

Book retailing in the UK since the abandonment of fixed prices

Francis Fishwick, 2 May 2008

1. The history of minimum resale prices 1900-97

From 1900 to 1995 almost all books other than those for use in schools were subject to a minimum resale price. The Net Book Agreement (NBA) was an agreement established among publishers in 1900: if any publisher decided to fix the minimum price for a book and any retailer sold that book at less than this “net” price during the 12 months after publication, then all publishers would boycott that retailer. In 1957 the collective boycott was replaced by an arrangement for collective action in the courts.

The agreement was “voluntary”: no publisher was obliged to fix a net price for any book, but almost all books on sale in the UK had fixed prices until 1990. Between 1990 and 1995, a few major publishers withdrew from the agreement and it also became subject to investigation first by the European Commission and then by the Office of Fair Trading (the UK’s own competition authority). In September 1995, the UK Publishers Association abandoned the NBA and in April 1997 the Restrictive Practices Court declared the agreement illegal.

With the end of the NBA and of a similar arrangement for branded pharmaceuticals, there are now no cases of legally permitted fixed retail prices in the UK.

2. Some key features of the UK book market

- Most books sold in the UK are published within the country, including UK editions of American titles.
- The recommended retail price (RRP) is printed on the cover of almost every book intended for the general reader and also of many academic or professional titles.
- There is no regulation of prices or other terms and conditions applied within the supply chain, that is publisher-wholesaler-retailer, in contrast to the USA (Robinson-Patman Act), France or Germany.
- Printed books are exempted from Value Added Tax in the UK. Competing products, including electronic or audio versions of books, are taxed at the standard rate of 17.5%.

3. Discounting by retailers since abandonment of fixed prices

Research, undertaken two years after the NBA was abandoned¹, showed that in the year ended October 1997 discounting was confined to a small minority of best-selling titles. Average discounts (for those books not sold at RRP itself) were about 22% of RRP in

specialist chains, 29% in mixed books-stationery chains and 34% in supermarkets. At that time supermarkets sold very few titles other than those discounted, while for national bookshop chains discounted titles were a small minority. With a few notable exceptions, discounting by bookshops other than national chains was exceptional.

More recently discounting has increased dramatically: many more books are available at discounted prices and the discounts are bigger. Data from 2001 onwards are available from published surveys and from the UK Competition Commission's report on a major merger proposal affecting two bookshop chains.² Evidence from these different sources is summarised in Table 1. The averages shown include books sold at full RRP.

Reihenfolge nach Popularität	Durchschnittlicher Rabatt auf empfohlene Ladenpreise			
	2001	2002	2005	2007
100 Bestseller	-	25.1	35.3	39.7
Alle andern Titel	-	10.1	15.8	17.8
Top 5000	12	16	26	-
Alle andern	7	7	10	-
Durchschnitt total	9.5	11.5	19.8	20.9

Discounts have become more extensive and also deeper for two reasons: (1) most branches of supermarkets have widened the range of books on sale (to a limited degree), offering discount on all titles, (2) internet retailers (led by Amazon) offer a very wide range of titles with discounts on most of those in stock or easily obtainable.

In a household survey in December 1996, 38 per cent of those who had bought books claimed to have paid less than RRP³; during the calendar year 2007 the corresponding proportion was 51 per cent, above half for the first time since the end of fixed prices.⁴

Discounts on academic and professional titles tend to be smaller, partly because the margin received by retailers is also smaller. The author's own (unpublished) research in 2004 showed that up to that date most students bought textbooks at RRP from campus bookshops. Fewer than five per cent purchased on the Internet; direct mail retailers selling at discounts had struggled to gain business.

4. Shares of retail market by class of outlet

Table 2, based on a variety of sources, shows the author's estimates of market shares⁵ from 1998 to 2007. The table emphasises the growth of the Internet and supermarkets.

