



THE PROPOSED ACQUISITION OF THE
BOOK DEPOSITORY BY AMAZON

SUBMISSION FROM THE BOOKSELLERS
ASSOCIATION TO THE OFFICE OF FAIR
TRADING

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1 INTRODUCTION

1.1 The Booksellers Association welcomes the opportunity to give its views on the proposed acquisition of The Book Depository ["TBD"] by Amazon.

BA membership

1.2 The Booksellers Association [the "BA"] is a trade association, based in London SW1, currently with 3,683 bookselling outlets in membership, covering 1,010 businesses.

1.3 Our members cover a diverse range of different bookselling businesses - large high street chains with mixed businesses (eg W H Smith); large specialist bookselling chains (eg Waterstone's); independents (eg Daunts); library suppliers (eg Askews); school suppliers (eg Heath Educational Book Supplies); specialist Internet booksellers (eg Eddington Hook); supermarkets (eg Tesco); and the two national wholesalers (Bertrams and Gardners).

1.4 Amazon used to be a BA member but withdrew in 2005; TBD has never been a member.

1.5 BA members sell to all markets (consumer – fiction/ non-fiction/ reference/ children's; academic – academic/ professional/ school/ English Language Teaching) from terrestrial shops and over the internet in a variety of different formats (hardback, paperback, audiobook and now e-book).

The BA

1.6 The BA helps its members to sell more books; operate from a lower cost base; improve competitiveness and productivity; network with others in the 'book world' and further afield and, most importantly, to represent their views..... as we are now doing.

1.7 The BA Council – the top policy body within the BA which mirrors the views of the membership – is very much opposed to this proposed acquisition. We set out our key objections in the next section, and develop our arguments further in the following submission.

2 EXECUTIVE SUMMARY

The BA has significant concerns about the Amazon/TBD merger. In particular we believe that the merger will enhance Amazon's market power enabling it to raise prices, and reduce consumer choice and range. These concerns lead the BA to believe that the merger should not be cleared, but should instead be referred to the Competition Commission.

Amazon has a very high market share, and this merger further increases that share: the BA believes that the sale of books in the UK via the Internet forms a separate market from High Street sales. In this Internet market Amazon has a very high market share, estimated to be around 70%. TBD is an internet-only operator, like Amazon, and has an estimated 5% market share. The merger therefore further increases Amazon's already very high market share enhancing its market power (the post merger HHI will be in excess of 4,000). This market power may well be used to raise prices, or reduce choice and range.

Amazon and TBD are close competitors, therefore a merger is problematic: the BA believes that the sale of books in the Long Tail – books outside the top 500 sellers – constitute a separate relevant market. The Long Tail is predominantly served by the Internet, and Amazon (using both its Amazon and Abebooks brands) and TBD are the two main players in this market and are therefore close competitors. Even if the Long Tail is not a separate market, having a Long Tail range is a crucial point of differentiation, and so market shares alone do not tell the whole story; instead concepts such as diversion ratios should be used to assess the merger. There is likely to be high diversion ratios between the two firms as they are close competitors, suggesting that post merger price rises are likely once they no longer compete.

The merger may also raise vertical concerns affecting publishers and ultimately consumers: At present, a bookseller or a publisher can offer its books for sale on Amazon's Marketplace, on Abebooks (part of Amazon), or on TBD. Post merger Amazon would have the freedom to charge a premium and would have the ability to raise prices for a bookseller (or publisher) listing titles. This premium may result in higher prices to consumers.

If there is not a competitive harm, what is the deal rationale? TBD is a rapidly growing player in the Internet bookselling market. However, despite this rapid growth, it only has a turnover of £120m. Amazon is reportedly paying £100m for this business. That compares to a £53m purchase price for Waterstone's, a business with £500m of turnover. Is Amazon knocking out a disruptive competitor and paying a premium for doing so?

3 MARKET INFORMATION

3.1 It has not been easy to obtain key information about some aspects of this proposed merger. Information on Amazon's book business in the UK is extremely hard to find, as Amazon reveal very little information about their book sales (they are included in 'media sales' on a Europe-wide basis.)

