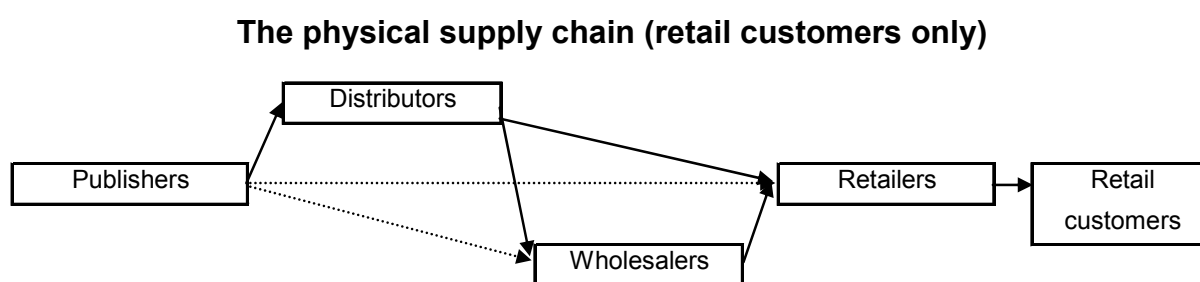


The book supply chain

1. This appendix consolidates information obtained from publishers, wholesalers and retailers during the course of the inquiry regarding the book supply chain.
2. Many parties told us that the book trade had a complicated supply chain and that no single model was used by all participants.
3. Key participants in the book supply chain include publishers, distributors, wholesalers and retailers. As in many industries, some parties participate at more than one point in the supply chain.¹

FIGURE 1



Examples:

Random House
Hachette
Pearson

Total Book
Service (TBS)
Bookpoint

Gardners
Bertrams

Bookshops
Supermarkets
Internet

Source: CC.

Note: Dashed lines indicate minor physical supply lines. Most titles are physically supplied to retailers from wholesalers or distributors, though some will come straight from the publisher.

Publishers

4. Publishers have a number of functions within the book supply chain, including choosing material for publication, editing the material, having the book printed, and marketing titles to retailers and the general public. In addition, publishers hold

¹For example, Hachette both publishes and distributes books while Bertelsmann owns Random House (a publisher) and BCA (a book club) and hence both publishes and retails books.

copyright licences on behalf of the authors for the majority of the books that they sell.

They also set the RRP which is nearly always printed on the book for trade titles.

- There are over 10,000 publishers in the UK. However, as Table 1 illustrates, ten publishers make up more than 60 per cent of the consumer market.²

TABLE 1 UK publishing groups: consumer sales, 2004

<i>Publisher</i>	<i>Share of the total by value 2004</i>	<i>Share of Ottakar's sales* by value 2004</i>	<i>Share of Waterstone's sales* by value 2005</i>
Bertelsmann (Random House—Transworld)	14.4		
Hachette (Hodder Headline—Orion)	12.9		
Pearson (Dorling Kindersley—Penguin)	12.1		
News Corporation (HarperCollins)	8.2		
Holtzbrinck (Pan Macmillan)	4.2		
Time Warner†	3.5		
Bloomsbury	2.1		
Oxford University Press	1.9		
Viacom (Simon & Schuster)	1.8		
BBC	1.8		
Others	37.1	100.0	100.0
Total	100.0		

Source: BA Reports Library February 2005 and the companies.

*Sales are calculated on the basis of actual retail revenue, after discounts where appropriate.

†Hachette, the owner of Hodder Headline and Orion, entered into agreements to acquire Time Warner Limited in February 2006.

- One of the ways publishers market books is by sending sales representatives (sales reps) to retail stores and retail account managers. These sales reps outline current and future titles produced by the publisher. Profile Books told us that many smaller publishers used freelance sales reps or larger publisher's sales reps (the sales rep or publishing company is paid a basic amount plus a commission on books sold). When retailers pre-order a future title they are described as 'subscribing' the title. The level of subscription helps the publisher decide on the initial length of the print run for a title.

