

REDgroup retail

REDgroup retail is a leading books, stationery and entertainment retailer in Australia, New Zealand and Singapore. REDgroup retail currently operates the following divisions:

- Angus & Robertson is the most recognised book retail brand in Australia, with its focus on a sustainable value driven proposition. Angus & Robertson was the first retailer in Australia to hold a print on demand machine within its store. Angus & Robertson is Australia's largest book retailer and has 116 directly owned stores and 64 franchised stores located in every state and territory. These stores are a combination of mall and strip stores. Angus & Robertson also offers an online retailing platform.
- Borders has the biggest choice of books, music, movies and magazines in the market, with more than 200,000 titles. Borders offers customers a rich shopping experience, providing books, music, movies and magazines in a relaxing, enjoyable atmosphere. Borders Australia, New Zealand and Singapore was acquired by REDgroup Retail in June 2008
- Calendar Club is a chain of specialty calendar stores which operate over the Christmas period (October to January) in major shopping centres and other key retail precincts in both Australia and New Zealand. Calendar Club is the leader in the seasonal calendar retail market and the number one seasonal retail concept in Australia and New Zealand
- Supanews is a joint venture business that operates 48 newsagencies in Australia
- Whitcoulls is the most recognised book retail brand in New Zealand with 72 stores nationwide. Whitcoulls operates eight stores in both international and domestic airports in New Zealand. Within the Whitcoulls division, Bennetts sells textbooks and related course materials from 10 stores on New Zealand University and Polytechnic campuses

Angus & Robertson, Whitcoulls and Borders are well known and have strong brand presence in their respective markets. Both Angus & Robertson and Whitcoulls have histories dating back over 125 years. Borders opened it's first store in Australia in 1998 and has since grown to a network of 27 stores in Australia, 5 in New Zealand and 2 in Singapore.

Our Position

REDgroup retail supports the Australian Booksellers' Association (ABA) in adopting a preferred model influenced by Canada's regulatory system. In essence this would see a regulatory environment maintained but altered to emphasise local availability and pricing competitive to foreign editions, both outcomes of direct benefit to Australian booksellers and consumers.

REDgroup retail supports the ABA proposal for an Australian version of the regulations adhering to the general structure of the Canadian regulations with certain differences:

1. All titles, both imported and published in Australia, be treated equally;
2. There remains the capacity for publishers and distributors to exhaust copyright if they do not adhere to the regulations;
3. All rights holders must ship the book to the bookseller from their local distribution point within seven (7) days of receipt of order to maintain exclusive distribution/copyright;
4. In order to maintain territorial copyright the local publisher must provide the book at a price no greater than the list price of a competing edition in it's originating country, plus the exchange rate, plus an agreed percentage¹, the price after conversion minus any applicable discounts.

The criteria for these regulations should be established by an Industry Working Group overseen by an Independent party.

¹ The percentage would correspond to the average actual costs currently paid by book importers for transportation and related expenses - including shipping, handling and receiving, inventory, financial reporting, general overhead and sales and marketing.