	1998	2004	2005	2006	2007
Die fünf (vier) grössten Ketten*	38.5	43.3	41.4	39.6	37.5
Übriger Sortimentsbuchhandel	19.9	10.6	10.5	10.2	9.6
Supermärkte	4.0	6.4	8.0	9.0	11.0
Buchclubs, Versandbuchhandel	24.7	17.8	15.3	14.9	10.9
Internet**	0.3	9.1	11.7	13.2	20.0
Restliche	12.6	12.8	13.1	13.1	11.0
	100.0	100.0	100.0	100.0	100.0

* 2006 fusionierten Waterstone's und Ottakar's

** Die 2007-Zahlen beinhalten einige Versandbuchhändler, welche ins Internet wechselten, ohne diese Firmen wären es 17.0 %

The internet was in its infancy in 1998 and its growth cannot be attributed entirely to absence of fixed prices, but without the ability to compete on price it is unlikely to have increased its share so much. Before the end of the NBA, supermarkets sold very few books and, though low prices may not be their only competitive advantage (the “one-stop shop” is also a factor), the emphasis given to discounts remains important.

Between 1998 and 2004 specialist bookshops with only one or a small number of outlets were the main losers in price competition, with the gains shared by the Internet, the largest chains (until 2004) and supermarkets. Despite increased efficiency, the smaller firms could not compete on price, because they could not obtain the low prices from publishers and wholesalers available to their larger competitors.

Since 2004 the largest chains have also lost market share to the Internet and supermarkets. They have been unable to match prices, because of the higher costs of holding more physical stock, more labour-intensive operations and expensive sites.

Book clubs and other distance sellers have been hit hard by the new price competition. This is mainly because before 1995 clubs circumvented the fixed-price system by selling special book-club editions of recent or even new titles. They have lost this advantage.

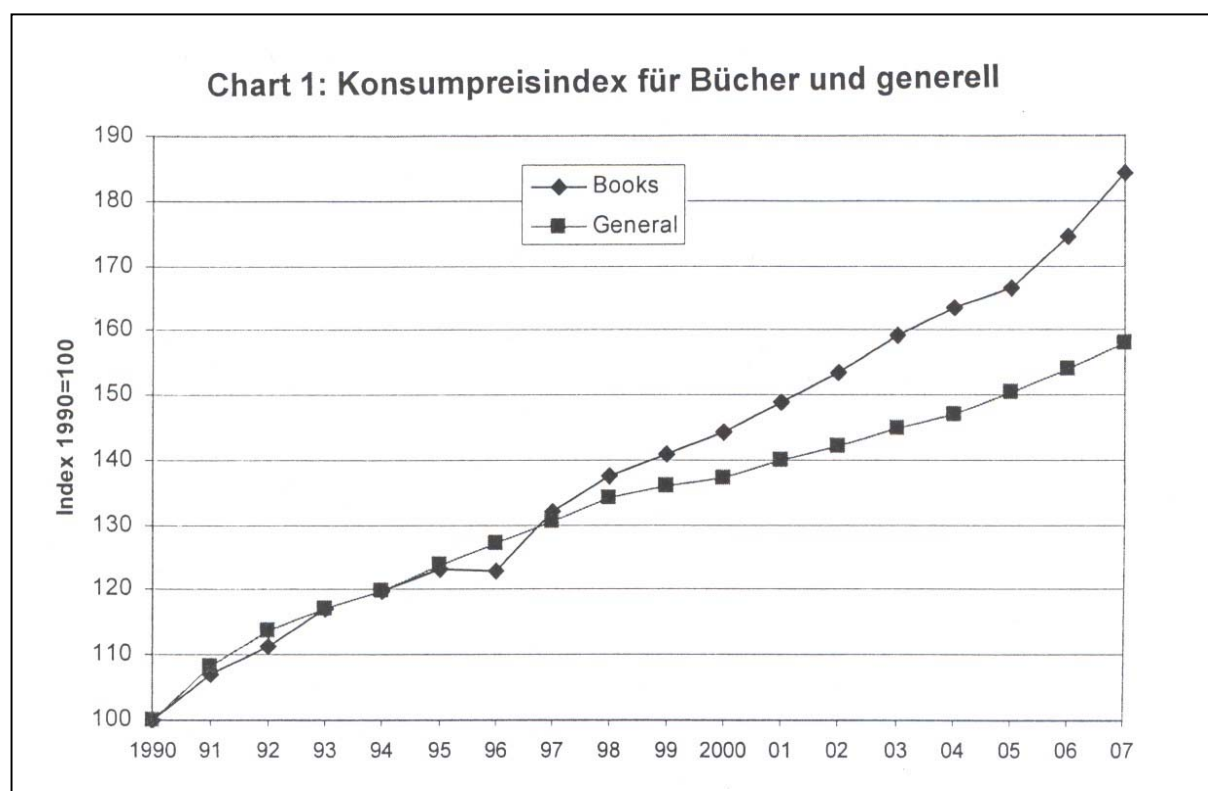
The smaller bookshops grouped under “other specialist bookshops” have lost less market share since 2004. One reason for this is that many have become niche outlets, no longer trying to compete on best-sellers but providing more personal service and/or concentrating on minority interest titles. In the week ended 22 December 2007 (probably the busiest of the year) only nine of the 20 best-selling titles in independent bookshops were in the top 20 for the market as a whole.⁶