- Gardners told us that publishers had cut back on the number of sales reps in recent years, while a recent survey of the book market suggests that the sales rep's role will

²Consumer titles are also called trade titles and are published for the consumer market. Non-trade are generally academic and scientific, technical and medical publications.

change as new technology, such as the Internet, and marketing techniques replace many of the rep functions.³

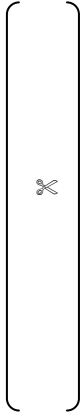
8. In addition to sales reps, publishers market their books in various ways including, advertising in the trade press, holding regular meetings with retailers' central buying teams, sending out proof copies for reviewers and using of marketing materials such as flyers.
9. Waterstone's and Ottakar's told us that they would generally negotiate overall terms with the publisher which would include a standard discount off the RRP (and sometimes promotional discounts). The standard discount might vary depending on format (hardback or paperback) and the type of book (children's books, dictionaries etc). Waterstone's told us that the standard discount tended to be lower for non-trade titles than for trade titles.

Distributors

10. Distributors are appointed by publishers to distribute their books to retailers, and hold stock when publishers do not have sufficient warehouse space. In many cases distributors are owned by one publisher but will distribute books for a number of publishers. Table 2 shows the distributors used by Ottakar's and the associated publishers.

³The UK Book Market 1998–2002, Marketing Tracking International Ltd, p81 (2002).

TABLE 2 Distributors and associated publishers used by Ottakar's

<i>Distributor</i>	<i>Associated publishers</i>	<i>Value of purchases for financial year 2005/06 £m</i>
The Book Service (TBS)	AA, Constable & Robinson, Faber, Hi-Marketing, Private Eye, Profile, Random House, Time Warner, Virgin, Footprint, Geocentre, Insight, Berlitz, Lonely Planet, Osprey, Piatkus, Titan, Taschen, Transworld	
Littlehampton Book Service (LBS)	Andrews McMeel, Atlantic, Aurum, Barefoot, Blake, Cadogan, Guides, Canongate, Cassell, Conran Octopus, Hamlyn, Infinite Ideas, Kogan Page, Mitchell Beazley, Orion, Philips, Running Press, Serpent's Tail, Summersdale	
Harper Collins	Carlton, Egmont, Harper Collins, Harper Collins Educational, Leckie & Leckie, Letts, Simon & Schuster, Usborne	
Penguin	Dorling Kindersley, Pearson, Penguin	
Macmillan Distribution (MDL)	A&C Black—General & Education, Bloomsbury—Adult & Children, Foulsham, Granta, Kingfisher/Chambers, Macmillan, Magi/Little Tiger, Quadrille, Sanctuary, Walker, Palgrave	
Bookpoint	Frances Lincoln, Headline, Hodder, Hodder Educational, John Murray, Plexus, Watts	

Source: Ottakar's.

Note: TBS is owned by Random House, while LBS and Bookpoint are owned by Hachette.

11. Distribution can cover a variety of services, including:

- *Execution*: includes physical warehousing, where the pick, pack and dispatch operations are from orders/invoices generated by the publisher itself and then posted or transmitted electronically to the distributor for fulfilment.⁴
- *Billing and fulfilling*: includes order processing. The distributor creating the invoices from orders sent direct to it by retailers, maintain the sales ledger and collect dues. The distributor will have pre-agreed credit terms with regular customers.⁵
- *Marketing*: can include 'repping' with an in-house (publishing) team of reps calling on retail stores and retail account managers.⁶

12. Distributors do not generally own the title to the books that they warehouse. They are likely to charge a rental fee for the space that the books take up plus a fee for other services that they provide.

⁴Overview of the Book Market, DCMS and MLA, July 2005.

⁵Op cit.

⁶Op cit.

13. Waterstone's told us that orders for books were placed by the retailer with the distributor and payment and credit terms were negotiated between them (whilst discounts were negotiated with the publishers). Typically the credit period for retailers mirrors the payment period when books are returned with both being 60 days, though many smaller independents have credit terms based on 30 days from the month-end statement date which may result in a shorter credit period.