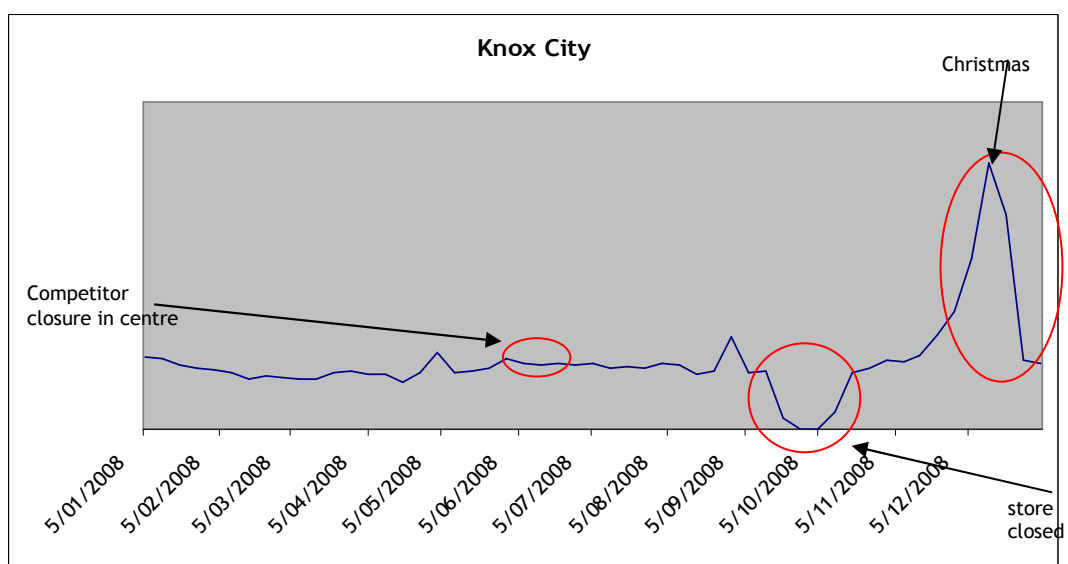
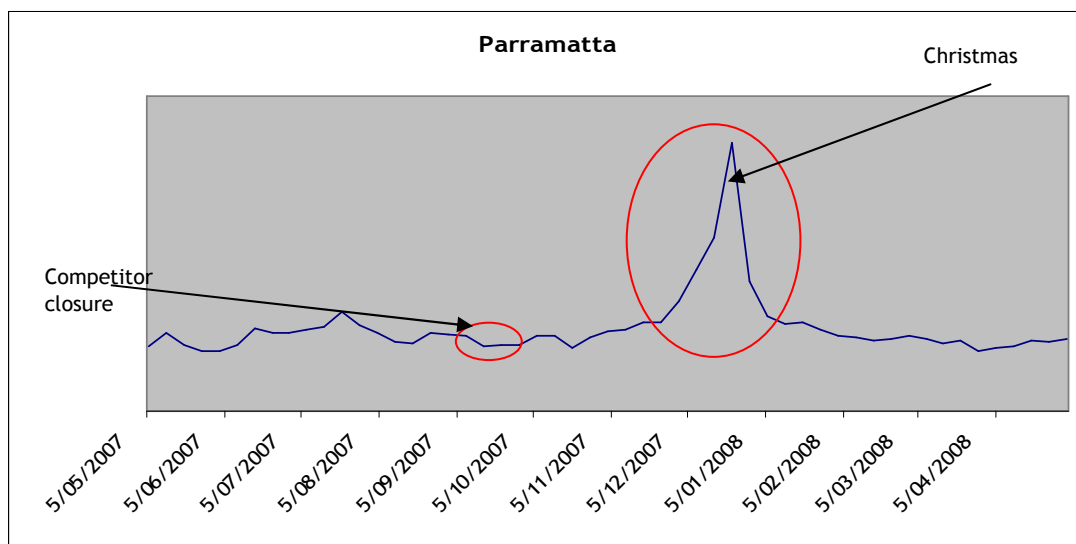
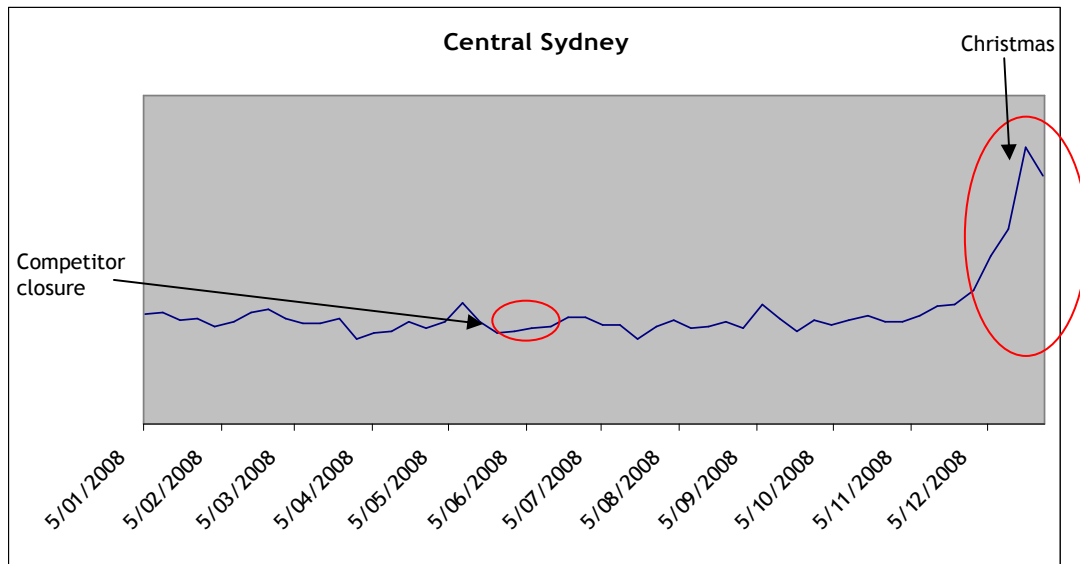
Our desired outcome from this Review process is a regulatory environment where:

- Copyright protection continues to exist in Australia for authors and publishers;
- Book publishers and distributors seeking the benefit of market exclusivity against parallel imports should meet performance criteria for prompt local publication, maintaining stock availability, and list (RRP) pricing competitiveness to other foreign editions.

