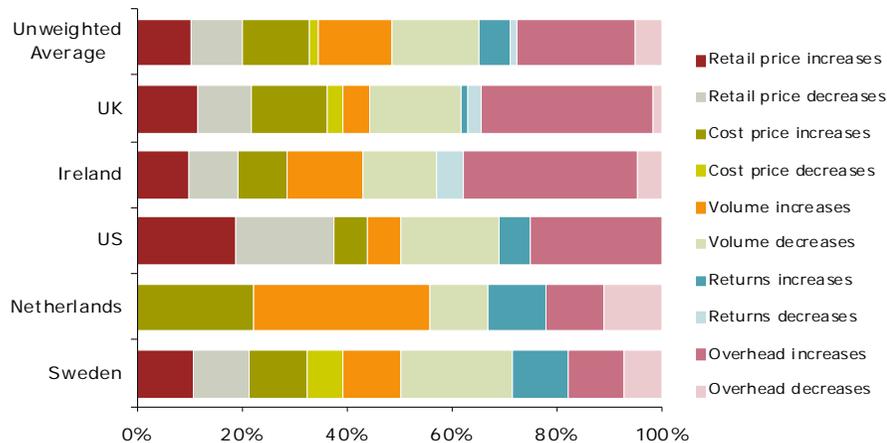


Key: Fin = Finland, Ire = Ireland, Neth= Netherlands, Swe = Sweden, UK = United Kingdom, US = United States

- Occupancy and personnel costs appear to be positively correlated – those markets with higher occupancy costs also have higher personnel costs
- However, the relationship with profitability and indirect costs is far less clear cut, as profitability is also impacted by gross margins and sales volumes per bookshop, which vary across markets

Overhead cost increases were most commonly identified as driving profit pressure in the UK, as well as in the US and Ireland

What is driving changes in profitability?

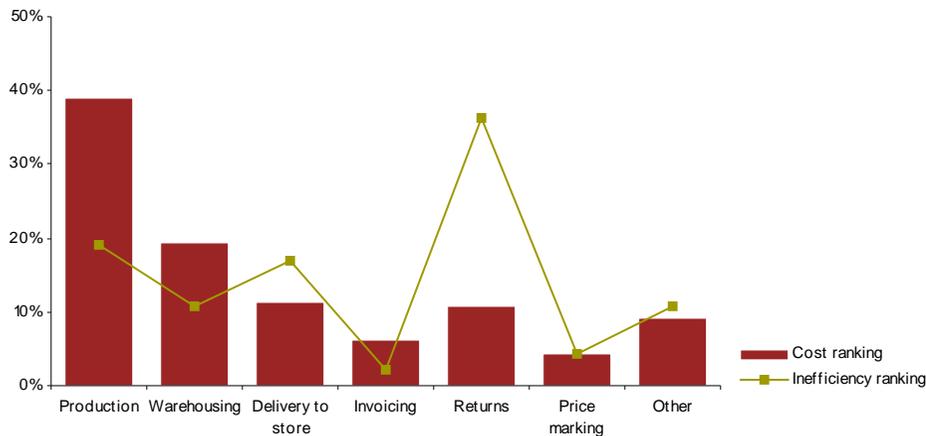


Source: Online survey

- UK respondents identified overhead increases as the most significant current driver of changes in profitability
- Retail price decreases were not seen as a material influence on profitability, suggesting that the level of promotions and discounts in the UK may be stabilising
- A material number of UK booksellers identified volume decreases as a factor, despite the fact that total market volumes have been increasing – while some booksellers will be losing volumes despite market growth, this may also reflect misperception by some respondents
- Although identified as an area of inefficiency, returns were not seen as a key driver of changes in profitability

UK survey participants indicated that returns offer the greatest scope for cost savings within booksellers' business processes

Booksellers' ranking of supply chain costs and inefficiencies

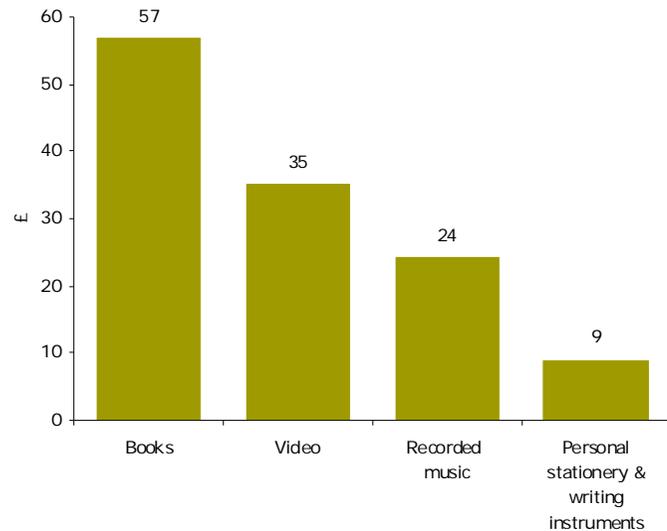


Source: Online survey, SC analysis

- Survey participants were asked to allocate costs across the supply chain and then to identify the biggest areas of inefficiency
- Their responses identify production as the biggest cost within the supply chain followed by warehousing and delivery
- Returns were identified as the biggest cost category within the booksellers' own scope of business, and as the area of biggest inefficiency in the supply chain
 - although much work has been done by the industry on the returns process, this result suggests the perception of potential incremental performance improvement by individual booksellers

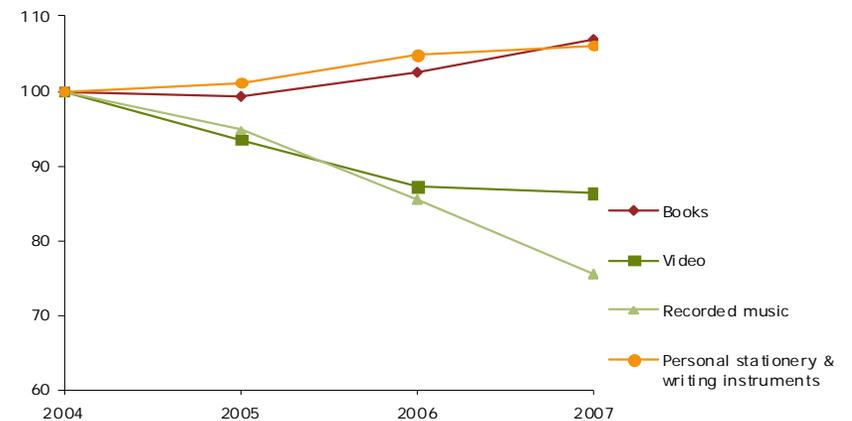
The book industry has better consumer spend metrics than the other sectors reviewed in the study

UK per capita spend 2007



Source: PA, BVA, BPI, Mintel, ONS, SC analysis

Growth in consumer expenditure (2004 = 100)

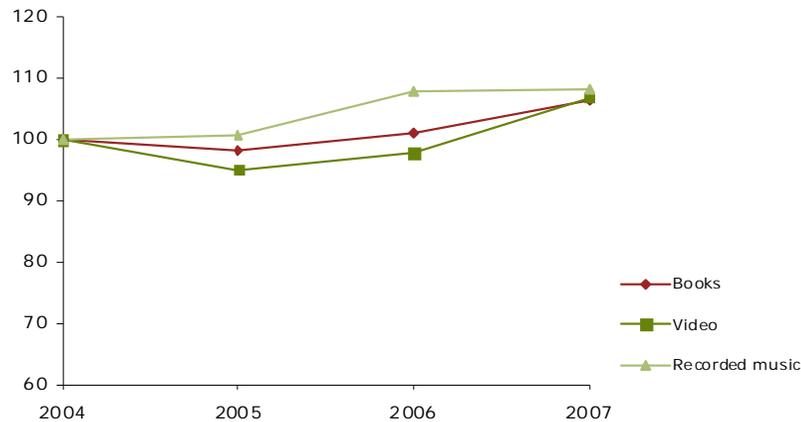


Source: PA, BVA, BPI, Mintel, ONS, SC analysis

- UK per capita expenditure on books far exceeds video, recorded music and personal stationery
- Consumer spend on books and stationery has grown while videos and recorded music has sharply declined, the latter two having been severely impacted in recent years by illegal downloads and fierce price competition

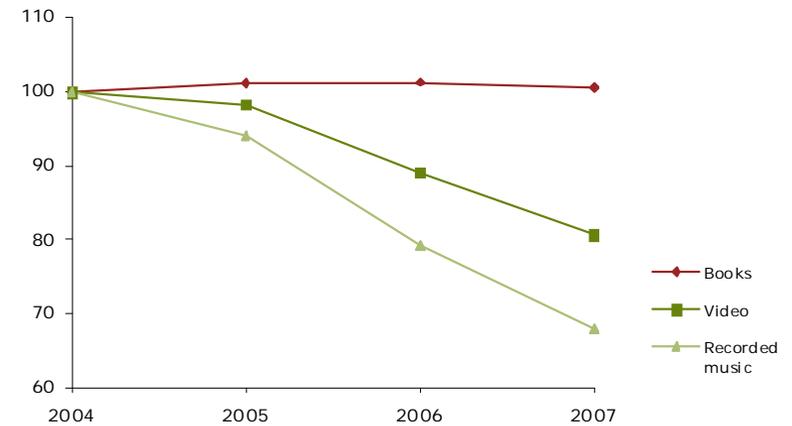
Books have also maintained price levels while CDs and DVDs have declined given similar growth in sales volumes

Growth in unit sales
(2004=100)



Source: PA, BVA, BPI, Mintel, ONS, SC analysis

Change in average prices
(2004=100)

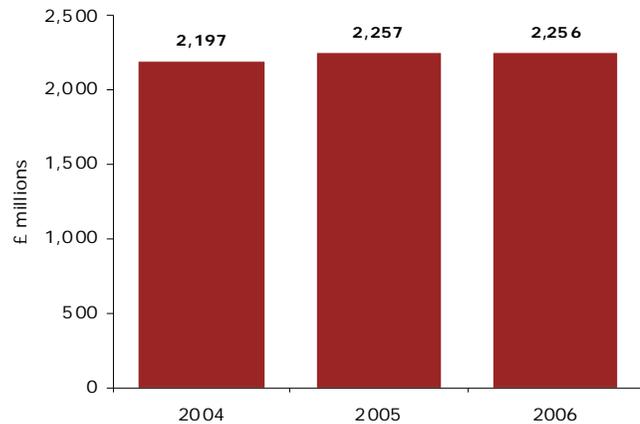


Source: PA, BVA, BPI, Mintel, ONS, SC analysis

- Growth in the unit sales of books, video and music from 2004 to 2007 have been broadly similar, but the sharp decline in average prices for recorded music and video games has undermined market value
- Recorded music has suffered the greatest decline in prices with video prices eroding by 20%, again reflecting the shift to digital downloads and competition from illegal (free) downloads of these media

The UK market for personal stationery and writing instruments is worth almost £0.6 billion and is growing

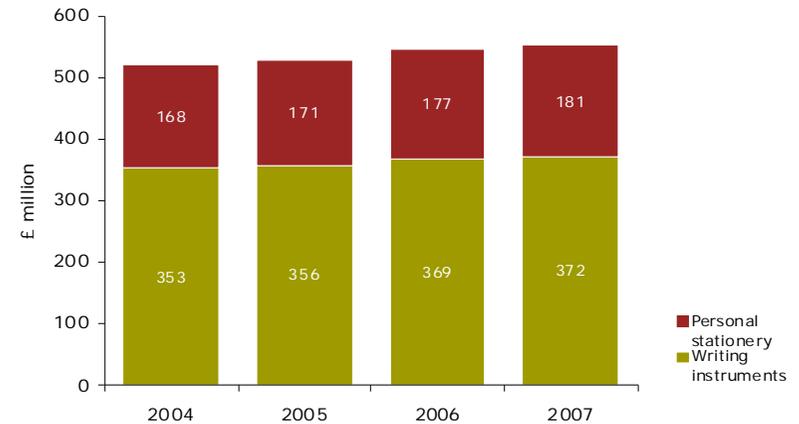
The Total UK Stationery Market by Sector by Value at Current Prices (£m at msp), 2004-2006



Source: Keynote, SC analysis

- Keynote market size estimate includes retail purchases of equipment for working from home and student use, as well as personal stationery and gifts
 - includes writing pads, envelopes, account books, notebooks, diaries, pens, pencils, rubbers, correction fluids, ribbons, punches, scissors, staplers, drawing pins, paper and card, but excludes greetings cards and calendars
- Key Note estimates that the sector of personal, student, children's (not including schools' purchasing) and home worker use accounts for at least 30% of the overall stationery market at manufacturers selling prices (msp)
- Overall growth in market value since 2002 has been around half of the retail price index (RPI) inflation rate
- Price rises in the stationery market have been generally fairly modest, kept down by the intense competition among manufacturers and distributors

Consumer expenditure on personal stationery and writing instruments (£ millions)



Source: Mintel, SC analysis

- Mintel market size estimate includes writing paper pads and envelopes (standard or personalised); notelets; special-occasion cards, such as pre-printed formal occasion invitations and acceptances; birth and change-of-address cards
 - greetings cards, diaries and personal organisers are excluded from the definition, as are accessories such as notebooks, rulers, pencil sharpeners, erasers, paper clips, staplers and staples
- Due principally to growth in household PC ownership and a trend towards working from home, a considerable area of potential overlap between the personal, commercial and educational usage sectors has emerged.
 - where possible, items for non-personal use have been eliminated, but there remain grey areas, including items like plain A4 paper. Mintel has estimated a proportion of the latter for personal use

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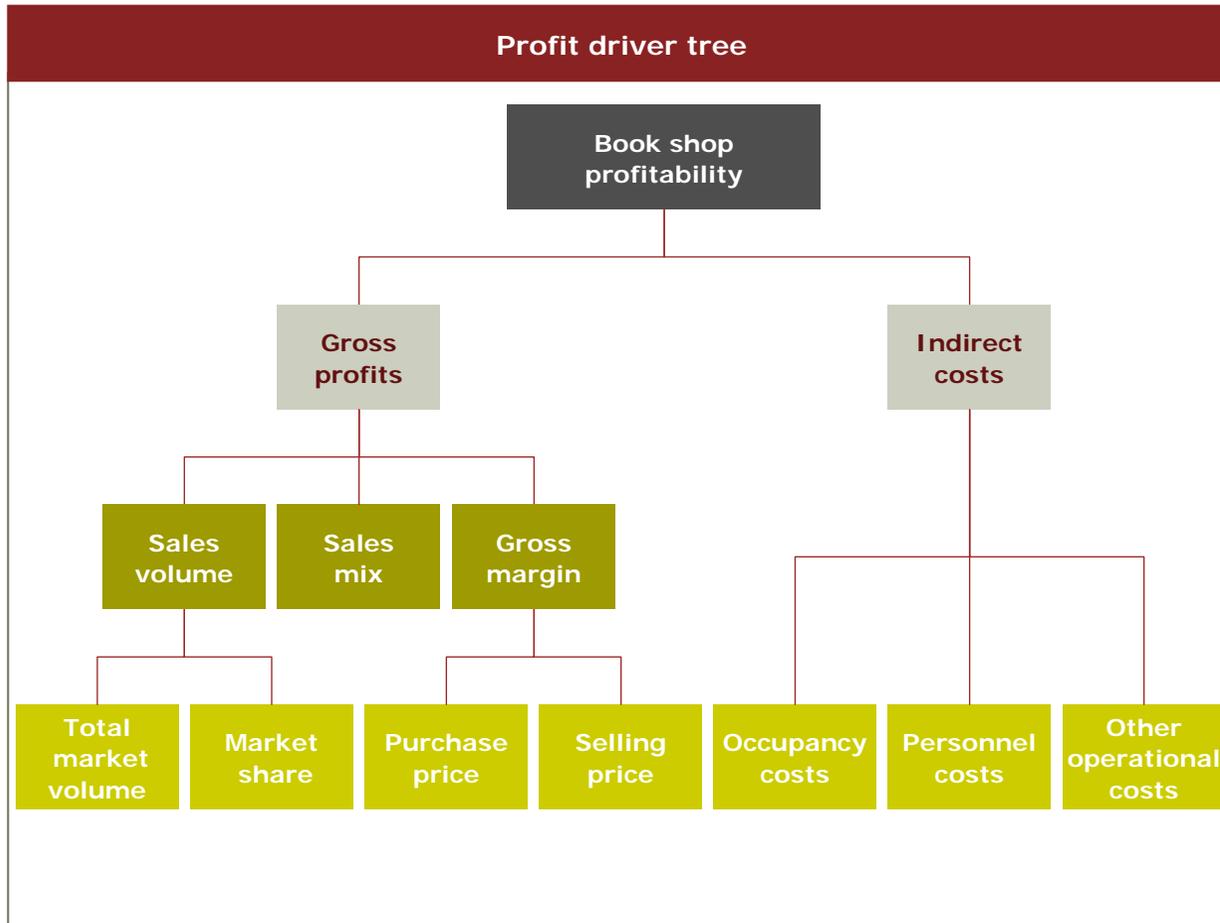
Book industry analysis