Wholesalers

14. Wholesalers have a non-exclusive relationship with publishers, buy books from the distributor or the publisher and sell books to retailers. Wholesalers do not market or sell books direct to retail customers. Gardners told us that following a recent period of consolidation there were now three major wholesalers: itself, Bertram and THE.
15. Wholesalers have a much wider list of titles than the distributors. They are not linked to particular publishers and they aim to provide a total book-buying solution for some of their customers; Gardners stocks around 500,000 titles and Bertrams stocks 200,000+ titles at any one time. They provide most books to retailers within 24 hours.
16. Table 3 illustrates that independent bookshops have historically been wholesalers' most important customers, making up approximately 50 per cent of their sales.⁷ Wholesalers are, however, increasingly supplying the Internet and other retailers.

⁷Gardners told us that [X] per cent of its business was currently with independent bookshops.

TABLE 3 The level of wholesaler participation in the book supply chain

	<i>£ million (wholesaler % share)</i>			
	<i>Retail market 1999</i>	<i>Wholesale market 1999</i>	<i>Retail market 2005(e)</i>	<i>Wholesale market 2005(e)</i>
Independents	264	82 (31%)	245	83 (34%)
Book chains	567	47 (8%)	978	48 (5%)
Internet	31	24 (77%)	200	88 (44%)
Other (including non-traditional and grocery)	437	12 (3%)	801	38 (5%)
Total	1,299	165 (13%)	2,224	257 (12%)

Source: *Why do book wholesalers exist?*, Bertram Books.

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17. We have been told that in addition to the traditional wholesaler, such as Gardners, there are wholesalers who also provide merchandising services (merchandisers) who primarily work with supermarket chains. Entertainment UK and Handleman UK Limited provide merchandising services such as category management⁸ for their clients including fixture design, space planning and tailored promotions.
18. Wholesalers and merchandisers provide consolidated buying for smaller book retailers. Wholesalers also support independent bookshops by providing electronic stock-monitoring equipment,⁹ and catalogues providing lists of interesting new titles. Gardners uses a rating system indicating sales expectations, point-of-sale material, and next-day delivery for books. Gardners also said that it provided suggestions on titles to stock, start-up advice via its five regional representatives, and additional credit facilities for new independents.
19. In a minority of cases wholesalers act as a distributor for publishers. Gardners told us that it acted as a distributor for about 65 (small) publishers.
20. Waterstone's told us that where new small publishers approached it Waterstone's would normally agree the route of supply via Gardners as it was more efficient for

⁸This includes advising the supermarket on its range of books and undertaking the supply, stocking and layout of the display.

⁹[Image]

Waterstone's to deal directly with one consolidating wholesaler rather than a large number of low turnover accounts.

21. Retailers can use wholesalers as an alternative supplier. However, Waterstone's told us that the decreased margins were a disincentive to do so, particularly in respect of the most popular titles. Waterstone's estimated that the financial implications of using wholesalers resulted in a reduction in margin of around [3%] per cent. In addition, the caps on returns imposed by wholesalers are lower than the caps imposed by the publishers.

Retailers

22. Different types of retailers include bookshops, major multiple stores, supermarkets, Internet and other distance sellers such as book clubs/mail order. However, we note that the distinctions between them are somewhat blurred.
 - Specialist bricks and mortar book retailers. In terms of supply chain, specialist bricks and mortar book retailers can be split into two types, large chains and independents. Large chains source more books from the publishers and distributors while independents are more likely to source books from wholesalers. Some of the large chains have their own warehousing (Borders), while others do not (Waterstone's).
 - Bricks and mortar retailers for whom books are an important category, such as WH Smith and British Bookshops. WH Smith sources most books from the publishers and distributors that supply its Swindon and Holden distribution centres.
 - Bricks and mortar retailers who sell books as one part of a wide range of goods, including, in particular, the supermarkets and major multiples such as Woolworths. For example, Tesco sells books in 653 of their stores in the UK. Supermarkets, with the exception of Asda, source books from merchandisers and

wholesalers rather than from the publishers. The Woolworth group owns Entertainment UK which is the merchandiser for Tesco.

