

Productivity Commission Submission

Part Two

In Kinokuniya's initial submission, I explained that current regulations are detrimental to the future growth of Kinokuniya Bookstores of Australia as follows:

The current copyright restriction on the parallel importation of books prevents Books Kinokuniya from being competitive, and inhibits future store investment. Current regulations relate directly to such issues as international competition, unfavourable terms-of-trade and extra human resources costs. Modifying the restrictions on parallel importing would favour Books Kinokuniya's growth, reduce the cost of books for our customers, and give Australians timely access to international titles, while retaining all the advantages of bricks-and-mortar stores.

As the only truly multi-national retailer operating in Australia acting as an Independent, we have a unique position with insight into many open and closed markets of the world. Our consideration of the Draft Proposal from the Productivity Commission shows us that this Proposal - notwithstanding the marginal benefits to our business that it offers - realistically does little to improve the balance of power that currently exists within the Australian bookselling community.

My initial submission did not include specific case details pertinent to our argument for a more open market. Since that time, many of the stakeholders have chosen to offer detailed and confidential data in support of their arguments, and in this submission I have followed suit. I submit the following Appendices as real-life examples of the effects of the current regulations on the book trade.

*** We regard all Appendices as confidential**

Problems with Current PIRs

1. 30-Day Rule

1.1. Timely Access to Titles

As stated by all stakeholders, some titles, but not all titles are published simultaneously. The publisher, not the retail customer, chooses what is published simultaneously and the choice is based on financial criteria.

Over the last 30 years, the range of titles published has vastly increased. More titles sell in less volume. This means that fringe-genre-readers in Australia do not obtain their favourite author's new book in a timely manner because the Australian rights-holder does not believe the book will sell profitably. The reader must wait for the book to be either shipped to Australia or be listed as an indent title. A 2-6 week wait is no trivial matter for readers. Today's online communities means that Australian readers can read what overseas fans think of the new book, a book that has yet to be released in Australia, unless it is special ordered from the U.S, the U.K or purchased from Amazon.

The act of not publishing all titles simultaneously benefits the long tail business model of Amazon. Publishers may say importing through Amazon is not financially viable with today's exchange rate and postage costs, as per the following quotation:

"To order from Amazon presents costs to Australian readers above and beyond the stated retail price of the book, including freight costs and delays, and requires faith that the book will arrive in an adequate edition, and in good condition." (Australian Publishers Association, sub. 244, p. 34)

I have attached a recent Amazon purchase for Kinokuniya that disproves this theory. These items were purchased, in bulk, for Kinokuniya from Amazon due to our local and international partners being unable to supply. Even with freight, duty costs and our own margin we were able to resell this item at the same price as Australia's RRP.

The draft proposal does little to address the fact that fringe-genre readers must either wait for a local edition or import themselves. In fact, one could say that the new regulations reinforce the notion that it is not possible to simultaneously publish a book in Australia and the bookstore/retailer is unable to serve these niche customers.

Together with the Amazon information, I have included in Appendix B a list of selected authors whose books Kinokuniya have discovered and imported when they were not published within 30 days. Interestingly, when the titles were then published in Australia some pressure was placed on Kinokuniya to stop importing the U.S. editions, which were cheaper.

- *Appendix A – Amazon Invoice and Subsequent Sales Data (confidential)*
- *Appendix B – Kinokuniya Bestsellers Imported Before Due Date (confidential)*
- *Appendix C – Supplier Letter (confidential)*

1.2. Offering a Better Range

A good bookselling business model is all about offering products customers demand, which means supplying not only a particular book, but a particular *edition* of a book. Collectors want American editions of titles as these so-called 'First Firsts' are not offered by either the Australian or U.K. publishing houses. To use the single order provision on these titles is a wasteful use of cost and human resources. Often customers want the item immediately and although they do not get their Amazon order on the day of ordering, the click of a button gives a feeling of completion to the purchase. Browsing customers may not know a book has been released until they see it on the shelf. None of these considerations represent a threat to local editions, as a serious bibliophile may choose to buy all editions of a title on the shelf, including the local edition. I have included a recent customer blog regarding Kinokuniya's new Dubai store that represents these sorts of views.

- *Appendix D – Kinokuniya Dubai Blog (confidential)*

2. 90-Day Rule

The PC has already reviewed the 90-day rule and we believe this will benefit the industry through more efficient supply of titles. Nonetheless, the matters following should also be borne in mind.

2.1. Indent

Kinokuniya has by far the largest range of titles in Australia, offering 300,000 titles to our customers. Having such a large range can mean a large proportion of stock must be indented from local suppliers. Indenting is simply detrimental to our business as we can wait up to six weeks for stock. Once the product arrives the RRP can be excessively high. As Kinokuniya is able to airfreight without increasing the price of stock, we cannot attribute these excessive RRP's to increased airfreight costs. I have attached a list of indent titles, comparing the RRP in Australia with Kinokuniya's imports, maintaining the same, if not better, margins. One might also think the act of indenting means the publisher does not believe there is a market for this title but wants to hold onto copyright just in case something advantageous happens in the future.

- *Appendix E – Indent Costing (confidential)*

2.2. Out of Stock

If Kinokuniya or any other bookstores are out of stock, it shows poor business forecasting – yet a publisher is protected for up to 90 days. A customer wants a book immediately, not sometime in the future. Furthermore, a publisher may state in writing that stock will arrive within the 90 days

when in fact it does not arrive at all. The bookseller loses revenue when the item may have been parallel-imported straight away.