- **Profitability comparisons**
- Market size and growth
- Industry structure and dynamics

CDs, DVDs, and stationery markets

Appendix: Information sources

We have used an analytical framework to examine the profitability of bookshops in the UK and the other markets



- We have examined the profitability of a 'typical' bookshop in each market, by estimating average:
 - revenue
 - sales mix – books versus other
 - sales volume
 - gross margins – books and other
 - indirect costs – personnel, occupancy and other
- Our analysis of bookshop profitability is restricted to independent bookshops and book chains. We exclude online retailers, supermarkets and other mixed retail outlets from this analysis since their business models and therefore profitability drivers are materially different to that of a bookshop

Profitability of UK bookshops appears to be particularly low compared with other markets

2007 estimates	Average gross profit per bookshop		Average indirect costs per bookshop		Average net profit per bookshop	
	% of revenue	£m	% of revenue	£m	% of revenue	£m
UK	29%	0.30	27%	0.28	2%	0.02
Ireland	30%	0.27	25%	0.23	5%	0.05
US	35%	0.75	32%	0.69	3%	0.06
Netherlands	28%	0.19	24%	0.16	4%	0.03
Sweden	41%	0.27	39%	0.26	2%	0.01
Finland	30%	0.14	26%	0.12	4%	0.02
AVERAGE (unweighted)	32%	0.32	29%	0.29	3%	0.03

Source: Estimates based on a wide variety of published sources and industry interviews

- The UK's low profitability appears to be driven by particularly low gross profits rather than high indirect costs
- In contrast, Sweden's low profitability appears to be a result of high indirect costs, while gross profits appear comparatively healthy
- Note that gross profit is function of both sales volumes and gross margins – while margins in the Netherlands are better than in the UK, sales volumes per bookshop are lower, which explains the low level of gross profits in the Netherlands

The average number of books sold per bookshop appears to be relatively high in the UK, compared with all markets except the US

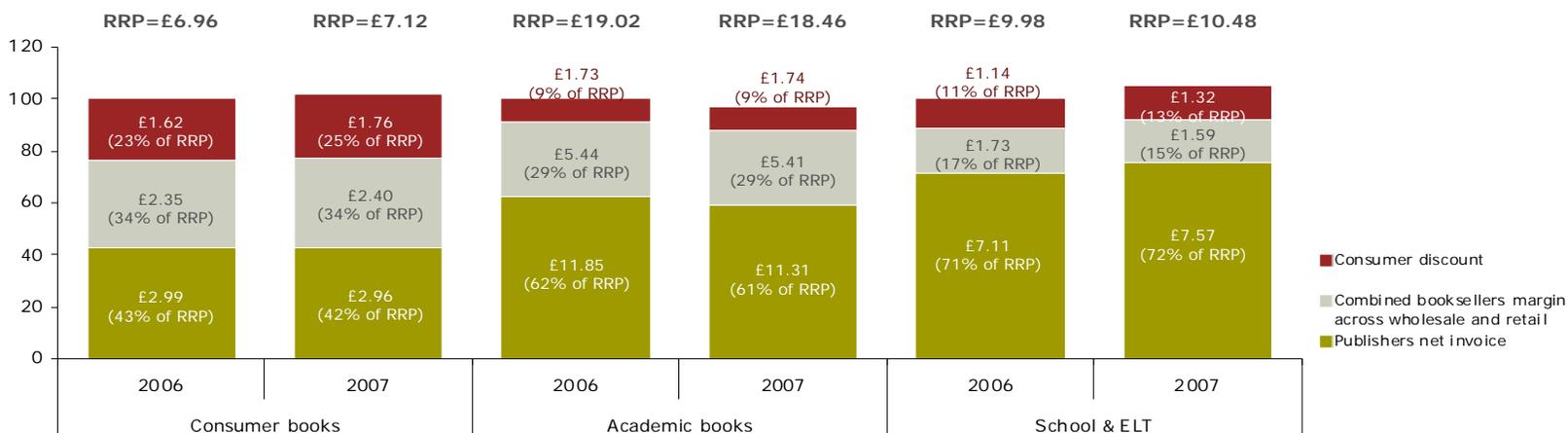
2007 estimates	Total book sales (millions of books)	Market share of bookshops (%)	Volume of sales through bookshops (m)	No. of bookshop outlets	Average unit sales per bookshop (m)
UK	546	50%	273	2,200	0.12
Ireland	20	60%	12	200	0.06
US	3,152	45%	1,418	8,000	0.18
Netherlands	82	55%	45	1,400	0.03
Sweden	80.00	40%	32	400	0.08
Finland	33.60	40%	13	400	0.03
AVERAGE (unweighted)	652.25	48%	299	2,100	0.08

Source: Estimates based on a wide variety of published sources and industry interviews

- We have estimated the number of books sold through the average bookshop in each market by dividing the estimated total book sales through bookshops (independents and chains) by the estimated number of outlets
- The results are broadly consistent with the average revenue analysis on the previous page, though there is some variance reflecting differences in average prices
- The UK's higher average number of books sold per book shop relative to revenue is consistent with low book prices in the UK

Despite bigger discounts offered to book buyers, the margins available on consumer titles appear higher than in academic

RRPs, discounts, booksellers margins and cost of goods: 2006 vs. 2007 (2006 RRP=100)



Source: PA, SC analysis

- The chart shows the combined gross profit available to wholesale and retail booksellers – that is the difference between what publishers invoice for books on average, and what the end customer pays on average.
- This margin varies considerably between the three major book categories, both in absolute terms and in terms of % margin, reflecting the very different RRP of these books, the varying levels of discount to RRP given by publishers to booksellers in the different categories, and the different levels of discount given to end customers by booksellers
- The least profitable sector for booksellers, both in absolute and % margin terms is the School and ELT sector. As a consequence, this sector is served primarily by specialist school and library distributors rather than bookshops
- The largest gross profits available to booksellers in absolute terms are found in the academic sector, but this reflects the higher average price of these books – despite the lower level of discounting to end customers, the margins are actually lower than in the consumer trade due to the lower discounts to RRP given by publishers

Indirect costs in the UK appear to be slightly below average for the group

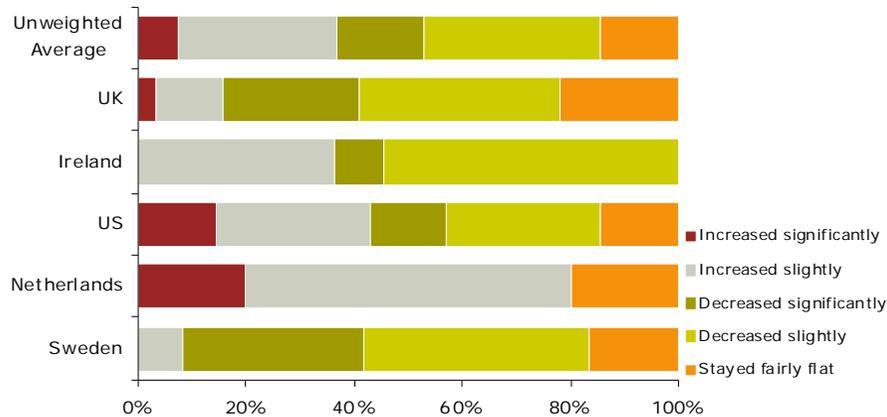
2007 estimates	Personnel costs		Occupancy costs		Other indirect costs		Total indirect costs	
	% of revenue	£m per bookshop	% of revenue	£m per bookshop	% of revenue	£m per bookshop	% of revenue	£m per bookshop
UK	12%	0.12	7%	0.07	8%	0.08	27%	0.28
Ireland	13%	0.12	9%	0.08	3%	0.03	25%	0.23
US	12%	0.27	7%	0.15	13%	0.27	32%	0.69
Netherlands	12%	0.08	5%	0.03	8%	0.05	24%	0.16
Sweden	19%	0.13	9%	0.06	10%	0.07	39%	0.26
Finland	10%	0.05	4%	0.02	12%	0.06	26%	0.12
AVERAGE (unweighted)	13%	0.13	7%	0.07	9%	0.09	29%	0.29

Source: Estimates based on a wide variety of published sources and industry interviews

- It may be that the relatively large size of UK bookshops has afforded them some efficiencies through economies of scale
- It should also be noted however that differences in accounting treatments in the underlying data may have distorted our estimates. Key issues include:
 - drawings by owner-managers of independent bookshops, and whether these are treated as salary (personnel costs) or dividends (taken from profits after tax)
 - lower occupancy costs when a shop is owned outright, rather than mortgaged or leased; a high level of shop ownership by booksellers in the Netherlands and Finland may be a factor in explaining the apparently low occupancy costs in these countries

The survey suggests profitability has been declining in all markets except the Netherlands; few respondents expect things to improve

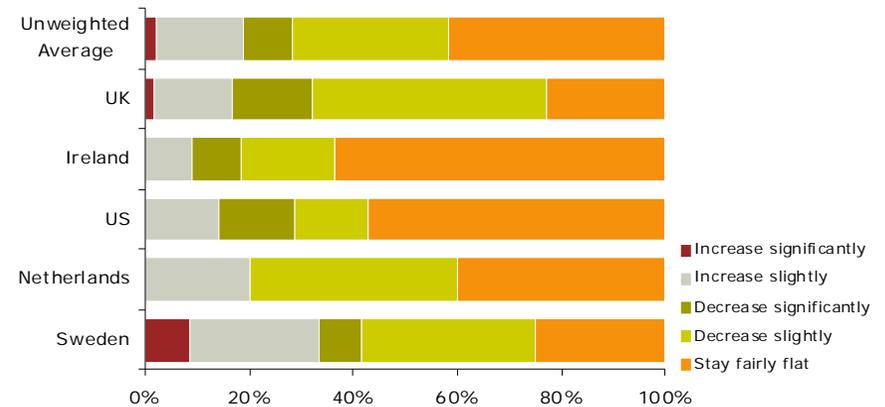
How has the book retailer profitability changed over the PAST three years?



Source: Online survey

- UK respondents generally felt that profitability has been getting worse over the past 3 years although 20% felt that the situation has been stable
- UK respondents were more negative about the recent profitability trend than respondents in most other markets – with the exception of Sweden and perhaps Ireland

How do you expect book retailer profitability to change over the NEXT three years?

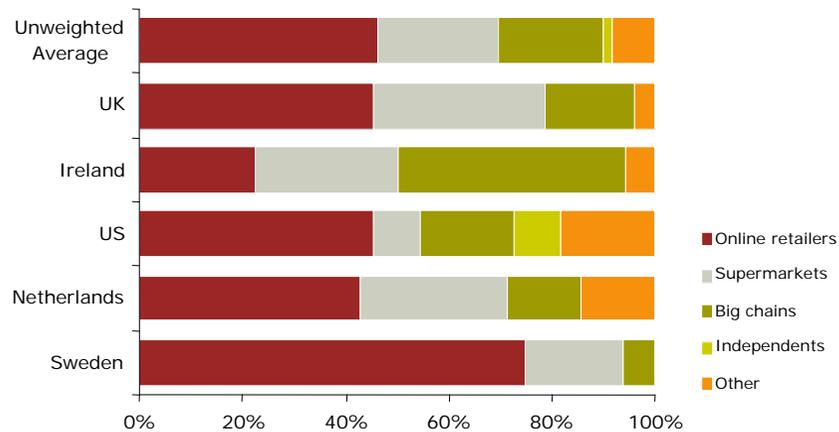


Source: Online survey

- On balance, UK respondents are the more pessimistic about profitability over the next three years, than respondents from any other market

The survey identified online retailers as the biggest drivers of change in profitability in all markets except for Ireland

Who are the biggest drivers of change in retailer profitability?



Source: Online survey

- In the UK, respondents identified a nearly even balance between online retailers and supermarkets as the key influencers of bookseller profitability
- Other drivers identified included wholesale clubs and suppliers

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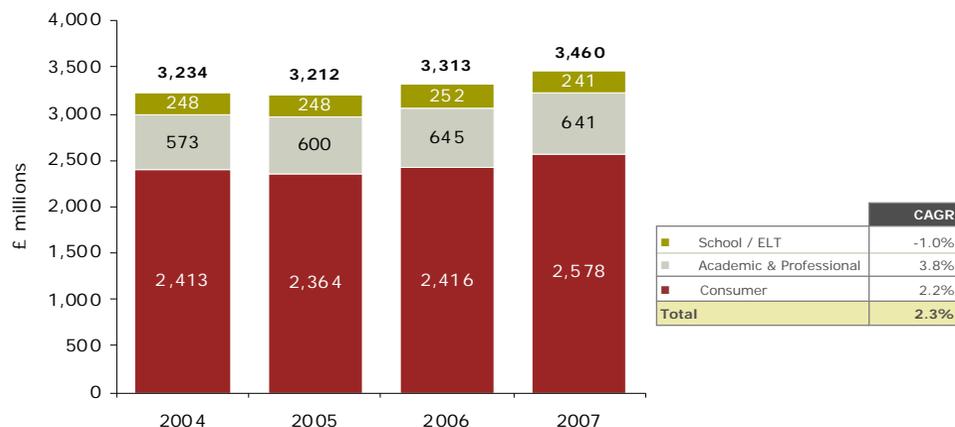
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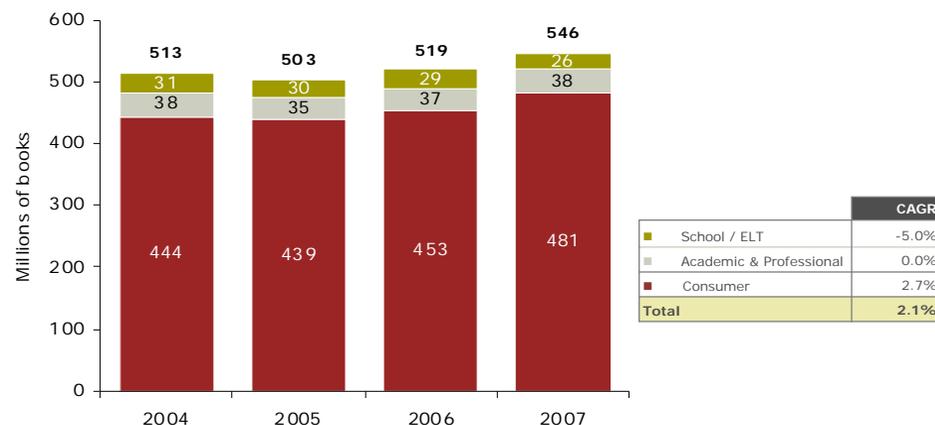
We estimate that the UK book market was worth £3.5 billion in 2007

Total market size at end purchaser prices



Source: PA, SC analysis

Total number of books purchased



Source: PA data; SC analysis

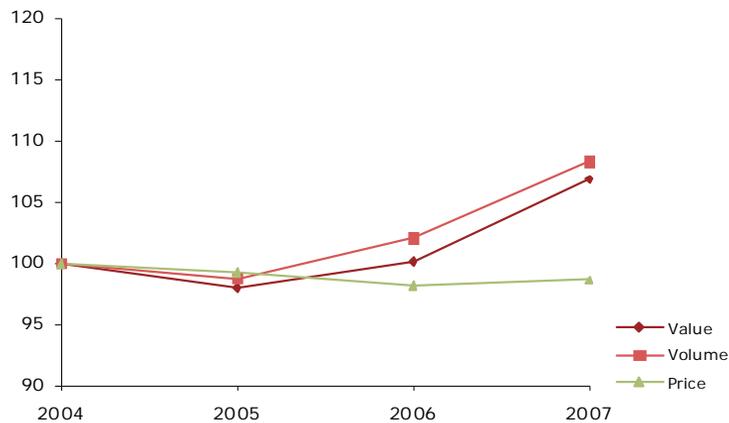
Estimated average price £ (including VAT)	2004	2005	2006	2007	CAGR
Consumer	5.43	5.39	5.33	5.36	-0.46%
Academic / professional	14.93	17.10	17.29	16.72	3.83%
School / ELT	8.08	8.38	8.84	9.16	4.29%
Total	6.30	6.38	6.38	6.34	0.20%

Source: PA, SC analysis

- The consumer market accounts for 75% of the market by value and 88% of the market by volume, reflecting the fact that consumer books tend to be less expensive than academic or school books
- The academic market accounts for 19% of the market by value and just 7% of the market by volume
- Overall, the market has grown at just 2% per year in current prices over the last three years, meaning that net of inflation the market has been flat

Volume growth has been driving the UK consumer market, while pricing has driven the academic market