3.2 Therefore, some of the data about Amazon included in our submission can only be based on informed estimates.

3.3 In view of this, we hope that the OFT will use its investigative powers to ascertain the actual figures in order to satisfy themselves that the arguments we have put forward can be sustained. In this regard, we have included in Appendix A some questions that the OFT might ask Amazon and The Book Depository.

4 THE UK BOOK MARKET

Market breakdowns

4.1 We believe that the UK book market can be sub-divided according to the following characteristics:¹

- **Geographic:** UK at £1,861m and Export at £1,254m (note that other sources estimate total consumer spending on books in the UK at retail value in 2010 at £2,183m)²
- **Product characteristic:** Consumer books (including fiction, non-fiction, reference, and children's books) totalling £1,693m. Of this, £1,016m (c.60%) is UK sales; ; and *Academic books* (including academic, professional, school and ELT) totalling £1,422. Of this, £853m is UK sales.
- **Retail channel:** High Street sales and Online sales - as noted in 5.7 these figures are not published because of Amazon's dominance of online sales.

4.2 Furthermore, with the recent technological development the UK book market can also encompass books in other formats. The whole market can be sub-divided by format into printed books totalling around £2,995m in value, and digital products (including e-books and audio-books) worth around £120m (and growing rapidly).

4.3 For the purposes of this submission, we believe that the UK sales of books are separate from the international market. Factors such as language, culture, and pricing levels mean that the UK forms a separate relevant market from other locations. We note that this

¹ The figures shown here are drawn from [The Publishers Association Statistics Yearbook 2010](http://www.publishers.org.uk/index.php?option=com_content&view=category&layout=blog&id=183&Itemid=1302), http://www.publishers.org.uk/index.php?option=com_content&view=category&layout=blog&id=183&Itemid=1302

² [Book Marketing Ltd \[BML\]/TNS Books & The Consumer](#)

view is consistent with that found by the Competition Commission in the Waterstone's/Ottakar's merger.³

4.4 We also believe that sales of books through the Internet are distinct from that through other channels such as high street stores. This is because of various factors such as consumer preferences (eg, the ability to examine the product first hand), the immediate availability in physical stores versus a wait for delivery, and the differences in product range.

4.5 Furthermore, the Internet market can be further subdivided into established 'mainstream' titles and 'Long Tail' of specialist titles. Many Internet retailers offer mainstream titles (eg, bestsellers), however only a small number offer a very deep and wide range of titles, which implies that the competitive dynamics of the two markets is different. We note that in the Waterstone's/Ottakar's merger the CC also recognised that that the competitive effects on deep-range titles may differ from the competitive effects on bestsellers, and the assessment should take into account these differences.⁴ We comment further on the Long Tail below.

4.6 Based on this, we believe the relevant markets that should be examined in the context of this merger are, starting from the widest: 1) UK sales (the whole book market); 2) UK sales on the Internet of all titles; 3) UK sales on the Internet of Long Tail titles.

Retailers' market shares

4.7 The retail market share in the whole book market (including e-books) for the 52 weeks ending 15th May 2011 is as follows:⁵

Table 1 Market shares of retail channels in the whole book market (Market 1)

	Volume	Value
	%	%
Chain bookshops*	29	36
Independent bookshops	4	5
Bargain bookshops	9	4
Supermarkets	13	10
Other shops**	12	8
Book clubs/direct sellers***	6	6
Internet-only retailers#	27	31

* Waterstone's, WHSmith, Sussex Stationers, Blackwell,
 ** eg department stores, toy shops, £1 shops, gift shops/venues, music retailers
 *** eg Book People, BCA, Reader's Digest, direct from publisher
 # eg Amazon, Play, Book Depository
 Source: Books & Consumers © BML Bowker/Kantar Worldpanel 2011

Note: This data relates to consumer book purchases. Purchases by institutions are excluded, and purchases by academics/students are likely to be under-represented. .