- Internet retailers deliver books to the customers' specified address. Amazon has a dedicated warehouse, buys books predominantly from publishers, and distributes books to customers. Other Internet retailers use wholesalers, for example Tesco.com is controlled by Tesco but the fulfilment of orders and management of the supply chain is the responsibility of Gardners.
- Book clubs either buy books from publishers (in large quantities) or license the copyright and print them, often on lower-quality paper, at a lower cost.
- The Book People Group Limited supplies discounted books direct to consumers by monthly mail order catalogues, an Internet site and through its nationwide distributor network, who deliver directly to workplaces and schools.

The physical supply chain

23. Most elements of the physical distribution are undertaken by distributors, publishers and wholesalers, though some retailers, such as WH Smith, distribute their books from a centralized warehouse. This is partially reflected in the negotiated terms between the retailers and their suppliers. Waterstone's and Ottakar's told us that they were not subject to any variation in charges for deliveries to different UK regions.
24. Books are generally printed by publishers, in the UK, or sometimes in Europe or the Far East, and then sent to distributors who will send the books to wholesalers or direct to the retailer. Books sent to the wholesalers will be sent on to the retailers (see Figure 1).
25. Distributors can offer 24-hour delivery times (for example, just before Christmas) but more standard orders can take anything from three days to one week to deliver. The standard model is for the distributor's designated carrier, such as Parceline or DHL,

to pick up the books and take them to a hub where they are sorted geographically and dispatched onwards to a regional depot which then supplies the store. Smaller distributors which are dispatching smaller, lower-value parcels will often send books via the standard postal system.

26. Wholesalers offer a 24-hour delivery service for most books. The parties told us that this enabled all book retailers, in particular small independent book retailers, to have easy access to a very wide range of titles. Gardners told us that the majority of the books it sold which were ordered by 5 pm one day would be with the retailer by the next morning.

The returns process

27. Most books are purchased on a returnable basis,¹⁰ where books can be returned within a specified time frame and the retailer is generally given a credit note against future purchases. A general code of practice outlining the returns process was produced in 2000 by the Book Industry Supply Chain Steering Committee. The code of practice followed an investigation into the returns process by KPMG which highlighted a possible £100 million worth of savings.
28. The Book Industry Supply Chain Steering Committee's short-term objectives are to achieve industry standardization and automation. The longer-term objective is to reduce returns. The returns process, known as Industry Returns Initiative (IRI), is based on electronic messaging. The benefits of the process include time saved and a clear audit trail. In 2004, Waterstone's was the first retailer to participate in the process. Since then, a number of other retailers have agreed to join including Ottakar's, WH Smith and Borders.

¹⁰In a few cases, generally when the book is exclusive to the retailer, the sale will be on a firm basis so that no books can be returned.

29. The code of practice recommends that a book cannot be returned within three months of the publication date or after 15 months from the date of the last dispatch of that title from the distribution centre.¹¹ This allows the book enough time to sell and for retailers to dispose of slow-selling stock. The 3-to-15 month rule is part of the IRI so all publishers of participating distributors operate this rule.
30. The code of practice also states that some publishers may wish to agree a cap on the value of returns from individual bookselling organizations, normally calculated as a percentage of sales. Waterstone's told us that this could be around 15 to 20 per cent of sales for publishers.
31. The timings and the cap on returns may vary by retailer and publisher. They are also likely to be different for wholesalers who must agree returns both with their customers and suppliers. The cap on the level of returns with wholesalers is generally lower. Waterstone's cap on returns with Gardners, for example, is [X] per cent of purchases made over a rolling 12-month period.
32. The parties told us that retailers must apply for authorization to return before sending any stock back and must pay the carriage cost. Authorization gives the publisher the opportunity to verify that the stock in question is valid. Where stock is sent without prior authorization, it is likely to be rejected or physically accepted but not credited. Waterstone's carriage cost for returns in the financial year 2004/05 was £[X], while Ottakar's was approximately £[X].

¹¹Ottakar's told us that this timing might be different for new titles where the retailer was less able to predict the number needed.