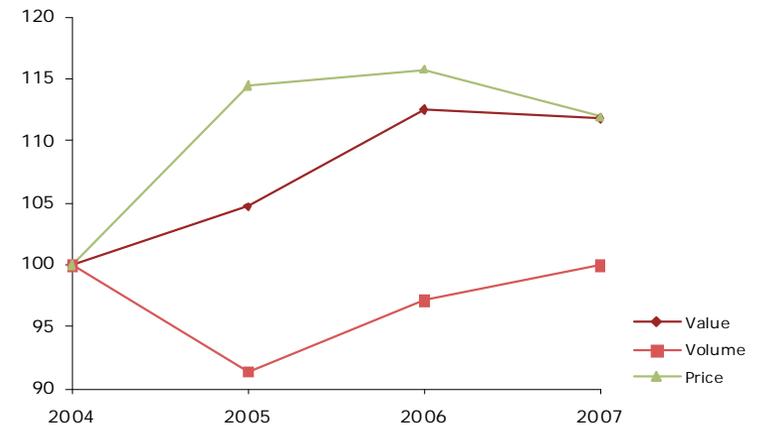
Consumer market growth
(2004=100)



Source: PA, SC analysis

- Consumer prices appear to have rebounded slightly in 2007 following declines in the previous 2 years
- Volume growth since 2005 has driven growth in market value

Academic market growth
(2004=100)

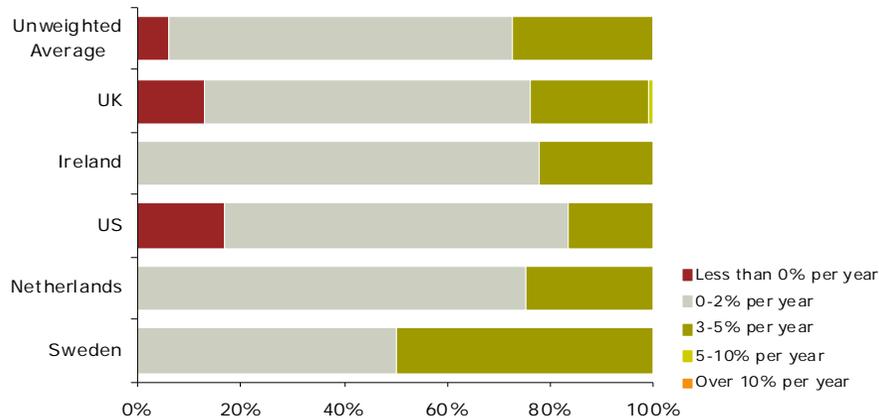


Source: PA, SC analysis

- Academic book prices flattened and then declined over the past 2 years
- In 2007, sales volumes recovered to 2004 levels, following a sharp decline in 2005

Across all markets, survey participants are generally more optimistic about the outlook for growth of the consumer market than they are about the academic market

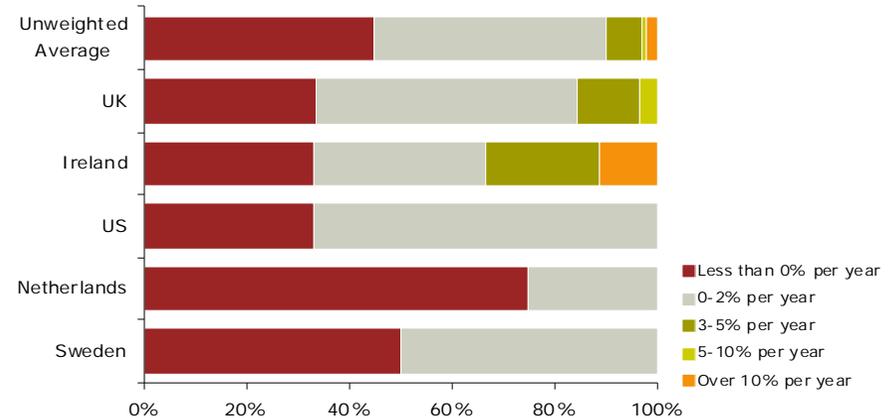
How much do you think the total value of the CONSUMER market will grow each year on average over the next 3 years?



Source: Online survey

- UK respondents overwhelmingly believe that the UK consumer market will grow at between 0% and 2% per year over the next 3 years
- UK respondents are slightly more pessimistic than respondents from other markets, as reflected in the unweighted average values

How much do you think the total value of the ACADEMIC market will grow each year on average over the next 3 years?

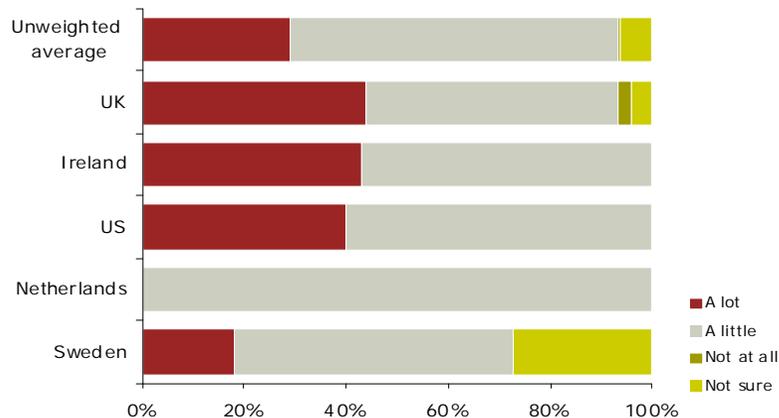


Source: Online survey

- UK respondents are on average more pessimistic about the outlook for the academic market than they are about the consumer market, with about 30% of UK respondents believing that the academic market will experience negative growth over the next three years
- Respondents from all other markets except Ireland are even more pessimistic than UK respondents

Most survey participants believe that confidence in the economy influences book sales, but we found no correlation between GDP growth and book sales in the UK

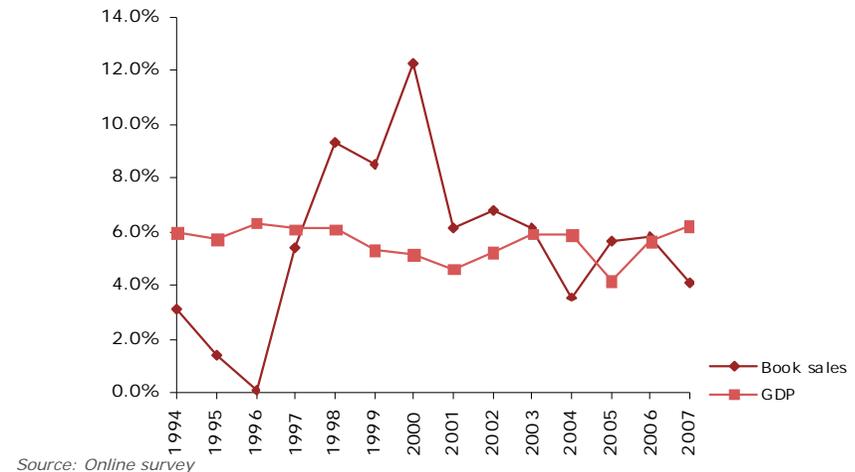
How much do overall levels of consumer confidence in the economy impact book sales?



Source: Online survey

- There are conflicting views as to how an economic downturn might impact on the market
 - on the one hand some argue that as discretionary purchases, books sales are likely to be significantly impacted
 - a counter argument is that as a relatively low cost leisure activity, book buying holds up well when disposable incomes decline

Year-on-year nominal growth (current prices)



Source: Online survey

- There is no obvious correlation between economic growth rates and the sale of books in the UK since 1994

The UK book market is larger than the other European markets in this study, but is dwarfed by the US

Total market size (£bn incl. VAT)	US	UK	Ne	Sw	Fi	Ir
Consumer	15.6	2.6	0.60	0.31	0.24	0.15
Academic	12.2	0.9	0.49	0.21	0.12	0.05
Total	27.8	3.5	1.09	0.52	0.36	0.20

Note: Excludes used book sales

Source: Estimates based on wide range of published data and interviews

- The value of the US book market is greater than the sum of all values of all the other markets in this study
- The UK is the second largest market in this study, but is worth just 13% of the US market
- The share of total market value accounted for by academic books rather than consumer books varies quite considerably across the different markets – from about 25% in the UK and Ireland to almost 45% in the Netherlands and the US

Total number of books sold (millions)	US	UK	Ne	Sw	Fi	Ir
Consumer	2,572	481	64	65	23	17
Academic	580	65	18	15	11	3
Total	3152	546	82	80	34	20

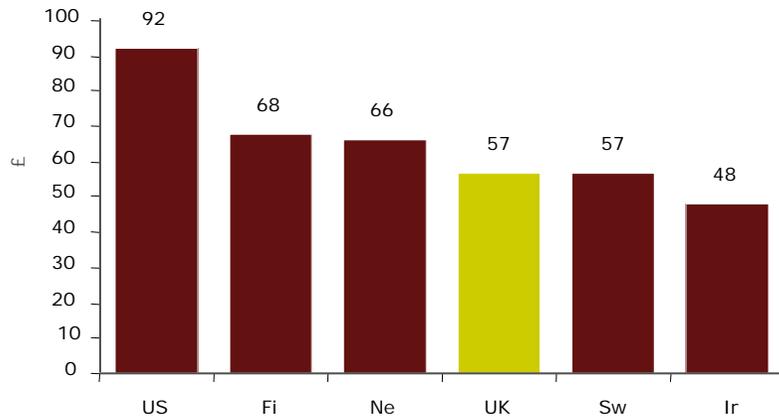
Note: Excludes used book sales

Source: Estimates based on wide range of published data and interviews

- As with market value, the volume of books sold in the US dwarfs the other markets in this study
- The share of total market volume accounted for by academic books is significantly lower than the value share, reflecting the higher average price of academic books (see page 47)
- Academic books account for just 12% of all book sold in the UK

UK per capita spending on books is in the lower half of our sample, although the number of purchases per capita is relatively high

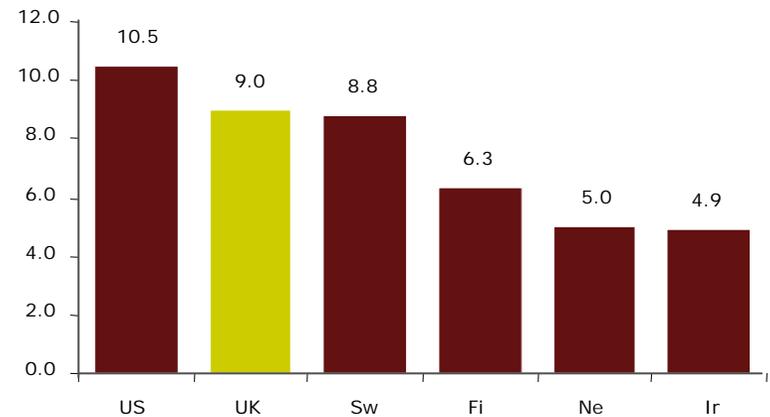
Per capita spend in 2007 (£)



Source: Estimates based on published data and interviews

- UK expenditure on books in 2007 amounted to an average of £57 per person, with only Ireland having a lower per capita spend at £48
- Per capita spending in the US is notably higher than all the other markets in this study
 - at £92, it is more than 61% higher than in the UK, and almost 92% higher than in Ireland

Per capita books purchases in 2007

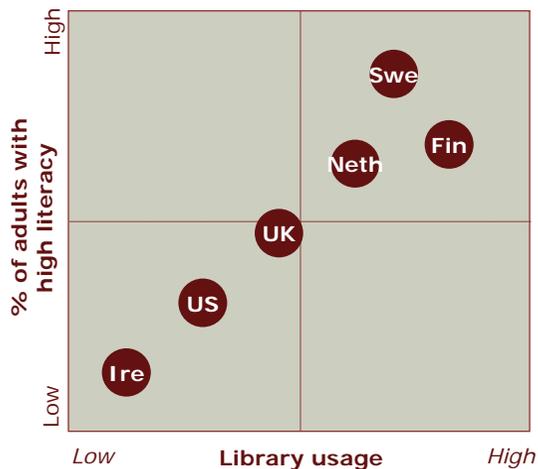


Source: Estimates based on published data and interviews

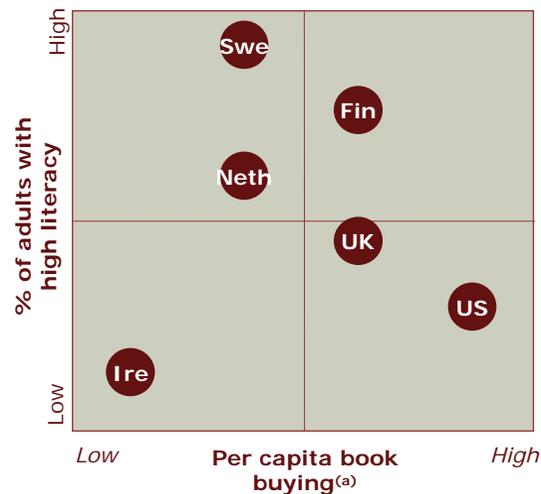
- In terms of the number of books bought per person, the UK is second only to the US in our study
- With the average US person acquiring 10.5 new books in 2007, this is 17% more than the UK average and 114% more than the average Irish person

The UK is generally at the mid-point of per capita book buying, country literacy and library usage

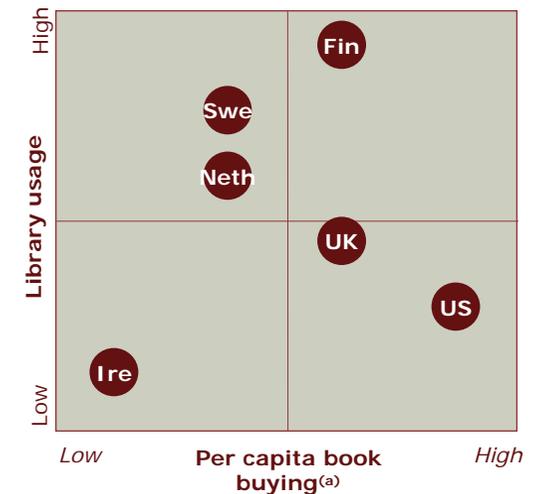
Literacy vs. library use



Book buying vs. literacy



Book buying vs. library use



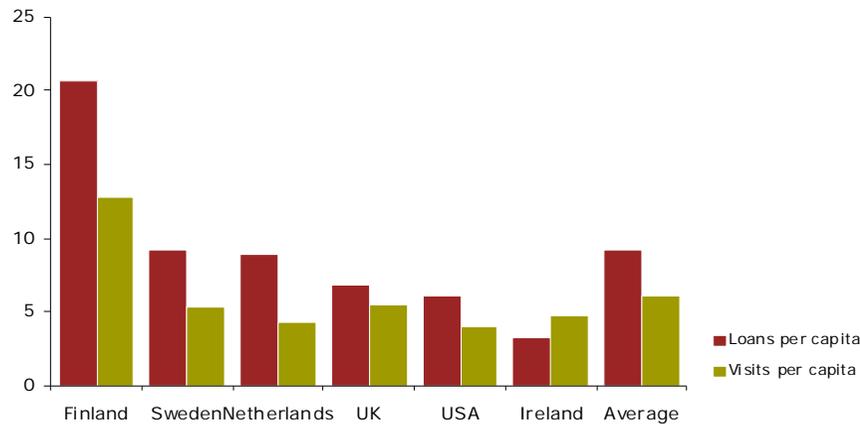
Key: Fin = Finland, Ire = Ireland, Neth= Netherlands, Swe = Sweden, UK = United Kingdom, US = United States

Note: (a) We have ranked countries in terms of per capita book buying based on a combination of per capita expenditure on books and the number of books bought per capita

- There is a strong correlation between literacy and library usage
- The UK is at the mid-point for literacy and library usage relative to other markets
- However, neither of these factors are a good predictor of book buying: Finland, Sweden, the Netherlands all have higher literacy and higher library usage than the US, but lower levels of book-buying in terms of both expenditure and numbers of books bought

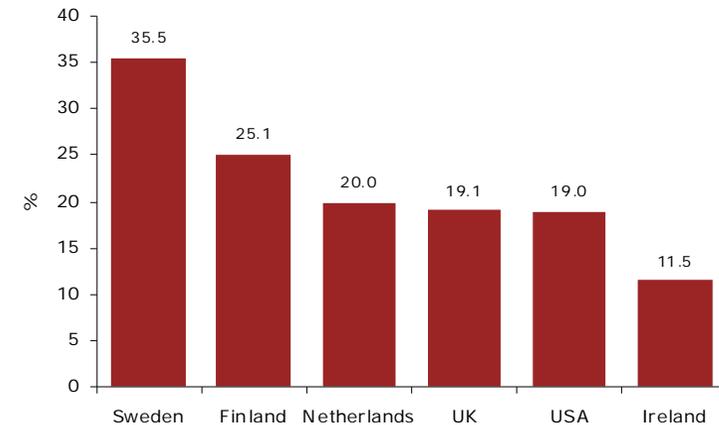
Literacy and library usage are dominated by Finland and Sweden

Library visits and loans per capita (2002)



Source: LibEcon

Percentage of adults whose level of document literacy is rated 'high' by OECD (1998)

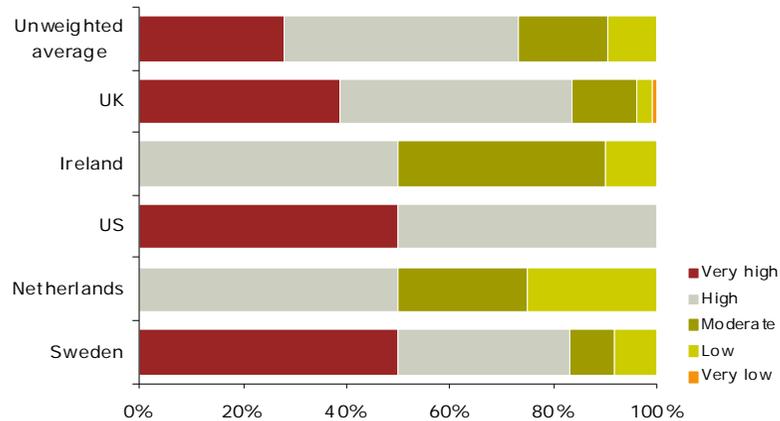


Source: OECD

- Library visits and library loans per capita in the UK are below the average for the countries in our study
- UK literacy is relatively low and on a par with the US

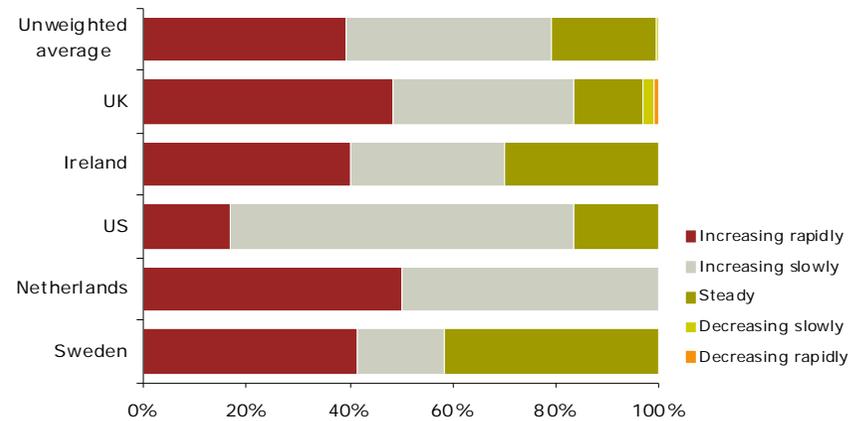
UK booksellers indicated a high level of competition but not as great as those in the US and Sweden

How would you rank current levels of competition within your industry?