4.8 Focusing only on the online sales of physical books (only very limited data is available on e-books), our best estimate of the approximate market shares of the largest retailers are as follows:⁶

³ [Competition Commission \(2006\), 'Proposed acquisition of Ottakar's plc by HMV Group plc through Waterstone's Booksellers Ltd', May.](#)

⁴ [Competition Commission \(2006\), 'Proposed acquisition of Ottakar's plc by HMV Group plc through Waterstone's Booksellers Ltd', May.](#)

⁵ [Books & The Consumer http://www.bookmarketing.co.uk/index.cfm/asset_id.875/index.html](http://www.bookmarketing.co.uk/index.cfm/asset_id.875/index.html)

⁶ <http://www.thebookseller.com/blogs/amazon-explored.html>

Table 2 Market shares for sale on the Internet (Market 2)

	Market share
Amazon	70%
The Book Depository (TBD)	4-5%
<i>Merged entity</i>	<i>74-75%</i>
Play.com	3-4%
Others	c.22%

Differentiation

4.9 Apart from books in the public domain, most titles are only available from the initial source, ie generally a publisher as the copyright holder, which are then sold through various retail channels. However, the different retailers are not perfect substitutes for one another. High Street retailers differentiate themselves both geographically (ie, location of the store) and with the in-store offering and brand; online differentiates itself with features such as the ease of use (eg, one-click purchasing), and postage deals (eg, free shipping).

4.10 This differentiation means that market shares alone do not tell the whole story about the proposed merger.

Long Tail

4.11 Average sales of the top 500 titles have been reducing⁷ as numbers in the Long Tail have increased (thanks to digitisation, e-books, print on demand, barriers to publishing are now very low). In 2010 Nielsen BookData recorded a total of over 150,000 new titles alone⁸.

4.12 High Street bookshops predominately sell frontlist (ie new) books, bestsellers and the established 'mainstream' titles, and can only stock a certain number of titles. Online booksellers, on the other hand, offer a huge catalogue of millions of titles, including the 'Long Tail' of specialist slow selling titles and, naturally, they dominate the e-book market.

Consumer source of purchase

4.13 The Internet retail channel has grown rapidly from around 9% in 2004 to 31% in 2010. A *Love Reading/BML* survey of consumers⁹ in 2010 found that 75% of readers said they buy books in bookshops, 72% on the Internet and 60% from secondhand sources. The following table is from The Bookseller's *Reading The Future Survey 2010* about where consumers most like to browse for books before buying:

	2008	2009	2010
Internet	17%	40%	38%
Chain bookshop	34%	31%	25%
Independent bookshop	26%	15%	17%
Supermarket	17%	14%	14%
Social networking site	-	-	6%

High street bookselling

4.14 High Street bookselling is under severe pressure. The market share by value of chain and independent bookshops has fallen from 54% in 2004 to 41% today. The traditional bookseller has been hit by a double whammy.

4.15 First, technology, which has enabled consumers to change their behaviour. Buying books over the internet offers consumers convenience and a wide range.

⁷ <http://www.guardian.co.uk/books/2011/jan/01/year-2010-books-bestseller-chart>

⁸ http://www.nielsenbookdata.co.uk/uploads/press/1NielsenBook_2010ProductionFigures_Feb11.pdf

⁹ <http://www.booksellers.org.uk/Industry-Info/Industry-Reports/Book-Industry-Statistics/Influences-on-Book-Purchasing.aspx>

4.16 E-books have reached their so-called 'tipping point', and are now beginning to cannibalise the sales of printed books. In the United States e-book sales have already overtaken trade paperbacks as the biggest selling category.¹⁰ Half of US publishers expect e-books to be the dominant format by 2014.¹¹

4.17 Secondly, there's the recession. Consumers are being far more careful with their money. Fewer people are out shopping for non-food items and books are regarded as a discretionary item of expenditure.

4.18 A structural change is taking place. Never have we seen in living memory so many bookshops going out of business, or reducing their high street outlets. Recently, we have seen the demise of Borders UK (the second largest specialist bookselling chain in the general consumer market after Waterstone's), British Bookshops and, in the religious bookselling sector, Wesley Owen/ Christian Oasis.

4.19 In the independent bookselling sector, the BA had 1,619 independent bookshops in membership in 2004; in 2011 the number is now 1,159, a reduction of 28%. Consumers are increasingly using High Street bookshops to browse for books and then making their purchase online¹².

5 AMAZON

5.1 Amazon is the biggest online retailer of books both in the UK and throughout the world. Registered in Luxembourg, they have eight websites worldwide and in the UK; *IMRG Experian Hitwise* puts Amazon UK and Amazon US in the top ten retail sites¹³.