5. Prices

A recent analysis by a market survey company reports “The general trend in Average Selling Price is that of a decrease year on year.”⁷ However a fall in the average price can occur because more paperbacks and fewer hardbacks are bought; a fall in sales of

expensive encyclopedias and similar reference books in response to availability of reference material on the Internet may also distort this statistic.

The Office for National Statistics (ONS) produces an index for book prices paid by consumers, which is designed to compensate for changes in product mix. The prices (after any discounts) of a range of comparable books are compared between successive periods, weighted averages are calculated and an index is computed by chain-linking. Chart 1 shows this index annually from 1995 to 2007 and compares it with the general index of consumer prices.

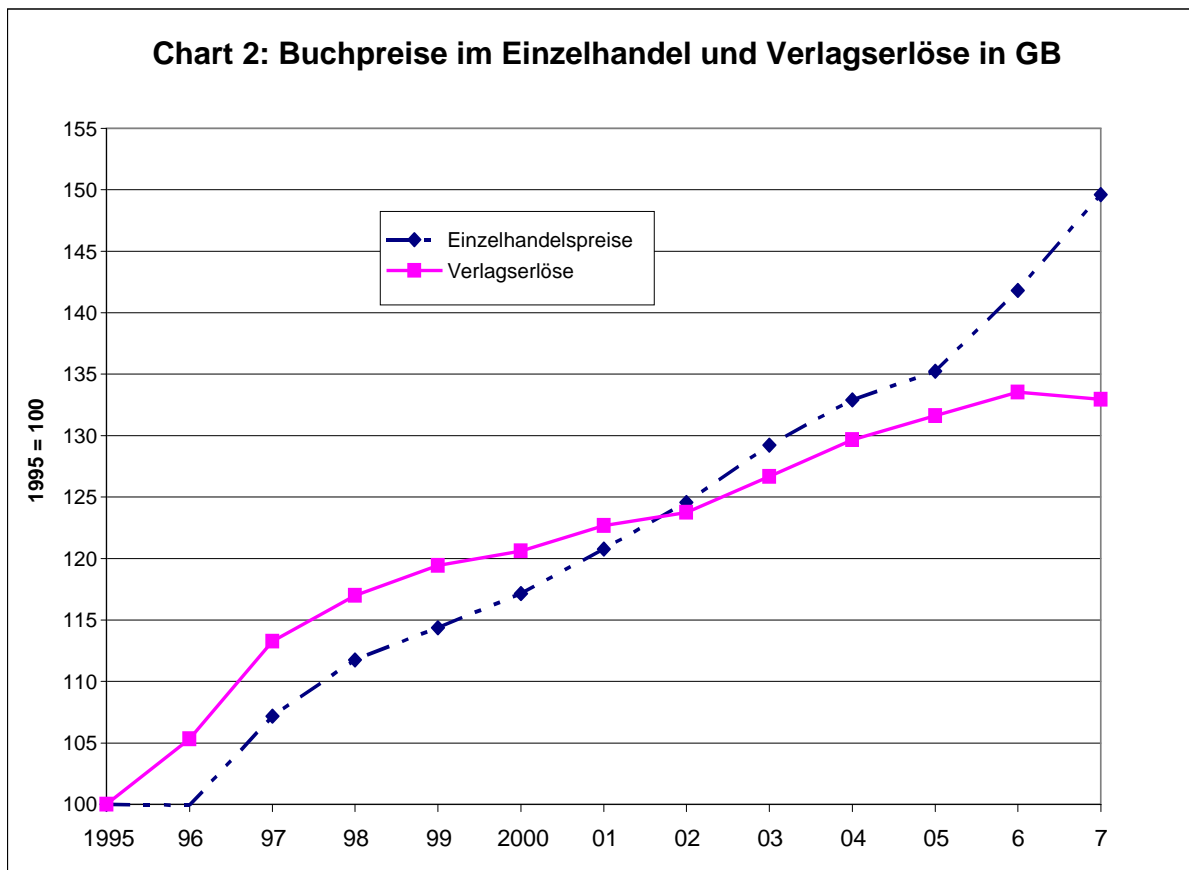


Source: ONS, *Consumer Trends*, Quarter 4 2007, www.statistics.gov.uk

Over the 12 years since 1995, when fixed prices were abandoned, the book price index has risen by 49.6 per cent while that of all consumer prices has risen by 27.6 per cent.

The increase in book prices may be partly due to the use of “price points” in the UK. In 1995 the most common (fixed) price of a mass-market paperback was £4.99; in 2007 the most common RRP was £6.99 or £7.99. For hardback titles equivalent figures would be £12.99 