Source: Online survey

How is the level of competition changing within your industry?



Source: Online survey

- Although UK respondents believe the UK market is very competitive, US respondents rated their market more competitive than any other respondents
- Irish and Dutch respondents rated their respective markets less competitive than any other respondents
- Respondents suggest that competition is increasing in all markets, but UK and Dutch believe that competition is increasing particularly rapidly in their respective markets

We estimate that revenue per bookshop in the UK is about average for the group

2007 estimates	Total book market (£m)	Market share of bookshops (%)	Gross book sales by bookshops (£m)	VAT (%)	Book shops net book revenue (£m)	No. of bookshop outlets	Net book revenue per bookshop (£m)	% of revenue from other goods	Total revenue per bookshop (£m)
UK^(a)	3,460	50%	1,730	0%	1,730	2,200	0.8	25%	1.0
Ireland^(b)	195	60%	117	0%	117	200	0.6	35%	0.9
US^(c)	27,800	45%	12,510	4%	12,029	8,000	1.5	30%	2.1
Netherlands^(d)	1,090	60%	654	6%	617	1,400	0.4	35%	0.7
Sweden^(e)	518	40%	207	6%	195	400	0.5	25%	0.7
Finland^(f)	360	40%	144	8%	133	400	0.3	30%	0.5
AVERAGE (unweighted)	5,571	49%	2,560	4%	2,470	2,100	0.7	30%	1.0

Source: (a) Publishers Association; Booksellers Association of UK & Ireland; industry interviews; SC analysis

(b) Nielsen Bookscan; industry interviews; SC analysis

(c) Book Industry Study Group; American Booksellers Association; industry interviews; SC analysis

(d) Dutch Booksellers Association; CBS; industry interviews; SC analysis

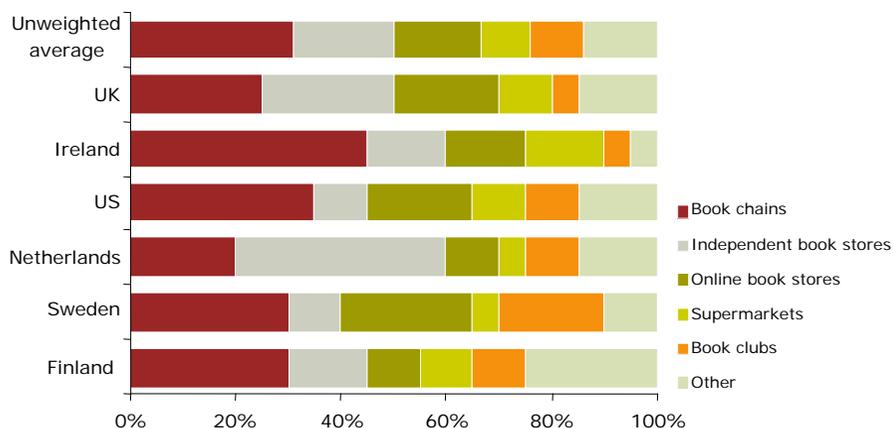
(e) Swedish Booksellers Association; European Booksellers Federation; industry interviews; SC analysis

(f) Finnish Booksellers Association; European Booksellers Federation; industry interviews; SC analysis

- The average bookshop in the UK and Ireland is relatively large compared with continental European markets, but is dwarfed by the size of the average bookshop in the US
- We have estimated the size of the average bookshop in each market by dividing the estimated total revenue of bookshops (independents and chains) by the estimated number of outlets
 - there is reasonably good data available in most markets to support the estimated total revenue of bookshops (i.e. data on total market size and the market share of bookshops)
 - however, for most markets, the data on the total number of bookshops is less robust so the net book revenue per bookshop reflects this rougher estimate

In all markets, bookshops are losing market share to supermarkets and/or online retailers

Estimated market share by channel, 2007



Source: Estimates based on published data and interviews

- The market share of bookshops (independents and chains together) ranges from 40% and 60% across the markets in our study, and is about 50% on average
- The split between independents and books chains varies significantly across these markets, from being dominated by independents in the Netherlands, to being dominated by chains in the US
- In the UK, the split is roughly 50:50, with both chains and independents having about 25% market share. This makes the UK bookshop slightly more fragmented than the unweighted average for our study

Estimated UK market share by channel, 2004-2007

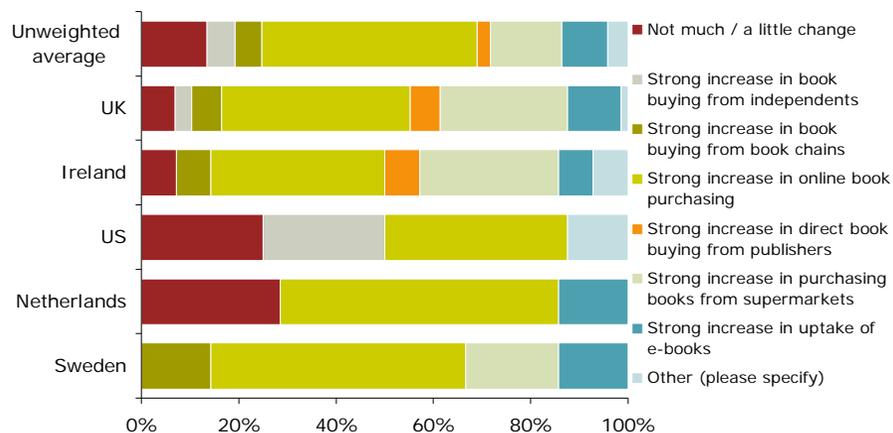
Share of book sales by value	2004	2005	2006	2007
Bookshops	57%	55%	53%	50%
Internet	9%	12%	13%	17%
Supermarkets	5%	8%	8%	10%
Other	30%	26%	25%	24%
Total market	100%	100%	100%	100%

Source: Books & The Consumer (BML/TNS)

- Like the UK, other markets are experiencing similar strong growth of supermarkets and online retailers, with the following notable exceptions:
 - Netherlands, where online and supermarket growth are both modest
 - Sweden, where online growth is very rapid, but supermarkets are less active
 - Finland, where there is strong growth in neither supermarkets nor online sales

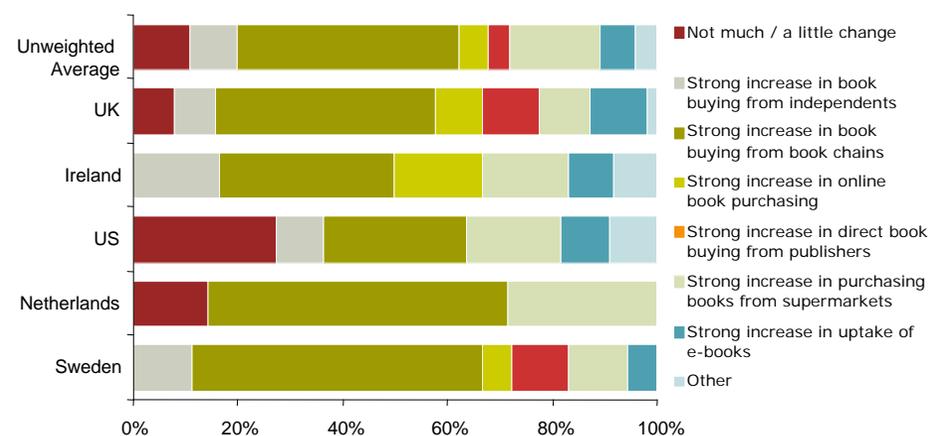
General consumers are expected to increase their online purchases while heavy book-buyers will continue to buy from chains

How do you see GENERAL CONSUMER behaviours changing over the next 5 years?



Source: Online survey

How do you see HEAVY BOOK-BUYERS behaviours changing over the next 5 years?

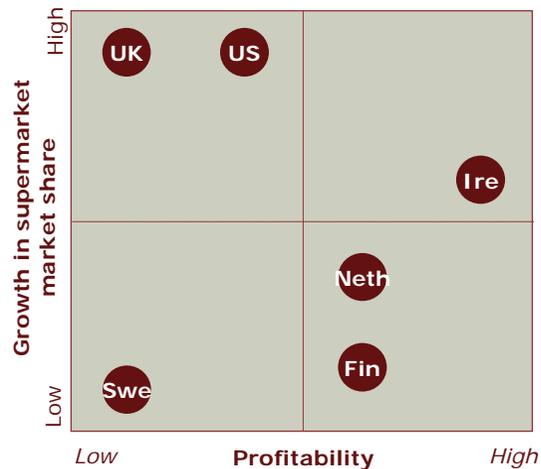


Source: Online survey

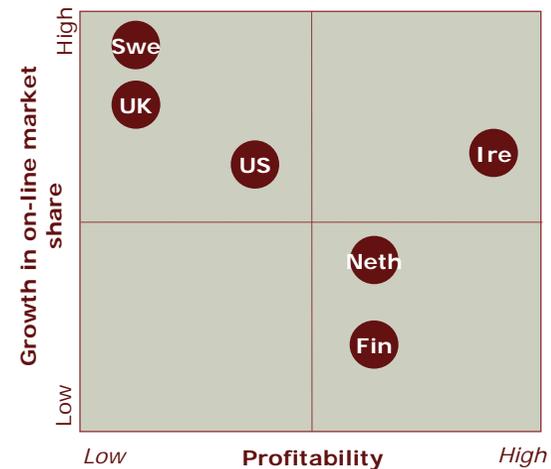
- UK respondents believe that most consumers will strongly increase their purchases from supermarkets and online retailers
- UK respondents believe that heavy book buyers will primarily increase their purchases from book chains
- Other changes in anticipated by respondents include more local buying, and slow (as opposed to strong) uptake of e-books

The markets experiencing the strongest growth in supermarket and/or online sales are amongst the least profitable

Growth in supermarkets market share vs. profitability



Growth of online market share vs. profitability



Key: Fin = Finland, Ire = Ireland, Neth= Netherlands, Swe = Sweden, UK = United Kingdom, US = United States

- Ireland appears to be an exception to this rule, where online and supermarket sales growth are both high, however, this growth is from a lower base than in the UK or the US
 - the absolute rate of online sales growth in Ireland is believed to be the highest of all the markets in this study, but since this is from a comparatively low base, the growth of online market share is less rapid
 - in contrast, the rate of online sales growth may be slowing in the US, but this is from a higher base

There are significant variations in the average price of books across the different markets and sectors

Pricing regimes	US	UK	Ne	Sw	Fi	Ir
Fixed or free pricing	Free	Free	FIXED	Free	Free	Free
VAT rate on books	4% ^(a)	0%	6%	6%	8%	0%

Note: In the US, different states and cities in the US have different sales tax rates, ranging from 0% to 8%. We have estimated 4% as the average for the US

Average retail prices incl. VAT (£)	US	UK	Ne	Sw	Fi	Ir
Consumer	6.06	5.36	9.38	4.78	10.43	8.62
Academic	21.03	13.64	27.22	13.80	11.32	15.53
Total	8.82	6.34	13.29	6.47	10.71	9.64

Source: Derived from market value and volume estimates

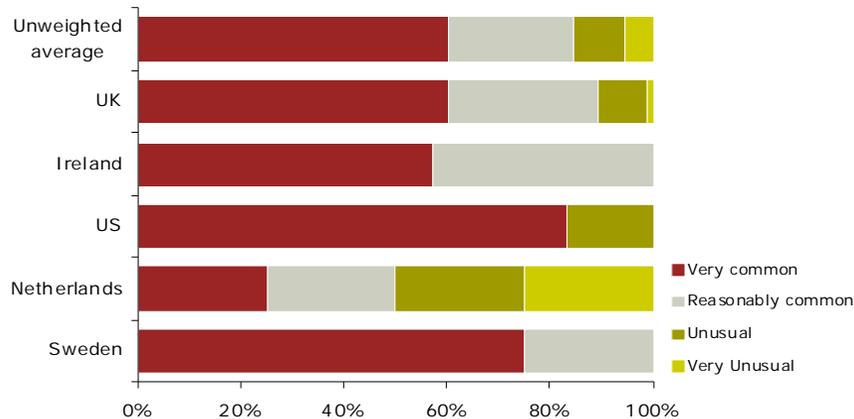
Average retail prices excl. VAT (£)	US	UK	Ne	Sw	Fi	Ir
Consumer	5.83	5.36	8.84	4.51	9.66	8.62
Academic	20.23	13.64	25.68	13.02	10.48	15.53
Total	8.48	6.34	12.54	6.10	9.92	9.64

Source: Derived from market value and volume estimates, and VAT rates

- The UK and Ireland are the only markets in this study that do not charge VAT or sales taxes on books. However, even net of VAT in other markets, the UK has the lowest overall book prices, and the second lowest consumer book prices after Sweden
- Fixed pricing and the fact that it significantly reduces the scope for discounting is likely to contribute to the relatively high price of books in the Netherlands
 - the price of a book is set by the publisher, who may raise or reduce the price every six months. One year after publication price controls can be annulled
 - educational books are exempt from the fixed price system
- Sales mix also plays a part in price differences
 - the low average price of consumer books in Sweden is skewed by a large volume of low priced paperbacks called 'pocketnyheter'
 - the average price for academic books in each market is skewed depending on the volume of academic and professional books (typically more expensive) versus school and ELT books (typically less expensive)
 - the high average price of consumer books in Finland is skewed by a high proportion of hardbacks

Promotions and discounts are used in all markets in a variety of ways

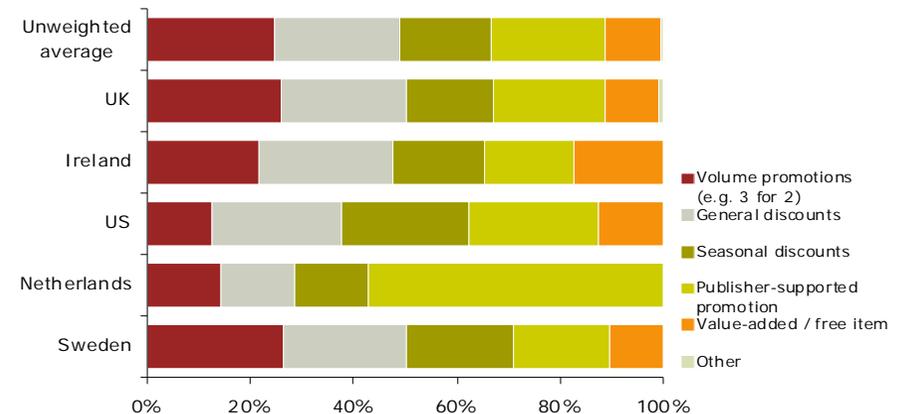
How common are promotions and discounts within your market?