5.2 In the total UK market for books, Amazon is estimated to have a share of at the very least 20% and may be even higher. As set out in section 4, the share is estimated to be much larger at 70% if only the online book market is considered¹⁴.

5.3 Moreover, Amazon sells both printed books and e-books. The Kindle is their bestselling product¹⁵ and they are increasingly selling more e-books than printed books¹⁶. Amazon UK recently revealed that five books featured in its top 10 bestselling products and four of these were e-books¹⁷.

5.4 Amazon also acts as a wholesaler of books for other resellers via Amazon Marketplace and Abebooks which they bought in 2008.

5.5 Amazon has a wide and growing media portfolio including publishing, printing, used books, audiobooks, book social media sites, media streaming, video and DVD (see Appendix B for further details).

5.6 Amazon recently launched two new publishing imprints, and to show they mean real business in this sector have hired Laurence Kirshbaum, the former CEO of the Time Warner Book Group, to head up this new venture.

5.7 Amazon so dominate online bookselling in the UK that Nielsen BookScan are unable to produce a separate category in their *Total Consumer Market Channel Analysis* identifying internet book sales, because it would reveal Amazon's sales data.

¹⁰ <http://www.thebookseller.com/news/us-e-book-surge-takes-format-lead.html>

¹¹ <http://publishingperspectives.com/2011/01/half-of-us-publishers-expect-e-books-to-be-dominant-by-2014/>

¹² <http://www.thebookseller.com/news/high-street-bookshops-need-greater-support-streeter.html>

¹³ <http://www.hitwise.com/uk/datacentre/retail/dashboard-7306.html>

¹⁴ <http://www.thebookseller.com/blogs/amazon-explored.html>

¹⁵ <http://www.ibtimes.com/articles/143318/20110510/amazon-com-kindle-ebook-reader-device-apps-video-book-titles-store-nasdaq-stock-market-wi-fi-114.htm#ixzz1M2WxfJn3>

¹⁶ <http://www.thebookseller.com/news/amazoncouk-selling-twice-many-kindle-books-hardbacks.html>

¹⁷ <http://www.thebookseller.com/news/e-books-among-amazoncouks-top-sellers-its-parents-profits-tumble.html>

5.8 Amazon however has announced that for the Full Year 2010, its net sales increased 40% to \$34.20 billion, and they have \$3.7m in cash or cash equivalent¹⁸.

6 THE BOOK DEPOSITORY

6.1 The Book Depository is a specialist online bookseller offering six million titles with a focus on the 'Long Tail', quote: *"offering the largest range of titles in the world...we focus on selling 'less of more' rather than 'more of less', differentiating ourselves from other retailers who increasingly focus on bestsellers."*¹⁹

6.2 In the online market for books, TBD is regarded as the most important bookseller in the UK after Amazon. TBD's projected sales for 2011 have been estimated at £120m, with approx £40m in the UK²⁰. We believe this gives them a market share of about 5% of the online bookselling business in the UK, making them the 2nd largest online supplier. Play.com is likely to be the next important online bookseller.

6.3 As discussed above, TBD is particularly strong in the 'Long Tail' market and owns the Dodo Press imprint, which has re-published over 15,000 out of print or difficult to trace titles. While reliable market share data is not available, TBD is considered to be a very close competitor of Amazon in this market.

6.4 In terms of product portfolio, in addition to printed books, TBD also sells other products such as DVDs and moved into selling e-books in 2010²¹.

6.5 TBD has a published *"aim of listing as many books as possible, we are very keen to talk to publishers and distributors about supply arrangements."* We understand that TBD is also considering acting as a wholesaler for other book resellers.

6.6 We note here that a key aspect of TBD's business is their free worldwide delivery to over 100 countries. For instance, coupled with territorial rights restrictions, this has allowed them to considerably undercut booksellers in countries like Australia²².

7 HORIZONTAL INTEGRATION ISSUES

Same type of businesses

7.1 The key point is that Amazon and TBD are the same type of businesses in the value chain, with very similar product offerings for consumers as well as for third party resellers.

Market share post merger

7.2 As we hope to have demonstrated in sections 5 and 6, in the UK online book market, Amazon is the largest player by far, with an estimated market share of 70%, followed by TBD with a market share of around 4%-5%.