- *Appendix F – Misleading Information (confidential)*

2.3. Graphic Novels

Kinokuniya is known for an extensive range of graphic novels and manga. Some local publishers have attempted to distribute these titles with varying degrees of success. Our concern has been, and always will be, the threat of an inefficient distributor blocking our importation of such titles, both limiting the range and increasing the price for which we can sell these items. *Appendix G* refers to emails pertaining to such a situation. Kinokuniya was able to maintain supply on these titles, limiting the potential threat of Amazon to gain market share. Overall the time taken to rectify such problems is non-productive, taking up to 6 weeks. This time that could be spent on a more meaningful exercise.

Usually graphic novel stock is sea-freighted to Australia with RRP's significantly higher than Kinokuniya air-freighting into Australia itself. Kinokuniya has progressive agreements with publishers in the U.S., meaning we can have comic books on our shelves in the same week as the U.S. and Amazon. If local publishers were to attempt to bring stock into the country even 2 weeks later than the U.S. a substantial amount of business would be lost.

- *Appendix G – Supplier Negotiation (confidential)*
- *Appendix H – Graphic Novel Costings (confidential)*

The Proposed PIRs

Bookstores are at present allowed to import book titles using the current PIRs. However if a store were to use the current system to its advantage it could be seen as not showing support for the local industry. Therefore the current restrictive PIRs mean the scales are still tipped in the suppliers' favour. Little would change under the new PIRs because new releases are the core of any business model and these are still protected. Savvy retailers trying to offer the best price and service to their customers would not be able to exercise their business prowess and there would still be little incentive for a less pro-active publisher to ensure stock was priced appropriately and available in a timely manner.

- *Appendix I – Publisher Negotiations (confidential)*

Prices with the new PIRs

A publisher who believes he or she has only 12 months in which to make a profit on a new release title before a bookseller can freely import a different version of that title will increase RRP to cover life sales. The bookseller has no option but to sell at RRP or lose some margin themselves through discounting.

Publishers' Arguments

Throughout this debate publishers have commented on how the current PIRs have helped build the industry to its present-day state. This is interesting, considering the history of PIRs. When the 1991 PIRs were suggested publishers spent an enormous amount of energy on retaining a closed market. The parameters changed in 1991 and publishers learnt to deal with the new set of rules, just as they would do if the rules changed again.

Local independent publishing is fairly marginal – either those with shareholders in Australia or who do not answer to a multinational head office. Interestingly, the current economic situation in the U.K. and the U.S. has placed an enormous amount of pressure on the local publishing outlets as bigger contributions are being demanded from their head offices. Over the last 6 months we have already noticed indent book prices increasing, the lowering of publisher human resources costs through redundancies, and co-op contributions squeezed, all in an Australian, growing, partially-closed market. One wonders what will happen if the market remains closed. Are Australian consumers subsidising the international markets due to the protection afford to Australian publishing through current PIRs?

The range of titles is also diminishing due to local publishers piggybacking overseas print runs to service the Australian market. If the U.K is not reprinting a title then Australia will not get the stock.

This makes us, not a strong local publishing industry, but a division of a U.K. or U.S. publishing houses.

It is also interesting to note that Australian publishers do not offer the same service as their parent companies. Although Sale or Return is touted as a benefit to buying locally, Australian booksellers are not offered full Sale or Return on backlist from most publishers. Are bookstores subsidising overseas shareholder profits by not having competition in the marketplace?

The argument that an open market will destroy the local industry is a furphy. There are current bestselling titles that can be freely imported into Australia, but local bookstores and companies have chosen not to bring them into the country. Apart from supplier comments in *Appendices C*; perhaps the Australian publisher is offering a better value in Australia and so the bookseller continues to buy locally. Realistically it would be hard to imagine a bookstore or chain ordering everything from overseas if the local publisher is efficient.

- *Appendix J – Bestsellers Not Imported Even Though Out of PIRs (confidential)*

Overseas regions have competition, even in closed markets. Bookstores can either buy directly from the publisher or use large distributors sell the same items. These businesses offer different terms thus creating competition, even in a closed market. There are no such options in Australia and we are unlikely to ever have such a set up due to the size of the country.

Distributors versus Publishers

There are several book distributors, as opposed to publishers, in Australia. Most books distributed by these businesses are not protected by current PIRs – and yet these businesses still operate, and local booksellers still order from them rather than import. These distributors have learnt to be more efficient and more proactive than their publishing colleagues. If these distributors are able to be profitable without the protection of current PIRs, why do publishers assume an open market will destroy their business?

Kinokuniya Summary

With the proposed PIRs Kinokuniya is still left buying some new release titles later and not competing against international brands. If we were to choose to import titles that are over 12 months old there is potential for local supplier terms to be less favourable as per *Appendix C*.

Unless a large warehouse distributor, such as Baker & Taylor, Gardners, or Ingrams is formed in Australia there is little to create competition within the marketplace. We believe a completely open market is the only way to ensure a constant stream of titles at realistic prices with good service. Local publishers can maintain their sales by offering suitable terms such as Sale or Return, discount structure, and a more tailored service, something overseas publishers would struggle with. A pro-active bookseller should be able to offer superior products and services to their customers.

Kinokuniya has the skill, and business formula needed to thrive in an open market – we do not typically compete with other bricks-and-mortar stores but complement local publishing by offering a different shopping experience. We would like to have the opportunity to bring world-class bookstores to Australia, offering the best value.

We are also concerned that this issue will be revisited in 5 years time. A lot of time has been invested by all parties on this debate. I think some finality sooner on this issue would benefit the industry and let all sides of business concentrate on building the customer base.

Yours faithfully,

Steve Jones
General Manager
Kinokuniya Bookstores of Australia