Source: Online survey

- The UK appears to use promotions and discounts slightly more than average for the countries in our study
- The survey suggests that promotions and discounts are widely used in all markets except for the Netherlands
 - Even in the Netherlands, with its fixed price regime, there is some use of promotions and discounts

What type of promotions and discounts are commonly used within your market?

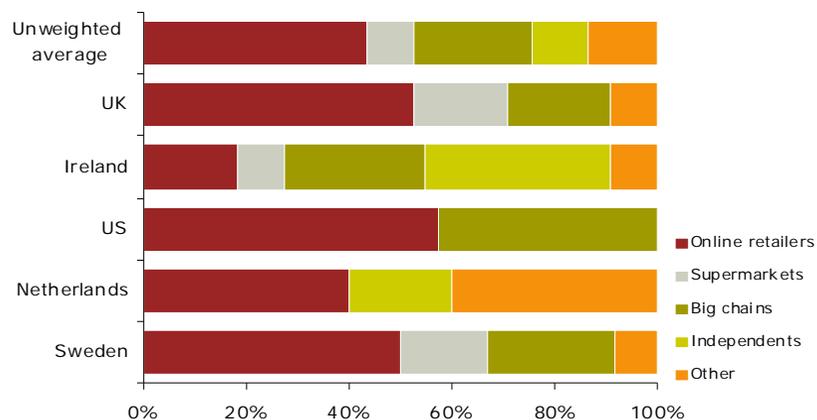


Source: Online survey

- UK respondents suggest volume promotions, general discounts and publisher supported promotions the most common forms of promotions and discounts
- All types of promotions and discounts are used to some degree in each market

Online retailers were generally identified as the biggest source of competition and influence on prices

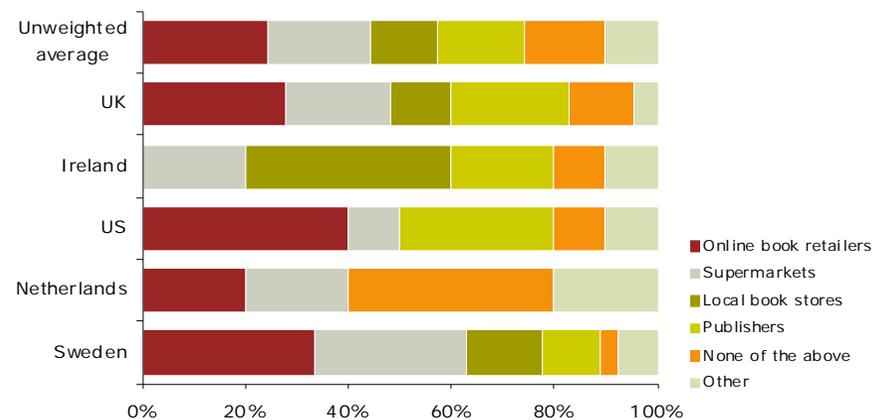
What is your biggest source of competition in the market?



Source: Online survey

- UK respondents identified online retailers and big chains as the biggest sources of competition supermarkets a close third
- Publishers, second hand online retailers, school distributors and wholesalers were identified under 'other'

Does book pricing by any of the following influence your own pricing?

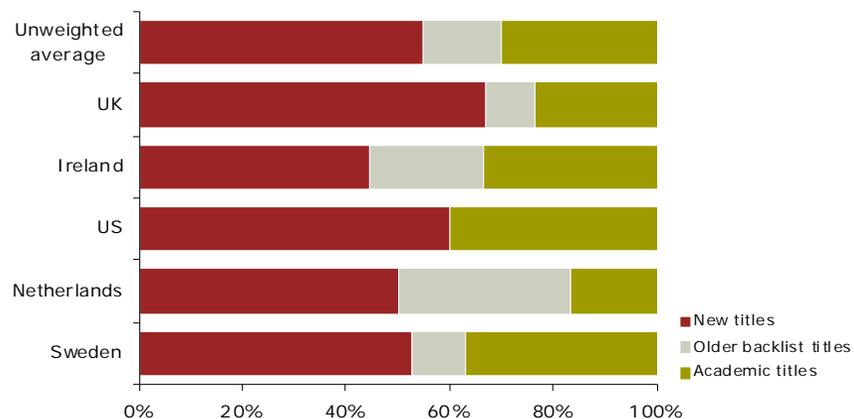


Source: Online survey

- UK respondents' pricing is influenced primarily by publishers and online retailers with supermarkets also a big factor
- Some respondents identified wholesalers under other
- In Netherlands, one respondent identified the fixed pricing regime under other

New fiction titles were identified as the most price sensitive category with academic titles identified as the least price sensitive

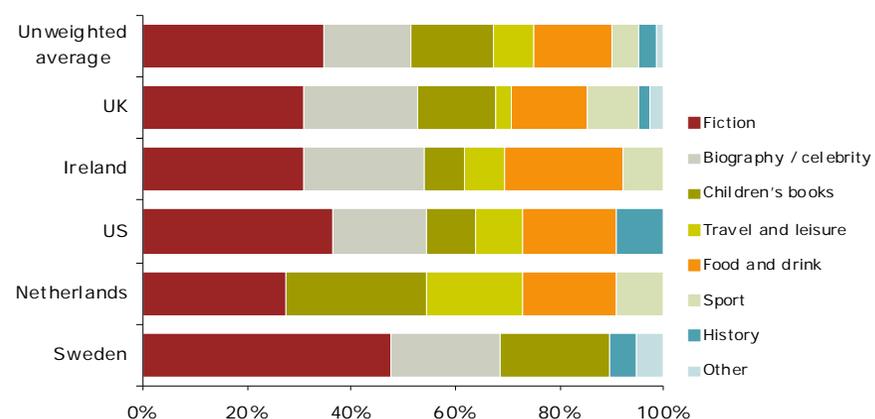
Which categories are particularly price sensitive?



Source: Online survey

- UK respondents believe that new titles and academic titles are the most price sensitive categories of books

Which genres are particularly price sensitive?

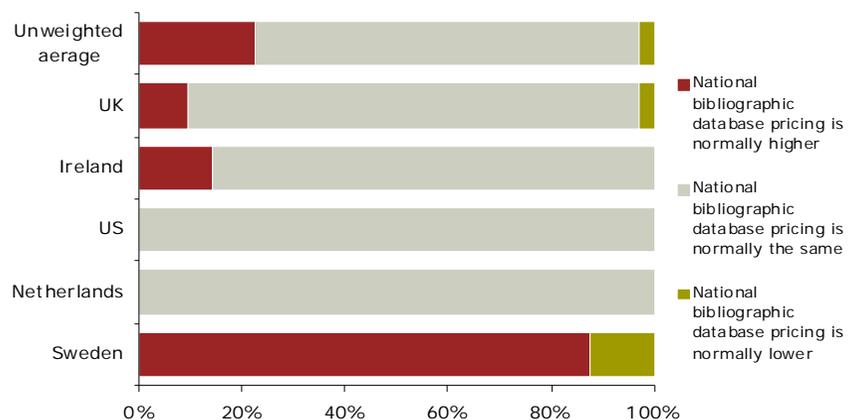


Source: Online survey

- UK respondents identified fiction and biography/celebrity as the most price sensitive genres

In all markets except Sweden, prices in national bibliographic databases seem to be largely consistent with booksellers' prices

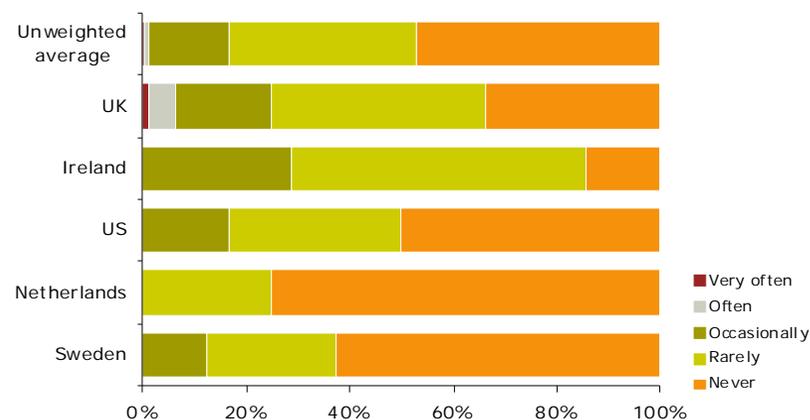
How do prices in the national bibliographic database compare with your own retail prices?



Source: Online survey

- Nearly all UK respondents believe that bookseller pricing is the same as national bibliographic database prices
- This is also true of all of the other markets, except for Sweden, where national bibliographic database prices are normally higher than retail prices

How often are you in conflict with customers because of price differences with the national bibliographic database?



Source: Online survey

- UK respondents indicated that differences in pricing do not often cause conflict with customers
- This is also true of all of the other markets in this study

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Book industry analysis

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- Market size and growth
- **Industry structure and dynamics**

CDs, DVDs, and stationery markets

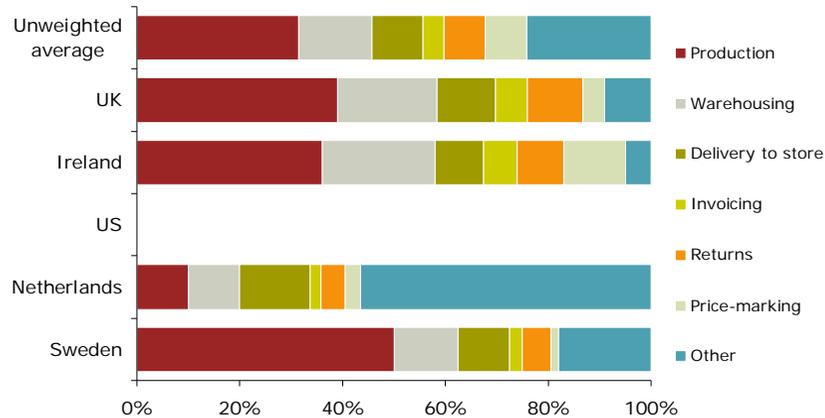
Appendix: Information sources

The size, structure and concentration of the bookselling industry varies considerably across the markets in our study

	Wholesalers / distributors	Retailers	Consumers
 United Kingdom	<ul style="list-style-type: none"> A number of players both in the consumer sector and in the academic sector, with neither sector dominated by any single company 	<ul style="list-style-type: none"> 2200 bookshops Strong growth from supermarkets and online 50% of market split equally between chains and indies 	<ul style="list-style-type: none"> Population = 61m Per capita book spend = £58 Per capita book purchases = 6
 Ireland	<ul style="list-style-type: none"> Dominated by Easons 	<ul style="list-style-type: none"> 200 bookshops Book shops have 60% of the market – dominated by chains 	<ul style="list-style-type: none"> Population = 4m Per capita book spend = £48 Per capita book purchases = 5
 Netherlands	<ul style="list-style-type: none"> Central Boekhuis with 75% market share, and Scholtens 	<ul style="list-style-type: none"> 1400 bookshops Book shops retain a high market share, and there is extensive collaboration between indies 	<ul style="list-style-type: none"> Population = 16m Per capita book spend = £67 Per capita book purchases = 6
 United States	<ul style="list-style-type: none"> Major players include Ingram and Baker & Taylor, but there about 12 significant trade wholesalers, and a smaller number of library distributors 	<ul style="list-style-type: none"> 8000 bookshops Chains have 35% of the market, independents about 10% 	<ul style="list-style-type: none"> Population = 301m Per capita book spend = £92 Per capita book purchases = 10
 Finland	<ul style="list-style-type: none"> One dominant wholesaler, although the largest publisher is also in distribution as is another Swedish player 	<ul style="list-style-type: none"> 400 bookshops Collaboration between indies Online sales remain very low Supermarkets active for years, but online sales remain low 	<ul style="list-style-type: none"> Population = 5m Per capita book spend = £59 Per capita book purchases = 6 Buy books in Finnish, Swedish and English
 Sweden	<ul style="list-style-type: none"> Biblioteksjanst Pocketgrossisten Forlagssystem 	<ul style="list-style-type: none"> 400 bookshops Very strong growth of online sales Book shops have 40% of the market – dominated by chains 	<ul style="list-style-type: none"> Population = 9m Per capita book spend = £58 Per capita book purchases = 9

Most booksellers identified production as the biggest cost in the supply chain; returns are seen to be the most inefficient area

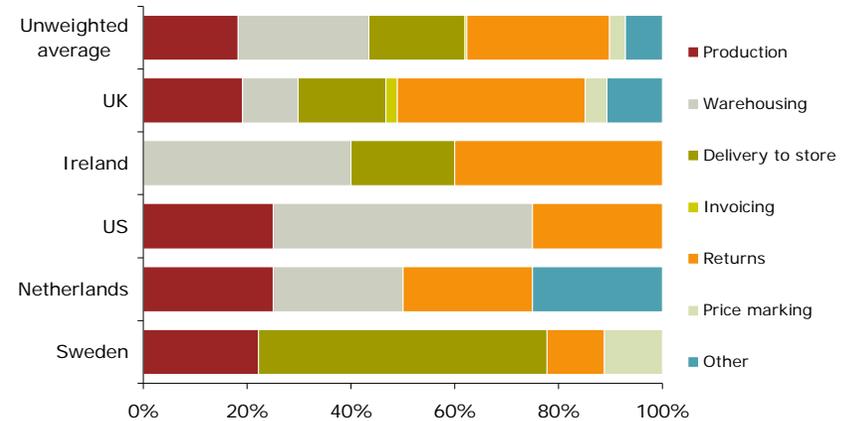
Please do your best to roughly apportion costs across the supply chain



Source: Online survey

- Survey respondents suggest that supply chain cost distribution is broadly similar across the UK, Ireland and Sweden
- There were insufficient responses to plot US data
- Responses from the Netherlands appear anomalous

Where do you believe is the biggest inefficiency in the industry in your country?



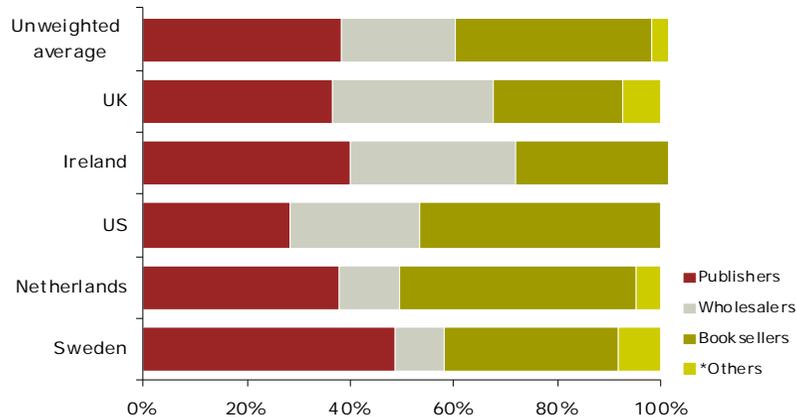
Source: Online survey

- The survey revealed a reasonable spread of opinion as to where the greatest inefficiencies lie within the supply chain, but returns were highlighted by UK respondents more than any other area

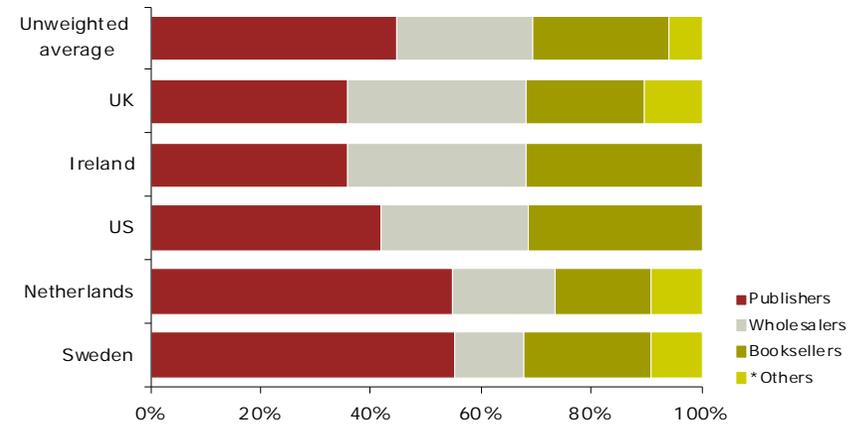
On average, booksellers attributed about 38% of total supply chain costs to their industry, but only about 25% of profits

Please do your best to apportion percentage COSTS across the supply chain

Please do your best to apportion percentage PROFITS across the supply chain



Source: Online survey



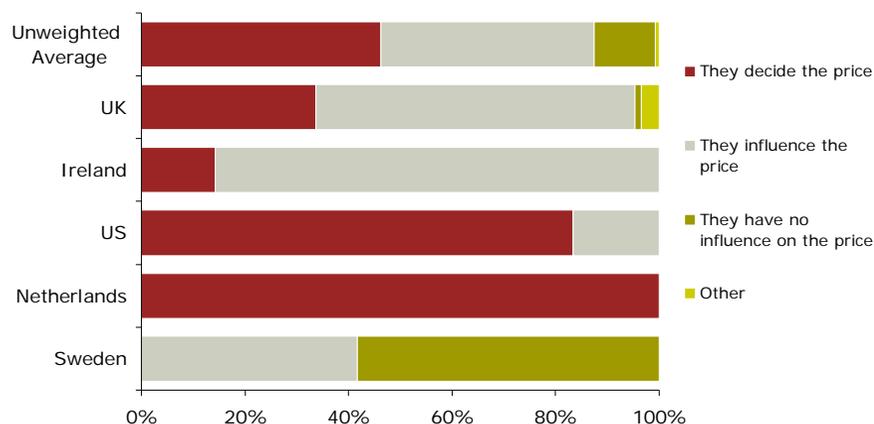
Source: Online survey

- UK respondents suggest that booksellers in the UK carry a smaller share of the supply chain costs (25%) than booksellers in other markets

- However, UK respondents also suggest that UK booksellers get a smaller share of the profits (21%) than booksellers in other markets

Views on the way in which publishers and wholesalers influence retail prices vary markedly across the countries in our survey

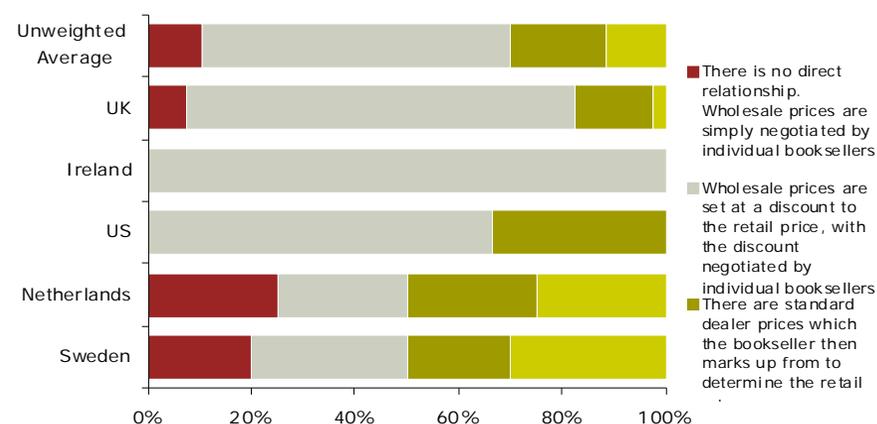
What role do publishers have in determining retail price?