7.3 If they merge, Amazon's market share is estimated to be around 75%, further enhancing Amazon's market power, and therefore its ability to increase prices and/or reduce service quality.

Concentration

7.4 The economic consultants, Oxera, have calculated the likely Herfindahl-Hirschman Index (HHI) value for this market. (The HHI is a measure of market concentration; a high

¹⁸ <http://phx.corporate-ir.net/phoenix.zhtml?c=176060&p=irol-newsArticle&ID=1521090>

¹⁹ <http://www.bookdepository.co.uk/aboutus#helpContent>

²⁰ <http://www.thebookseller.com/news/sales-grow-70-first-half-book-depository.html>

²¹ <http://www.thebookseller.com/news/book-depository-launches-e-book-store.html>

²² <http://www.smh.com.au/business/dont-discount-onlines-threat-to-retailers-20110223-1b51c.html>

HHI—typically above 2,000— reflects a highly concentrated market or equivalently, a low degree of competition).²³

7.5 The market shares in the online book market (market 2), as set out in section 4, indicates that the pre-merger HHI of the online book market is at least 4,925, which is already much above the usual threshold of 1,800 used by competition authorities.²⁴ After the acquisition of TBD by Amazon, the HHI will further increase to at least 5,625—an increment of 700 points—reflecting a significant increase in concentration in an already concentrated market.²⁵

7.6 The effect of the merger on market concentration is likely to be even higher in the Long Tail market. As discussed in section 5 and 6, Amazon and TBD are undeniably close competitors in the market for this Long Tail, and are the two largest players in this market. If this purchase goes through, the market for Long Tail will be highly concentrated with Amazon as the dominant supplier.

Diversion Ratios

7.7 As discussed above, retailers in this market differentiate themselves through various features such as available stock, ease of use and postage deals. For example, high street retailers often have expensive premises to upkeep and do not have the space to stock the Long Tail. The extent of competition in this differentiated market can be best measured by the Diversion Ratios of customers of Amazon and TBD.

7.8 A diversion ratio between two products (or firms) is measured by the proportion of sales diverted to the competing product when the price of a product is increased, and therefore captures the degree of substitution between them. The higher the diversion ratio between the two products/firms, the more closely they compete absent the merger. Consequently, the greater the loss of competition after the merger, implying an increased likelihood of consumer harm.

7.9 Diversion ratios of the merging firms are often estimated using results from surveys of their customers. When such survey data is not readily available, market-shared implied diversion ratios also prove useful. For example, the market share of 70% and 5% of Amazon and TBD respectively in the online market implies that, if Amazon is not available 17% of Amazon's customers will buy from TBD.²⁶ In contrast, if TBD is not available then 74% of TBD's customers will buy from Amazon.²⁷ The different diversion ratios suggest that there is an asymmetry in the competitive constraints Amazon and TBD impose on each other, with Amazon acting as a strong constraint on TBD, but TBD being a weaker constraint on Amazon. If that is correct, then the merger is likely to change TBD's incentives more significantly than Amazon's, suggesting that any post merger harm is likely to impact to a greater extent on TBD's customers.

7.10 The diversion ratios between Amazon and TBD are likely to be much more symmetric when the Long Tail market is considered, as they are close competitors in this market. Therefore Amazon's behaviour with respect to its Long Tail offering (eg, via Abebooks) may also be significantly affected by the merger.

Monopoly position

7.11 As highlighted above, the online bookselling market is moving to a monopoly position:

- There used to be three players – Amazon, Abebooks and TBD – until 2008.

²³ The HHI is calculated as the sum of the squares of market shares of all firms in the market. Note that the threshold of 2,000 is suggested by the OFT and the CC in the joint Merger Guidelines. [Competition Commission and Office of Fair Trading \(2010\), 'The Merger Assessment Guidelines', para 5.3.5.](#)

²⁴ Calculated as $70^2 + 5^2$. These market shares are taken from Table 2. This value is a minimum because it does not include other players in the market.

²⁵ Calculated as 75^2 .

²⁶ $5\% / (100\% - 70\%)$

²⁷ $70\% / (100\% - 5\%)$

- As mentioned in 5.4, Amazon bought Abebooks in 2008, reducing the number of major sellers to two– Amazon and TBD
- If Amazon is permitted to buy TBD, there will be one source of supply for a consumer who, perhaps, wants to buy a title that might be a bit obscure – only Amazon.