in 1995 and £20 or even £25 in 2007. Many of the more popular titles are discounted, but many others are not. None of those who have analysed book prices since 1995 have had the resources to compare price points of a large sample of books.

Comparison of retail prices with those received by UK book publishers (“producer prices”) demonstrates the greater buying power of large retail groups and of wholesalers.



Sources: ONS, *Ibid* and *Producer Price Indices*, www.statistics.gov.uk

Data from the UK Publishers Association show even less growth in average invoiced prices and confirm the decrease in 2007.⁸ Most large orders for books are placed by big chains, national supermarkets and Amazon. Most smaller orders, both from these big companies and from smaller independents, are routed via a small number of powerful wholesalers. For all orders, the publisher faces more powerful customers.

6. The effects on demand

(a) Dominance of best-sellers?

Among comments regretting the growing emphasis on competition for share in the market for best-sellers is one by Stephen Page, Chief Executive of Faber and Faber and 2006 President of The Publishers Association :

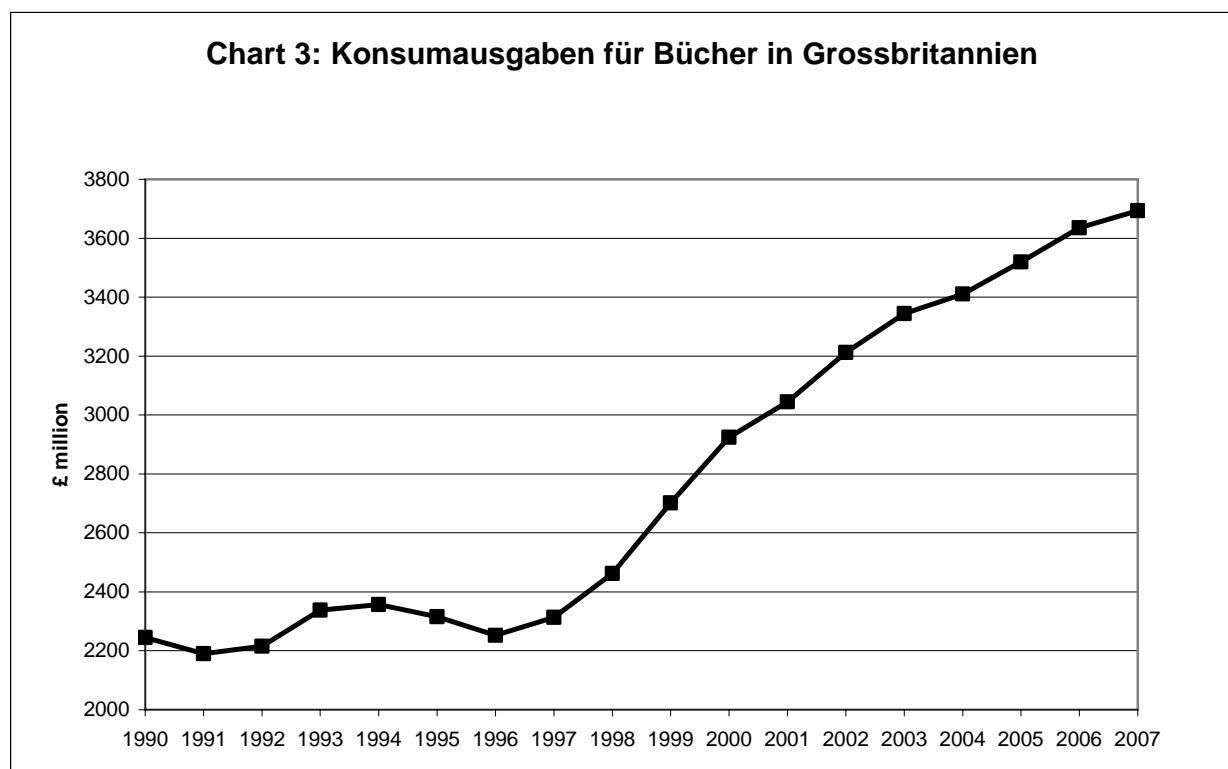
“The book trade is now experiencing a concentration on fewer books derived from obsession with best-sellers and celebrity. ...Most serious or marginal books now begin life with a decreasing exposure...”⁽⁹⁾