Source: Online survey

- Most respondents in all markets other than Sweden believe that publishers either decide or influence the retail price of books

What is the relationship between wholesale and retail prices in your market?

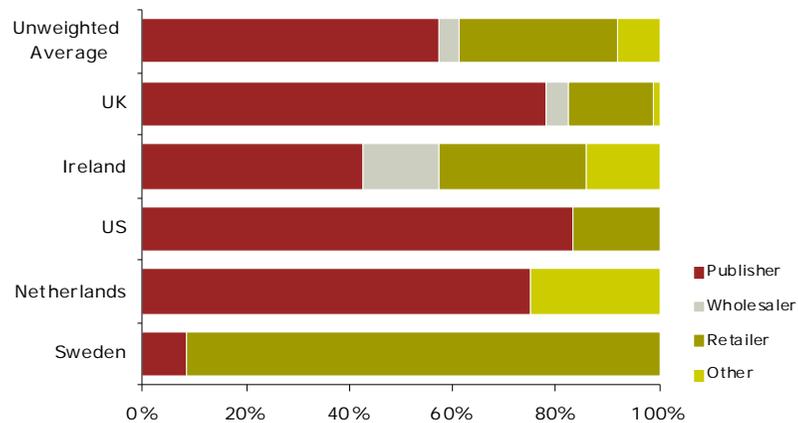


Source: Online survey

- Most UK respondents indicated that wholesale prices are set at a discount to the retail price, with discounts negotiated by individual booksellers

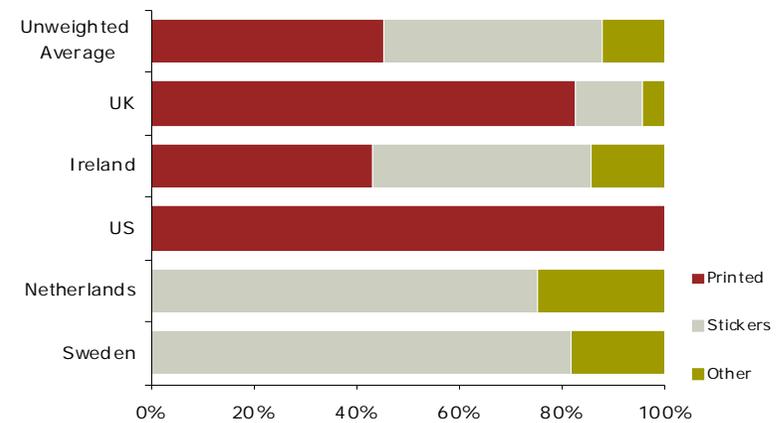
The role of publishers and wholesalers in price-marking also varies across markets

Who is mainly responsible for price-marking books?



Source: Online survey

How are prices on books most commonly marked?

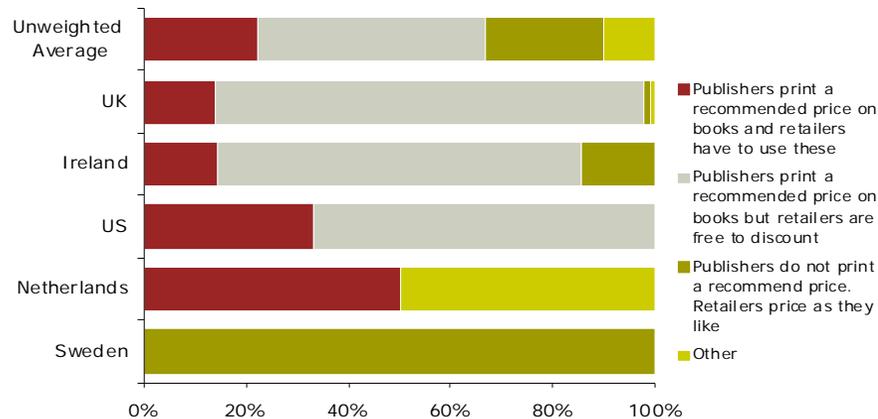


Source: Online survey

- In Sweden and Finland publishers are not allowed to print recommended prices on books, and price marking is left to retailers whose primary means of price marking is by stickering
- In all other markets, publishers usually print a recommended price on books
- Respondents identifying other price marking methods, typically reported situation where a price was both printed and stickered
 - UK publishers printing prices in sterling on books, only for Irish booksellers to have to sticker them with euro prices

Even within each country, there are differences in the approach to price-marking between consumer and academic titles

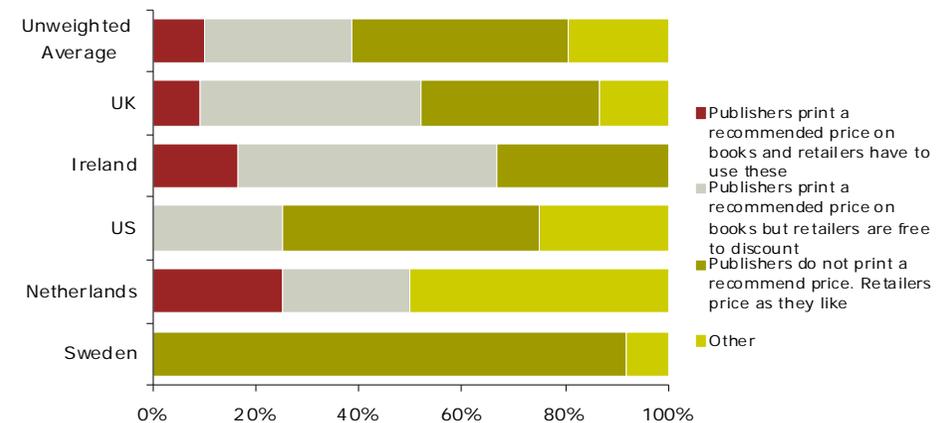
In general, how are CONSUMER books priced for retail in your market?



Source: Online survey

- UK consumer price marking is more strongly driven by publishers price than other markets except the U.S.
- 'Other' responses in the Netherlands referred to the fixed price agreement, but where no price is printed on books

In general, how are ACADEMIC books priced for retail in your market?

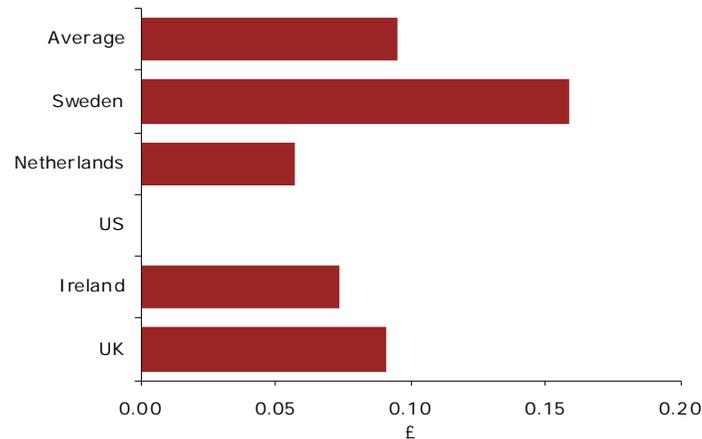


Source: Online survey

- UK respondents suggest that academic price marking is more varied
- 'Other' responses referred to the fact that prices are not always printed on academic books

On average, survey participants estimated the cost of price marking to be about nine pence per book; outside of Sweden, few felt that price-marking costs are too high

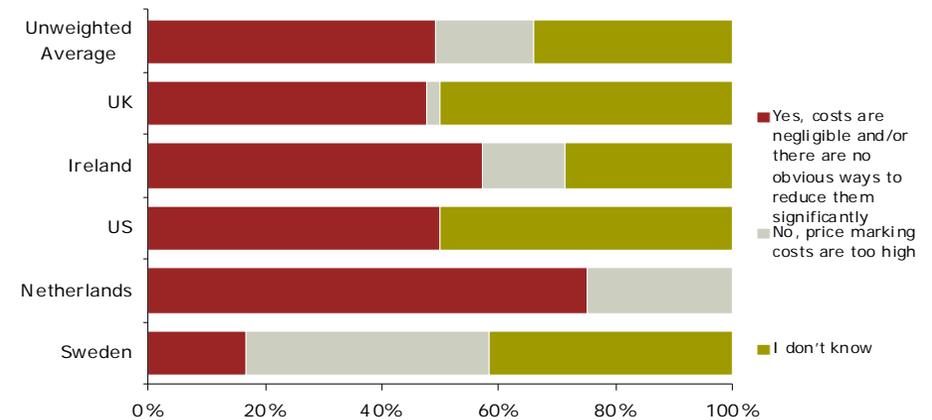
What do you estimate to be the cost per book of price-marking?



Source: Online survey

- UK respondents suggest that the cost per book of price marking is at the average for the markets investigated
- There were insufficient responses to plot US data

Do you believe current price-marking to be cost-effective?

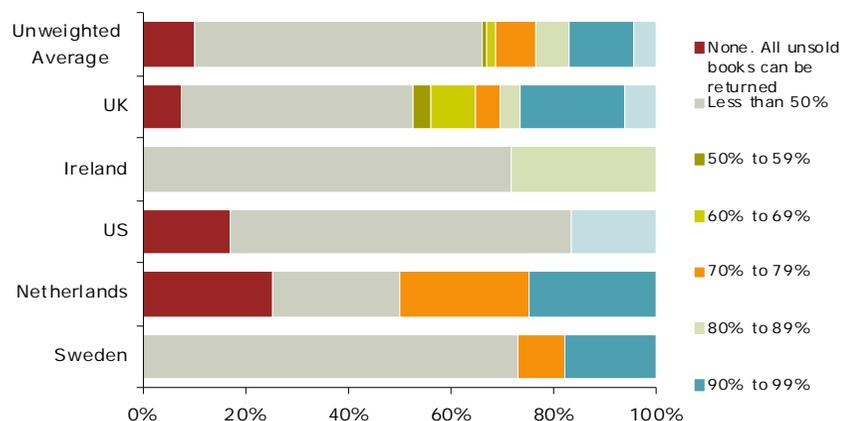


Source: Online survey

- About 50% of UK respondents did not express a view on the cost-effectiveness of price-marking, and the vast majority that did express a view, indicated that cost were either negligible or that there are no obvious ways to reduce them
- Swedish respondents were notable for the strength of opinion that price-marking costs are too high

Differences in supply arrangements in different markets result in material differences in returns levels and therefore costs

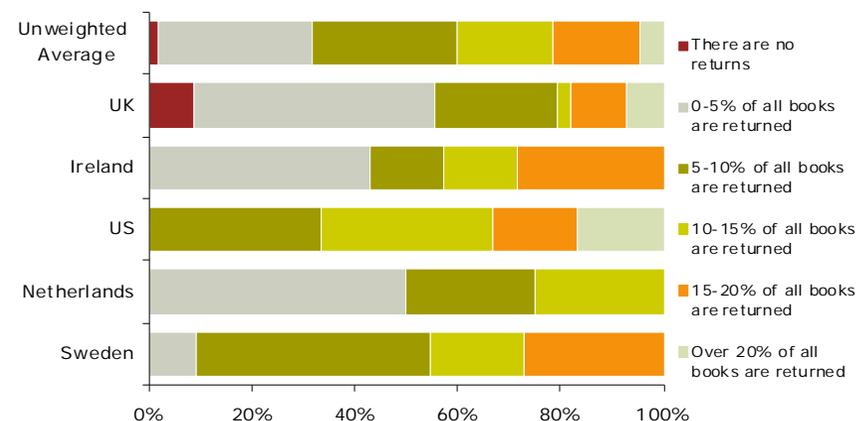
What percentage of books do you buy on a firm sale basis?



Source: Online survey

- Just over half of UK respondents buy less than 50% of their books on a firm sale basis
- At the other end of the spectrum, about a quarter of UK respondents buy at least 90% of their books on a firm sale basis
- The situation in the UK appears to be broadly consistent with the unweighted average across all markets

What level of returns do you experience in your business?

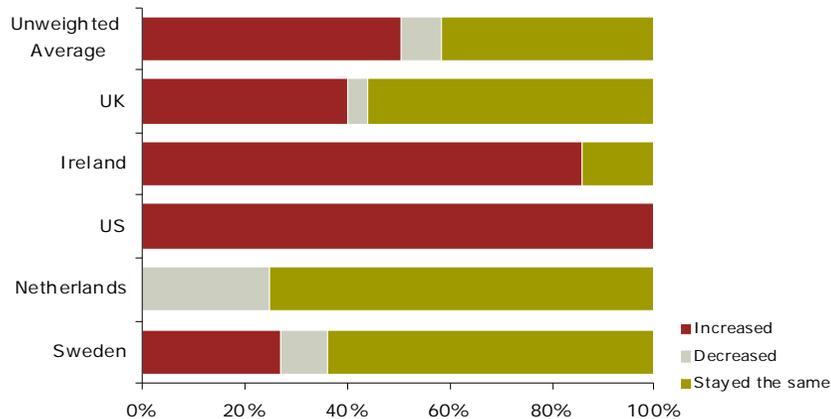


Source: Online survey

- UK respondents experience a wide variety in the level of returns
- Overall the survey suggests that the UK experiences some of the lowest levels of returns within this sample – only the Netherlands appears to have lower levels of returns

Perceptions relating to the cost of returns vary significantly across markets as do the ways in which publishers help with the cost

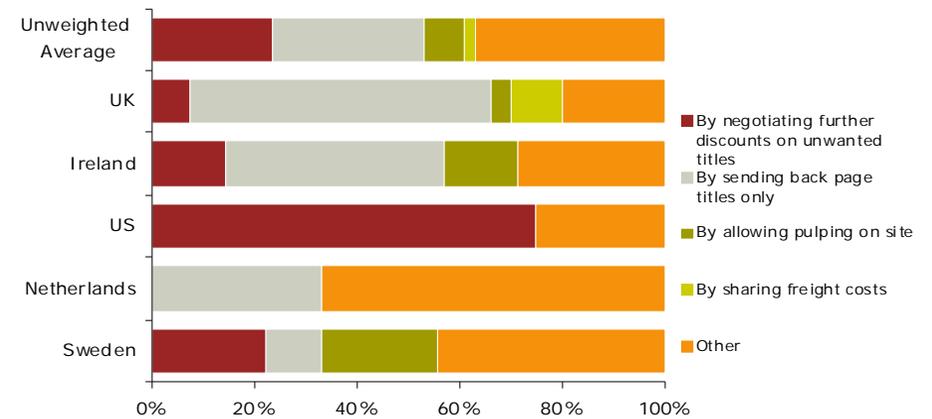
How has the cost of returns changed over the last three years?