One quote received from a leading Canadian retailer during our investigation into this issue is *“the regulatory process has made an immeasurable improvement in supply and availability for the Canadian consumer, whilst protecting the Canadian publishing infrastructure”*.

Supporting Information & Statements

- REDgroup Retail operates in the Australian, New Zealand and Singapore markets, giving us direct experience of different regulatory environments.
- Our New Zealand experience is relevant to this Australian review, as New Zealand is an open market with booksellers able to import any foreign edition of a book.
- Bookstore customers do seek books, fiction and non-fiction, which relate to the country they live in. Our experience in New Zealand pre and post the introduction of an 'open market' for parallel imports is that this local reader demand for New Zealand books has not altered in any significant way.
- Australian booksellers face competition not only from domestic physical bookstores, other retail formats selling books, and domestic online booksellers, but also from overseas online book retailers, which have different pricing structures and are not subject to GST.
- Price and availability are significant factors in customer decisions to purchase domestically or from an international source. Making price and availability for books in Australia more in line with foreign price and availability gives customers less reason to turn to online international book retailers for their book needs, and more incentive to support domestic bookselling, publishing and authors, and Australian literature generally.
- An environment that fosters a competitive and strong Australian bookselling industry, both in physical bookstores and online bookselling, is more likely to ensure that the creative output of Australian authors and publishers continues to be displayed to and made accessible for Australian readers. Foreign online booksellers do not actively promote nor often stock the output of Australian publishers and authors.
- Conversely, a weak or contracting Australian bookselling industry would be to the detriment of Australian authors and publishers. REDgroup Retail has direct experience that the closure of bookstores in a market results in a fall in book buying generally in that locality; all of the book sales from a bookstore that closes do not automatically flow to other booksellers left in the area and our data is that book sales in the market actually diminish, as evidenced by the following charts.



- Removing the restrictions against parallel importing will not of itself improve pricing, availability or margins for Australian booksellers and consumers.
- Even with a completely open market the New Zealand experience is that parallel imports are primarily used for niche and backlist titles with most booksellers maintaining accounts with domestic suppliers. Some reasons for this are:
 - Local suppliers offer a range of useful benefits and services for booksellers, including sale or return terms of trade, rebates, free into store delivery, author tours and marketing support;
 - Sale or return is important to most bookstore business models, and most books imported from overseas suppliers are firm sale. Sale or return allows booksellers to be less conservative in trying new authors/books.
- Based on our New Zealand experience, opening the market in and of itself does not relate to an improvement in terms of trade and as such does not translate into booksellers achieving wider margins from suppliers.
- The Canadian regulatory system offers an alternative model, where the benefit of market exclusivity and protection from parallel imports is gained by a publisher or distributor if they meet performance criteria on price and availability, including initial release in the market. These are outcomes that would be of substantial benefit to booksellers and book buyers. Suppliers would have a strong incentive to be efficient in service and pricing in return for market exclusivity and certainty for their publishing plans.
- Our understanding is that Canada has a regulatory system which has been developed to balance protection for domestic book publishers and distributors (particularly from predatory imports from the bigger USA market) with protection for consumers and retailers against market exclusivity resulting in excessive book prices or lower standards of service by book publishers and distributors. Canadian publishers and authorised exclusive distributors seeking protection from PI gain it by meeting set requirements that include method of notifying the book trade and others that they hold the local rights, time limits for delivering a bookseller's order (thus requiring them to hold stock on hand to meet orders) and maximum price differential on domestic pricing compared with list prices for US, European or other foreign editions of a book.
- The current Canadian system only applies pricing differential requirements on imported books, not domestic editions. A requirement for both domestic and imported editions to meet a maximum pricing differential with foreign editions would subject more books in the Australian market to this competitive pricing pressure. Australian booksellers would have an ability to shop elsewhere for stock if faced with an inefficient local supplier.
- We would also note that contractual terms for supply of overseas published editions can prevent their export to the Australian market; it is not simply a case that removing all protections from parallel imports in Australia would mean that any foreign edition could be imported. REDgroup Retail has had direct experience of foreign wholesalers being unable to ship some titles to Australia due to contractual conditions imposed on supply in the country of production.
- Our supporting financial information around the sales and margin impact has been provided under separate cover and marked as 'IN CONFIDENCE'.