7.12 Given the concentration in the online book market, and the Long Tail market in particular, there is a realistic prospect of significant consumer harm in terms of higher list prices, lower stocks or higher delivery cost of printed books.

7.13 Furthermore, in the e-book market, Amazon is already the dominant player. Amazon supplies digital content for devices only in the Kindle format. Titles in the Kindle format can only be obtained from Amazon – thus creating (in our view) a monopoly of supply. If acquired by Amazon, TBD customers would presumably have to take Kindle – and not PDF, e-pub, MS Reader and other formats –thus reducing the choice of formats available to the consumer.

7.14 After considering the horizontal issues, the BA believes that the acquisition of TBD by Amazon will place Amazon in an even more dominant position in the marketplace.

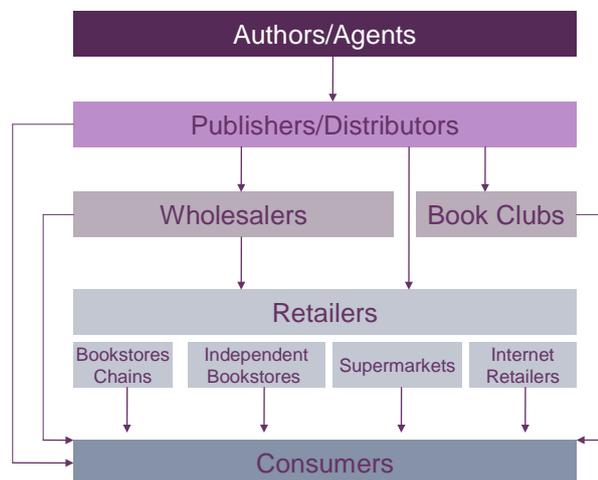
Conclusion

7.15 In conclusion, the consequences of Amazon being given more market power will lead to:

- Amazon having the freedom to put prices up; the diversion ratio analysis suggests that this is most likely to happen to TBD's customers
- The consumer being offered less choice
- ... and, in all likelihood, reduced range
- Some third party booksellers going out of business – unable to compete in an already weakened sector.

8 VERTICAL ISSUES

8.1 The physical (printed) and digital (e-book) supply chains consist of:



8.2 We have a perceived case of primary concentration, as both Amazon and TBD in many cases take orders but actually use wholesalers to supply the customer direct.

8.3 At present, a bookseller or a publisher can offer its books for sale on Amazon's Marketplace, on Abebooks, or on TBD. As we have indicated, Amazon already own Abebooks, so if TBD is no longer available, there will be only Amazon in the future.

8.4 Amazon would then have the freedom to charge a premium and would have the ability to up the prices for a bookseller (or publisher) listing titles. (As an example of this, Amazon tried to introduce 'price parity' for Marketplace resellers last year).²⁸

8.5 The consequences of this would be:

- Either the publisher and/or re-seller would delist – which in turn would reduce the range available to the consumer
- Or the consumer would end up paying more.

8.6 Looking again at the Long Tail:

- Either Amazon will end up taking over TBD's physical books
- Or Amazon will develop the digital offer.

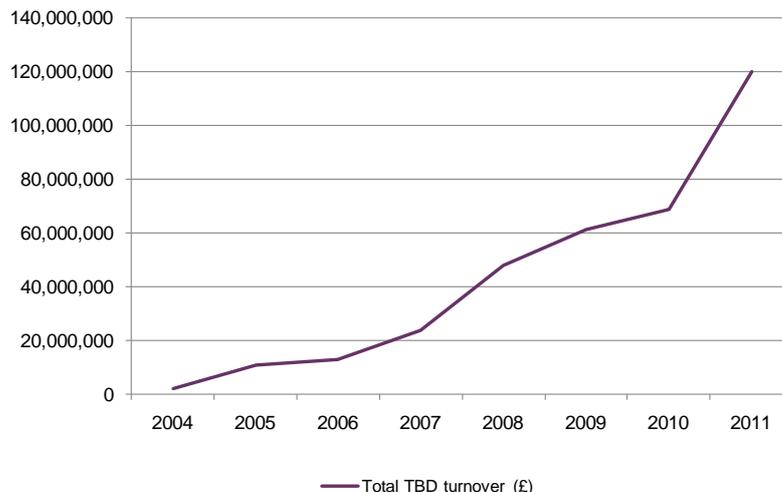
8.7 We understand that Amazon is not intending to change the name of TBD post-merger. At the moment, customers who make a personal choice not to buy on Amazon are unwittingly buying via Abebooks in the belief that it is a different and distinct business.