Lack of data makes it hard to measure how much the aggressive price war has induced consumers to switch their purchases to leading best-sellers, a change that might result not only from discounts on these most popular titles but also from their greater exposure.

Using Nielsen Bookscan best-seller lists¹⁰, we have calculated that in 2002 the top 100 best-sellers accounted for 11.7 per cent of total volume sales in the consumer market; in 2005 and 2007 the corresponding figures were 14.4 and 11.9 per cent. With such a small sample, the figures are greatly affected by the popularity of individual titles, such as the *Harry Potter* series and the *Da Vinci Code*. However, it may be that in the last two years the greater share of the market gained by Internet retailers with a wide range of titles has reduced slightly consumer concentration on best-sellers.

(b) The effect on the total market

Between 1995 and 2007, according to ONS¹¹ figures total consumers' expenditure on books increased by 103.6 per cent, a rise of 49.6 per cent in price accompanied by one of 36.1 per cent in volume.¹² In Chart 3 we adjust the annual expenditure figures by the general index of consumer prices, thereby showing the real value of spending on books.



After correction for general inflation, consumer spending on books rose by 59.5 per cent between 1995 and 2007. This cannot be attributed simply to the abandonment of fixed book prices, for the following reasons:

- Total consumers' expenditure in real terms rose by 48 per cent over the 12 years, very rapid growth by historical standards.
- As shown above, part of the increase in the real value of spending on books occurred because book prices rose more than general prices. Those buying books not

discounted paid much higher prices, but most book buyers are in higher income groups and are not price-sensitive.

- Spending on all recreation and culture rose by 56 per cent over the same period. Spending on books remained at about 3.6 per cent of recreational and cultural spending. In 1993 the corresponding figure was 4.1 per cent.
- The proportion of the population buying books has not increased despite greater accessibility. In the year ended 31 March 1995, 24.4 per cent of households participating in a continuous survey had bought books in the last two weeks. In the year ended March 2006, the corresponding figure was 23.9 per cent.¹³
- One reason why people may buy more of the books they read has been the decline of public library services. In the year to March 1995, the total number of books issued by UK public libraries was 534.6million; twelve years later (2006-7) this total had fallen to 314.9m.¹⁴