Source: Online survey

- 55% of UK respondents believe that the cost of returns has stayed flat over the last three years while roughly 40% believe the costs have actually increased
- The majority of Irish and US respondents believe that costs have increased
- Survey responses suggest that Sweden and the Netherlands may have performed better than the UK in the last three years in terms of controlling the cost of returns

How do publishers help you to avoid or reduce the cost of returns?

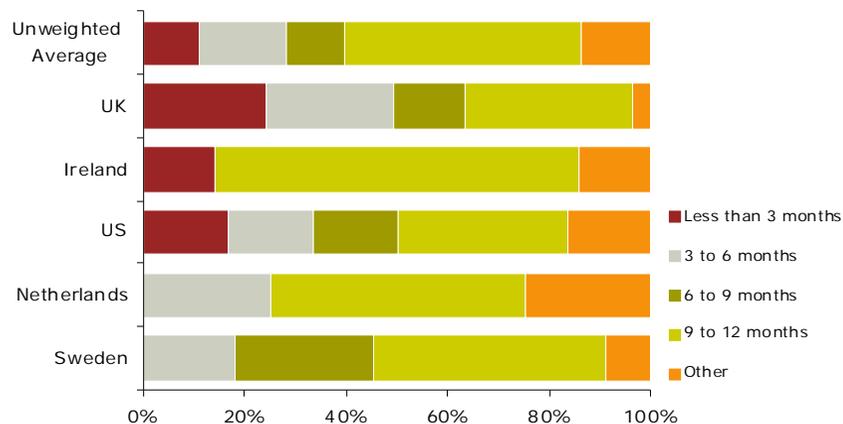


Source: Online survey

- The ways in which publishers help with returns appear to vary considerably by market
- In the UK, sending back title pages was most commonly cited in our survey, but discounts on unwanted titles, which was widely cited by US respondents, appears to be much less common
- 'Other' responses generally commented that publishers do not help with reducing the cost of returns, but the UK appears to have relatively good cooperation between publishers and booksellers

The time limit for returns varies widely even within markets – six to nine months seems to be about average, while refunds are generally paid within three months

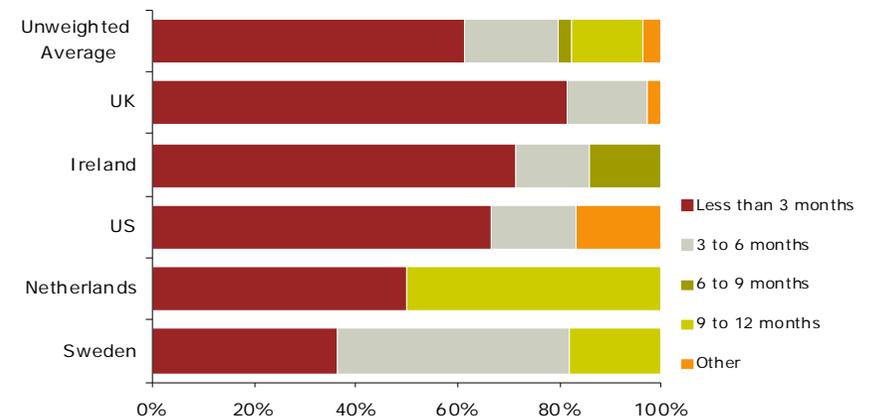
What is your usual time limit for returning books?



Source: Online survey

- The survey reveals a wide range of time limits for returning books within every market
- On balance, UK bookshops appear to have slightly less time than bookshops in the other markets in our study
- At the other end of the spectrum, the survey would suggest that the Netherlands and Sweden have the most generous time limits

How long do publishers take to refund returns?

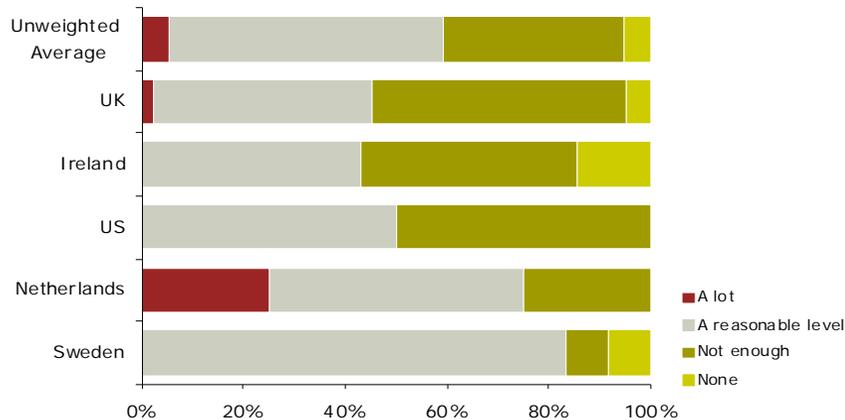


Source: Online survey

- The survey suggest that UK publishers are particularly quick to refund returns when compared with the other markets in this study
- The vast majority of UK respondents are refunded within three months and almost all the rest within six months
 - The UK process is governed by IRI

Most markets believe that publishers could provide more marketing support; current support is primarily point of sale materials

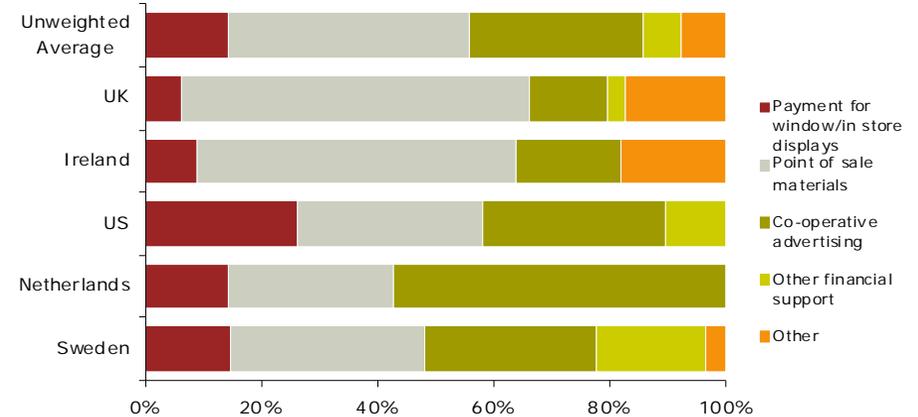
What levels of marketing support are provided by publishers?



Source: Online survey

- On average across all markets, 60% of respondents believe that publishers provided a lot or a reasonable level of marketing support
- However, less than 50% of UK respondents believe this to be the case
- On average, Swedish and Dutch booksellers were the most positive about the support they received
 - CPNB in the Netherlands is a foundation co-funded by booksellers and publishers with the purpose of promoting books

What forms of marketing support are provided?

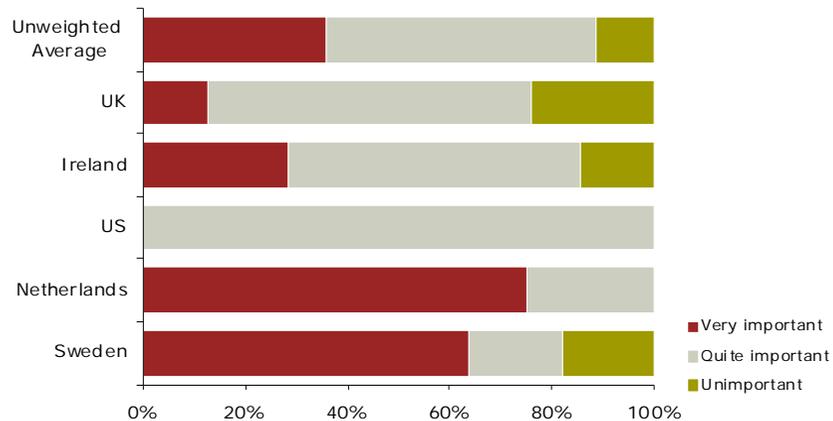


Source: Online survey

- Point of sale materials was the most commonly cited form of marketing support identified by UK respondents and also across the survey as a whole
 - only the Netherlands identified co-operative advertising identified as a more common form of marketing support (again as a result of CPNB activities)
- 'Other' responses included author visits, advertising in press, product brochures, product detail for publishing on websites, display boxes, posters and magazines

Most booksellers believe that innovation is important for driving demand and for improving efficiencies

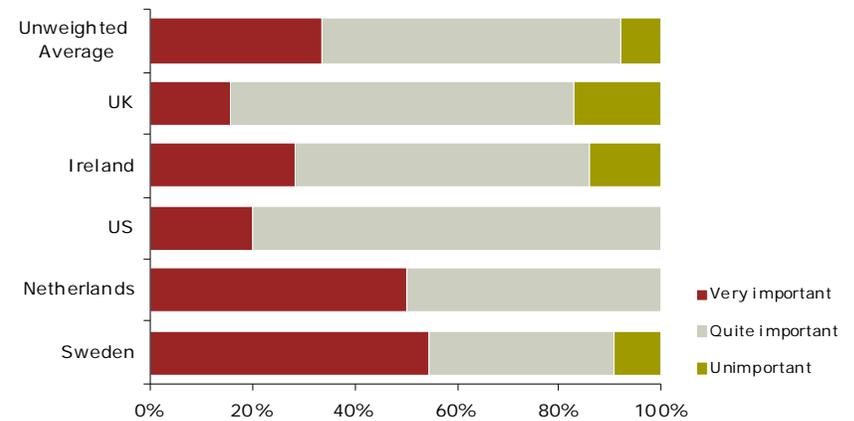
How important is innovation in driving consumer demand?



Source: Online survey

- The vast majority of respondents to our survey believe that innovation is either quite or very important to driving consumer demand
- However, on average, UK respondents valued innovation less than booksellers in other markets
 - 13% of UK respondents rated innovation as very important compared with 36% unweighted average
 - 24% of UK respondents rated innovation as unimportant compared with 11% unweighted average

How important is innovation in driving cost efficiency?

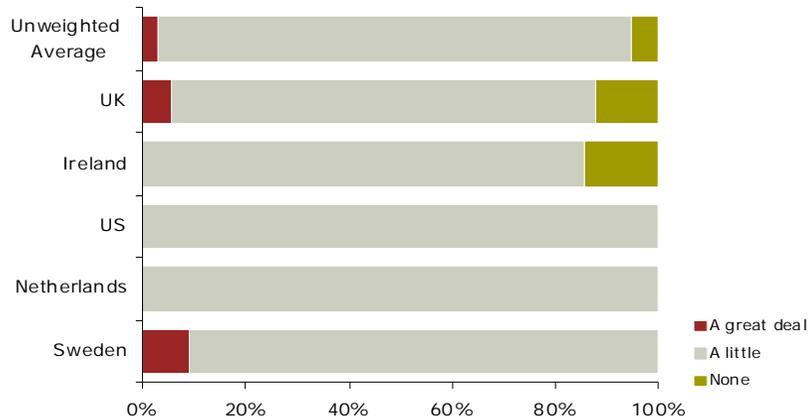


Source: Online survey

- Survey responses regarding the importance of innovation in driving cost efficiencies revealed a very similar pattern, with UK respondents again valuing innovation less than booksellers in other markets
 - 16% of UK respondents rated innovation as very important compared with 34% unweighted average
 - 17% of UK respondents rated innovation as unimportant compared with 8% unweighted average

However, most survey participants felt that there is only a little innovation occurring in the industry – e-books being the most commonly identified example

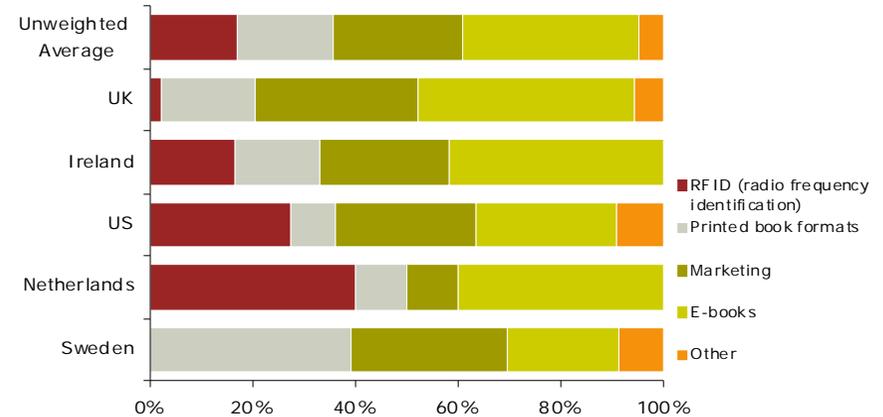
How much innovation is there in your book industry?



Source: Online survey

- Across all markets, the UK included, the vast majority of respondents believe that there is only a little innovation occurring within the book industry

Where is innovation occurring?



Source: Online survey

- Across all markets, respondents see innovation occurring in marketing and e-books
- Compared with all markets except Sweden, very few UK respondents identified RFID as an area of innovation
- A larger than average number of Swedish responses pointed to innovation in printed book formats
- 'Other' responses included electronic integration of the supply chain, publishers' online databases, and print on demand, and in Sweden, distribution

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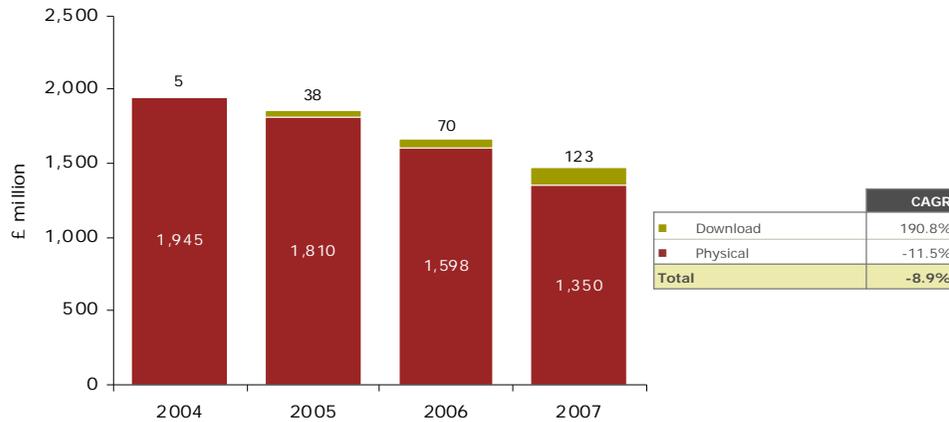
- Profitability comparisons
- Market size and growth
- Industry structure and dynamics

CDs, DVDs, and stationery markets

Appendix: Information sources

The UK recorded music market is estimated to be worth £1.5 billion, but has been declining rapidly

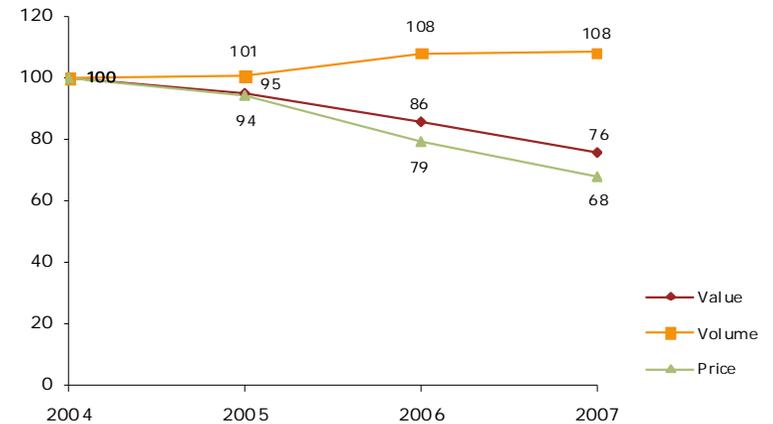
**Total market value
(end purchaser prices, including VAT)**



Source: BPI, Mintel, SC analysis

- The market has declined rapidly in recent years as growth in (paid for) downloads has failed to compensate for declining sales of physical formats

**Pre-recorded music market growth
(2004 = 100)**



Source: BPI, Mintel, BVA, OCC, Millward Brown, ERA, SC analysis

- The decline has been driven by a sharp fall in average prices – total sales volumes (combined physical and downloaded) have held up

Physical formats still dominate the recorded music market but are in sharp decline

Pre-recorded music sales, by format, 2004-07					
Sales value, £m (incl. VAT)	2004	2005	2006	2007	CAGR 2004-7
Physical singles	85	67	41	27	-32%
Single downloads	4	23	48	57	142%
Total singles	89	90	89	84	-2%
Physical albums	1,760	1,640	1,463	1,221	-11%
Album downloads	1	15	22	66	304%
Total albums	1,761	1,655	1,485	1,287	-10%
Music DVD	100	103	94	63	-14%
Total	1,950	1,848	1,668	1,434	-10%