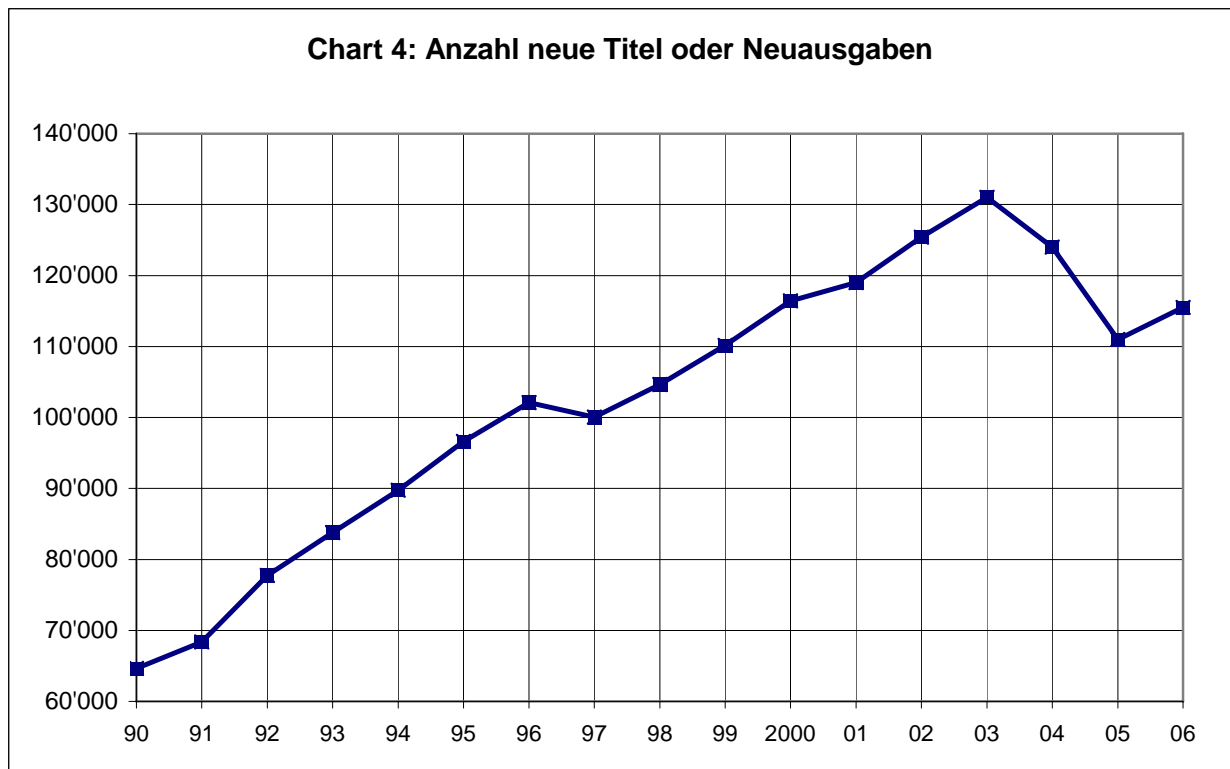
While these factors must be considered, the growth in spending on books contrasts with the gloomier predictions that preceded the abandonment of fixed prices. Competition in the market for leisure, cultural and recreational products has intensified greatly over the past 12 years: DVDs, home computers (particularly with rapid internet access), multi-channel digital television, entertainment via mobile phones and ipods are some of the new products now available. The wider exposure of books in non-traditional outlets may well have contributed to their retention of market share since the end of the NBA.

7. Other predictions about the end of fixed prices

(a) The number of new titles

Both supporters and opponents of the fixed price regime argued that it encouraged more new titles, by maintaining a network of stockholding bookshops. Supporters argued that this was good for culture; opponents argued that it was wasteful and meant that more popular books were dearer, in effect subsidizing minority-interest books.

After a fall in 1997, which may be attributable to the uncertainty after the end of the NBA, the number of new titles rose annually until 2003; after then there is some evidence of a downward trend to 2006 (the latest data)



The change in trend coincides with the transfer of market share from specialist chains to supermarkets and the Internet and more intensive discounting. It is possible that the prediction of fewer titles may prove correct after all, despite the technological changes which have greatly reduced the “first-copy cost” of new books.¹⁵

(b) Productivity

One of the arguments for abolition of fixed prices was that absence of price competition implied less incentive to increase efficiency. A recent study financed by the Office of Fair Trading¹⁶ shows that labour productivity in book retailing has increased less quickly since the end of the NBA than in the previous decade. While the growing share of the Internet and the supermarkets is said to have increased productivity, declining turnover per employee in specialist bookshops has offset this effect.

There are problems in the definition of productivity here. How does one take account of services available in specialist outputs, which are not available in supermarkets and which customers have to perform themselves on the Internet, for example bibliographic searches, general help with identifying titles, and special orders?

8. Library purchasing

Libraries (public and academic) account for less than 2 per cent of total book sales in the UK but the sector merits a short mention. Under the NBA booksellers could supply licensed libraries at a discount of 10 per cent; competition between specialist library

suppliers generally took the form of services provided below total cost. With the ending of the NBA, both academic and public libraries have formed consortia to force down prices (receiving a general discount on all books) and to retain as much of the subsidised services as possible. Library suppliers can respond only by cutting costs and there have been some business failures in this sector of the book trade. The problem is aggravated by restrictions on spending by libraries and by growing emphasis on other educational and cultural media.

9. General Conclusions

The defence of the Net Book Agreement from the 1950s to its demise in 1995 was that without it there would be fewer stockholding bookshops, higher prices and fewer new titles. The evidence presented here tends to validate all three predictions (though the reduction in title numbers has occurred only recently and could prove short-lived). However, the sales performance of the book trade has been remarkably good: despite much greater competition from other forms of entertainment and education, sales of books in real terms are at a record high level.

The explanation for this apparent anomaly is the importance of new distribution channels, particularly supermarkets and the Internet. Aggressive pricing on the part of these new channels has been necessary to their gain in market share.

Twelve years after the end of the NBA, who are the winners and losers from the change in the pricing regime?

Among book retailers, the dominant Internet bookseller (Amazon) and the supermarkets, have gained, though for the latter books are still a minor element in their product range. The main losers are specialist bookshops, particularly but not only the smaller ones.

Most Publishers have gained from the expansion of the total market, but some of those focusing on minority-interest titles may have lost. All publishers now face a concentrated market with much greater buyer power and, at least for some, this may mean lower profits.

The consumer who is happy to read best-selling titles is probably paying less than he or she would if the NBA had remained in force; the reader of other minority-interest titles is almost certainly paying more.

¹ F.Fishwick and S Fitzsimons, *Report into the Effects of the Abandonment of the Net book Agreement*, Book Trust, London 1998, pp23-30

² Competition Commission, *Proposed Acquisition of Ottakar's plc by HMV Group plc through Waterstone's Booksellers Ltd*, Report 513, London, May 2006, Appendix C

³ Fishwick and Fitzsimons, *supra*, Appendix on results of market research survey

⁴ BML, *Books and the Consumer Annual Conference*, London, March 2008. Both BML and Fishwick and Fitzsimons point out that these percentages refer to people's perceptions and may overstate the real extent of discounting.

⁵ 1998:BML, 2004 to 2006: Booksellers Association (www.booksellers.org.uk) from TNS/BML; 2007: from BML (*supra*)

⁶ *The Bookseller*, London 4 January 2008

⁷ Nielsen BookScan UK: *2007 Top Line Annual Analysis*, supplied only to subscribers.

⁸ The Publishers Association, *Yearbook 2007*, London, April 2008 Section 1, p3

⁹ The Guardian 6/3/08

¹⁰ Nielsen Bookscan, *Book Sales Yearbook 2003*, London 2003, and data from the same company in *The Guardian*, 2/01/06 and 29/12/07

¹¹ See ONS source to Chart 1

¹² $1.496 \times 1.361 = 2.036$

¹³ ONS, *Family Expenditure Survey*, www.statistics.gov.uk

¹⁴ Library and Information Statistics Unit, Loughborough University, March 2008 (www.lboro.ac.uk)

¹⁵ See Michael Utton, Books are not different after all, *International Journal of the Economics of Business*, 7(1), 2000, pp115-126

¹⁶ OFT, *An evaluation of the impact upon productivity of ending resale price maintenance on books*, Report 981, March 2008, available on-line at www.offt.com