Source: BPI/Mintel/ERA

Sales volume, (millions)	2004	2005	2006	2007	CAGR 2004-7
Physical singles	26	22	19	16	-15%
Single downloads	5	26	48	70	141%
Total singles	31	48	67	87	40%
Physical albums	175	158	153	133	-9%
Album downloads	0	1	2	5	n/a
Total albums	175	159	155	138	-8%
Music VHS	0.2	0	0	0	-100%
Music DVD	6.6	7.3	7.9	5.4	-6%
Total music video	6.8	7.3	7.9	5.4	-7%
Total	212.8	214.2	229.6	230.1	3%

Source: BPI/BVA/OCC/Millward Brown/ERA

Average prices for recorded music have been declining across all formats. Like the book market, online retailers and supermarkets are undercutting specialists

Average pre-recorded music prices by format, 2004-07

Average price (£)	2004	2005	2006	2007	CAGR 2004-7
Physical singles	3.22	3.11	2.18	1.67	-20%
Single downloads	0.80	0.87	1.00	0.81	0%
Total singles	2.83	1.88	1.33	0.97	-30%
Physical albums	10.08	10.38	9.59	9.18	-3%
Album downloads	n/a	15.00	10.16	13.20	n/a
Total albums	10.09	10.41	9.60	9.32	-3%
Music DVD	13.27	13.27	11.90	11.65	-4%
Total	9.16	8.63	7.26	6.23	-12%

Source: BPI/BVA/OCC/Millward Brown/ERA/ Mintel

Average CD album prices by channel, 2005-07

Average price (£)	2005	2006	2007	CAGR 2005-7
Specialists	9.99	9.28	9.10	-4.6%
Variety stores	10.26	8.78	8.19	-10.7%
Supermarkets	9.55	8.82	8.74	-4.3%
Internet	9.18	8.44	7.87	-7.4%
Total market	9.74	8.92	8.63	-5.9%

Source: ERA

Note: Figures not consistent with price by format data since they relate specifically to CDs

Like the book industry, specialists account for about half the market, but unlike books, the supermarkets are not growing share rapidly

CD album sales by channel, 2005-07			
% Value	2005	2006	2007
Specialists	45%	47%	44%
Supermarkets	26%	25%	25%
Internet	11%	11%	15%
Variety stores	13%	12%	13%
Mail order	3%	3%	2%
Others	2%	3%	2%
Total market	100%	100%	100%

Source: ERA

Note: Internet includes sales through websites of conventional retailers

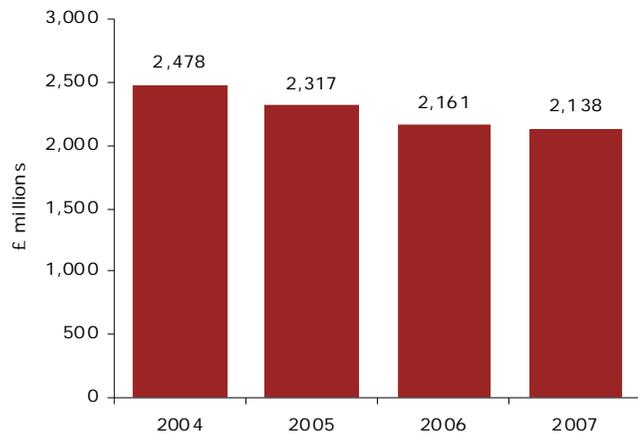
Numbers of shops selling CDs				
Channel	2005	2006	2007	CAGR 2005-7
Specialist chains	529	647	350	-18.7%
Multiples	1,392	1,384	1,373	-0.7%
Independent specialists	734	578	408	-25.4%
Supermarkets	2,966	2,746	2,895	-1.2%
Total	5,621	5,355	5,026	-5.4%

Source: ERA

Note: Excludes sales through garages, motorways service stations, cornershops and other outlets

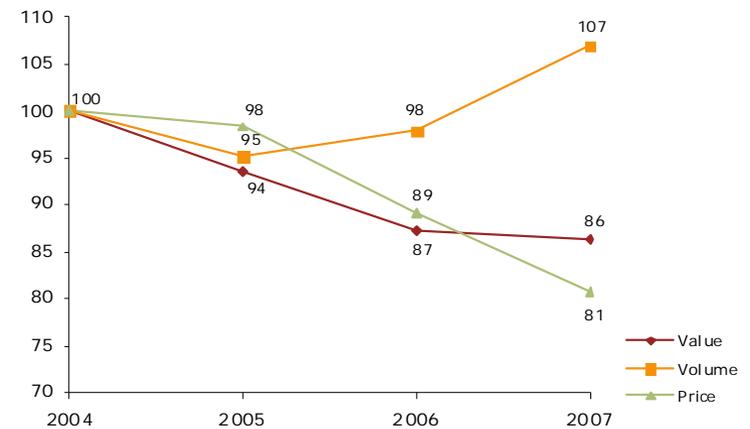
The UK video market is estimated to be worth £2.1 billion, but is steadily declining

Total market value
(end purchaser prices, including VAT)



Source: BVA, Intel, SC analysis

Video market growth
(1994=100)



Source: BVA, Official Charts Company, SC analysis

- In current prices, the market has lost a little under 14% of its value in just 3 years – and more like 20% when inflation is taken into account
- Strong growth in volumes have failed to compensate for sharp price falls

The DVD format dominates the market – Blu Ray, the high definition format from Sony has yet to see significant uptake

Video sales, by format, 2004-07					
Sales value, £m (incl. VAT) ^(a)	2004	2005	2006	2007	CAGR 2004-7
UMD ^(b)	-	7	10	15	n/a
VHS	234	65	4	1	-84%
DVD	2,244	2,245	2,147	2,122	-2%
Total	2,478	2,317	2,161	2,138	-5%

Notes: (a) Figures include music videos
 (b) Universal Media Disc, Sony's proprietary format for its PlayStation Portable (PSP) device
 Source: BVA/MINTEL

Sales volume, (millions) ^(a)	2004	2005	2006	2007	CAGR 2004-7
UMD / Blu-Ray / HD-DVD	-	0.5	0.8	1.6	n/a
VHS	37.1	10.4	0.8	0.1	-86%
DVD	196.5	211.2	227.0	248.1	8%
Total	233.6	222.1	228.6	249.8	2%

Note: (a) Figures include music videos
 Source: BVA/Official UK Charts Company/Avoco analysis

- Until earlier this year, HD DVD and Blu Ray were competing to be the next generation high definition format to replace DVD
- The backers of HD DVD have now pulled out of the race, which may encourage uptake of Blu Ray since consumers are likely to be less concerned about the format quickly becoming obsolete

Average prices for video are falling steadily, particularly through supermarkets and internet retailers

Average video prices by format, 2004-07					
Average price (£)	2004	2005	2006	2007	CAGR 2004-7
UMD / Blu-Ray / HD-DVD	-	14.00	12.50	9.38	n/a
VHS	6.31	6.25	5.00	10.00	16.6%
DVD	11.42	10.63	9.46	8.55	-9.2%
Total	10.61	10.43	9.45	8.56	-6.9%

Source: BVA, Mintel, Official Charts Company, SC analysis

Average DVD prices by channel, 2005-07				
Average price (£)	2005	2006	2007	CAGR 2005-7
Supermarkets	10.49	9.26	8.20	-11.6%
Internet	13.04	11.61	10.38	-10.8%
Variety stores	11.10	9.61	8.86	-10.7%
Others	7.96	7.50	6.47	-9.8%
Specialists	11.97	10.55	10.41	-6.7%
Mail order	15.10	13.83	14.49	-2.0%
Total market	11.42	10.17	9.35	-9.5%

Note: Figures include music videos and are not consistent with table at top of page due to differences in sources
Source: ERA, SC analysis

Specialist DVD retailers account for less than a third of the market, which is fragmented across more than 5000 outlets

DVD sales by channel, 2005-07			
% Value	2005	2006	2007
Specialists	25%	26%	31%
Supermarkets	35%	33%	28%
Internet	15%	19%	23%
Variety stores	17%	16%	13%
Mail order	4%	3%	3%
Others	4%	3%	3%
Total market	100%	100%	100%

Note: Internet includes sales through websites of conventional retailers
Source: ERA

Numbers of shops selling CDs				
Channel	2005	2006	2007	CAGR 2005-7
Specialist chains	1,431	1,412	1,059	-14.0%
Multiples	1,392	1,384	1,373	-0.7%
Independent specialists	251	288	259	1.6%
Supermarkets	2,966	2,746	2,895	-1.2%
Total	6,040	5,830	5,586	-3.8%

Note: Note: Excludes sales through garages, motorways service stations, cornershops and other outlets
Source: ERA

The stationery sector as a whole is dominated by business consumables rather than personal stationery

Value of the total UK stationery market by sector at current prices (£m at msp), 2004-06

	2004	2005	2006	3 year CAGR	Share of total
Paper and Board Stationery	1,672.9	1,718.4	1,800.5	2.5%	80.2%
Multipart business forms and listing paper	425.8	466.5	515.6	6.6%	23.0%
Envelopes	364.1	352.9	349.7	-1.3%	15.6%
Paper and paperboard cut to size for writing or printing	216.6	238.2	262.9	6.7%	11.7%
Registers, account books, notebooks, diaries, etc.	199.0	196.0	196.7	-0.4%	8.8%
Cut self-adhesive or gummed paper	182.9	195.9	193.3	1.9%	8.6%
Binders, folders and file covers	134.9	123.2	129.1	-1.5%	5.8%
Box files and storage boxes	31.2	40.3	43.2	11.5%	1.9%
Book covers, blotting pads and similar items	34.1	29.0	27.0	-7.5%	1.2%
Exercise books	26.7	22.5	24.9	-2.3%	1.1%
Albums	27.0	22.7	23.8	-4.1%	1.1%
Boxed stationery assortments	15.4	14.6	16.2	1.7%	0.7%
Other paper and board stationery	15.2	16.6	18.1	6.0%	0.8%
Other Stationery	443.6	433.3	443.7	0.0%	19.8%
Writing instruments	02.0	199.0	180.6	-3.7%	8.0%
Office and school supplies of plastic	113.5	108.1	119.4	1.7%	5.3%
Typewriter and printer ribbons, and ink pads	28.3	42.9	43.7	15.6%	1.9%
Metal filing trays and cabinets for desktop use	24.8	10.1	25.0	0.3%	1.1%
Fittings for binders and files, paper clips, staples, etc.	24.2	21.6	23.5	-1.0%	1.0%
Other non-paper and board stationery	50.8	51.6	51.5	0.5%	2.3%
Total	2,116.5	2,151.7	2,244.2	2.0%	100.0%

Source: Keynote, SC analysis

Within the personal stationery and writing instruments sector, ball point pens are the single biggest category

UK consumer expenditure on personal stationery and writing instruments by type (2005)

Retail sales of Personal Stationery	£m	Share of total
Envelopes	77	45%
Writing paper	67	39%
Special occasion	17	10%
Boxed sets	7	4%
Notelets	5	3%
Total	173	100%

Retail sales of Writing Instruments	£m	Share of total
Ballpoints	93	26%
Rollerball pens	85	24%
Felt and fibre pens	43	12%
Fountain pens	39	11%
Pencils and crayons	32	9%
Markers	21	6%
Mechanical pencils	14	4%
Refills*	14	4%
Multi-functions	14	4%
Total	356	100%

Source: Mintel, SC analysis

- Envelopes dominate sales for personal stationery. There has been a shift towards convenient self-seal envelopes
- Within writing paper, manufacturers have been adding value to the products through design and endorsement
- Within special occasion stationery, such as wedding stationery, consumers are much more concerned about the quality of the product than its price
- Both boxed sets and notelets have a small share of retail sales and tend to have an older customer
- Ballpoints have the largest market share and are positioned as a pen for everyday usage
- Rollerball pens enjoy a premium positioning as consumers associated them with a higher quality writing experience than ballpoints
- Fountain pens compete less and less for everyday usage and are becoming a more niche luxury proposition. They are increasingly seen as a fashion item and benefit from a high level of PR support
- Pencils and crayons are very child focused and have been losing sales to other colouring and art products such as gel pens, and pour-on paints

Source: Mintel

Traditional retailers are seeing increased competition both from supermarkets and online

- Key retailers include WH Smith, Partners The Stationers, Paperchase, Woolworths, post offices and local newsagents -- and also local commercial stationers, where these exist.
- Individuals needing larger volumes of stationery for working from home or for personal use also use Viking and Staples
- WH Smith is the largest high-street stationery distributor in terms of number of outlets, although stationery only accounts for a fraction of its stock.
- Between 2002 and 2006 there has been an increase in the use of Internet retailers and supermarkets as sources of consumer stationery
- This has made trading more difficult for some high-street retailers, notably Stationery Box. Stationery Box Ltd was established in 1998, but many of its stores were sold off in 2006 and it went into receivership in January 2007.
- However, many people buy stationery only in small quantities and do not want to go out of their way to find it, so supermarkets and high-street shops receive a substantial demand
 - supermarkets continue to increase their involvement in non-grocery areas. Tesco, the largest chain, joined the BOSS Federation, the association for the stationery and office products industry, early in 2007.

Contents

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Executive summary

Book industry analysis

- Profitability comparisons
- Market size and growth
- Industry structure and dynamics

CDs, DVDs, and stationery markets

Appendix: Information sources

Our analysis is supported by the responses of 176 participants in our online survey

Number of survey participants by type	UK	Ireland	US	Netherlands	Sweden	TOTAL
Chain of bookshops	11	2	2	1	8	24
Independent bookshop	114	8	5	3	3	133
Online bookseller	3	0	0	0	0	3
Supermarket	1	0	0	0	0	1
Book wholesaler	2	0	0	0	1	3
Other	7	3	0	1	1	12
<i>Business type not specified</i>	0	0	0	0	1	1
Total	138	13	7	5	14	176
Consumer – front list only	3	0	0	1	0	4
Full consumer offer	21	6	5	2	9	43
Academic	15	1	0	1	0	17
Specialist (e.g. children's))	26	1	0	0	0	27
All types of books	58	4	2	0	4	68
Other	15	1	0	1	0	17
<i>Business type not specified</i>	0	0	0	0	1	1
Total	138	13	7	5	14	176

Note: We have excluded the data from Finland since there was only one respondent

Key published information sources – book markets

UK

- Bookselling 2008 (Keynote)
- Book Retailing 2007 (Intel)
- UK Book Publishing Industry Statistics Yearbook (UK Publishers Association)
- UK Book Retailing 2007 (Verdict)
- Global Entertainment and Media Outlook: 2007-2011 (PWC)
- 2006 and 2007 EBF Country Reports
- BA website

Ireland

- Nielsen BookScan presentation
- Global Entertainment and Media Outlook: 2007-2011 (PWC)
- 2006 and 2007 EBF Country Reports

USA

- ABACUS (ABA)
- Trends 2007 (BISG)
- Routes into the American Book Trade (UK Publishers Association)
- Global Entertainment and Media Outlook: 2007-2011 (PWC)

Finland

- The Book Trade In Finland 2005 (Doris Stockmann, Niklas Bengtsson, Yrjö Repo)
- 2006 and 2007 EBF Country Reports
- Global Entertainment and Media Outlook: 2007-2011 (PWC)

Sweden

- Global Entertainment and Media Outlook: 2007-2011 (PWC)
- Bok Marknaden 2007 (Swedish Publishers Association)
- Book Market Statistics 2006 (Swedish Publishers Association)
- GPI: Publishing Market Profiles - Scandinavia 2004 (UK Publishers Association)
- 2006 and 2007 EBF Country Reports

Netherlands

- Global Entertainment and Media Outlook: 2007-2011 (PWC)
- GPI: Publishing Market Profiles – The Netherlands 2004 (UK Publishers Association)
- 2006 and 2007 EBF Country Report
- CBS website
- HBD website

Published information sources – case studies

Stationery

- Stationery (Personal & Office), Keynote 2007
- Personal Stationery & Writing Instruments, Mintel 2006

CDs

- Music and DVD Retailing, Mintel 2008
- UK Music & Video Retailers, Verdict 2007

DVDs

- Music and DVD Retailing, Mintel 2008
- UK Music & Video Retailers, Verdict 2007

Interviews and discussions with overseas representatives

Ireland

- John McNamee (EBF President and Irish bookseller)
- Reeta Windsor (Nielsen Bookscan)

USA

- Avin Domnitz, ABA
- Oren Teicher, ABA
- Michael Healy, BISG
- Albert Greco, Assoc. Prof. Of Communications and Media Management, Fordham University

Finland

- Olli Erakivi (Finnish BA)
- Katriina Jaakola (Finnish BA)
- Doris Stockman (President of Finnish Booksellers Foundation)
- Yrjö Repo (Consultant)

Sweden

- Lars-Eric Linder (Swedish BA)
- Doris Stockmann (Swedish market expert)

Netherlands

- Ari Doeser (Dutch BA)
- Adriaan Langendonk (Dutch BA)
- Herco van Houwelingen (Dutch BA)

Exchange rates

We have converted all monetary values to pounds sterling using the following exchange rates

- £1 = \$2.00181
- £1 = €1.46206
- £1 = SEK13.52381