8.8 Surely it should be clear to consumers who they are buying from when they make a purchase?

9 PURCHASE RATIONALE

9.1 TBD was founded in 2004 from scratch. Today they have a turnover of around £120m. By any stretch of the imagination, this is hugely impressive growth, which is also illustrated by the figure below.²⁹

Figure 1 Growth trend of The Book Depository



9.2 TBD is a global operator, while Amazon has concentrated on certain territories. TBD's offer of free postage to over 100 countries has shaken up the marketplace by offering something which their competitors find extremely difficult to match. The free postage has somewhat destabilized the marketplace.

9.3 We have struggled to consider the rationale for Amazon making this purchase. Alexander Mamut very recently paid £53m for Waterstone's (turnover of £500m³⁰); yet Amazon are allegedly offering £100m for a business with a turnover of around £120m.³¹

²⁸ <http://www.thebookseller.com/news/amazon-demands-price-parity-marketplace.html>

²⁹ [The 2009 and 2010 turnover figures are based on TBD's financial statement for 2010. All other figures are sourced from articles on the industry. See: The Citizen \(2008\), 'New chapter for fast-growing bookseller', April 8th; The Sunday Time \(2007\), 'Former employee who took a leaf out of Amazon's book; How I Made it', Interview of Andrew Crawford, November 18th.](#)

³⁰ <http://www.thebookseller.com/news/profit-waterstones-despite-sales-dip.html>

9.4 So is the reason for Amazon making the purchase to take out a flamboyant competitor so that there will then be a quieter market? Or is it simply to knock out a competitor? Or is the purchase price designed to capitalize future profits from price rises? ³²

9.5 In this regard it is perhaps interesting to note the following quote from the Guardian in July 2010 regarding a previous acquisition of Amazon's, the online retailer 'woot': *Sucharita Mulpuru, an analyst at Forrester Research, said Amazon had a habit of buying out smaller rivals whose business models could, eventually, be a threat: "They have an acquisition strategy of keeping their friends close and their enemies closer."*³³

10 SUMMARY

10.1 At the heart of our concern is, quite simply, that Amazon will be absorbing the second largest player in their market.

10.2 Amazon will not be offering anything new. Amazon will clean up on the Long Tail. And if the proposed purchase is allowed to go ahead, resellers that used to go to Amazon, Abebooks and TBD will only be able to go to Amazon.

10.3 Moreover, TBD customers wishing to be supplied with digital content for their devices in the future will only be able to obtain e-books in Kindle format.

10.4 In our view, letting Amazon and TBD merge will:

- Effectively knock out the competition
- Put Amazon in an even more dominant position
- Give the consumer less choice.

10.5 And, yes, too, the result of Amazon acquiring TBD will be yet more bookshops closing. This will not be good news for The Booksellers Association; but it will not be in the public interest for consumers to have access to fewer bookshops.

10.6 Communities will lose a cultural hub. Literacy and reading will suffer. Consumers and publishers will lose the all-important shop windows enabling consumers not only to see the covers but clearly the content of each book.

11 CONCLUSION

11.1 To conclude, giving Amazon even more of a monopoly position has a considerable downside to society as a whole.

11.2 The OFT referred Waterstone's purchase of Ottakar's in 2005 and, similarly, Woolworths purchase of Bertrams in 2007 to the Competition Commission.

11.3 The BA believes that this merger is equally, if not more, important and therefore should not be cleared, but should be referred to the Competition Commission.

The Booksellers Association
18th July 2011

³¹ <http://www.thebookseller.com/blogs/amazon-explored.html>

³² [The increased likelihood of consumer harm in such situations is also indicated in the joint OFT/CC Merger Assessment Guidelines 2010. As it suggests, 'Unilateral effects resulting from the merger are more likely where the merger eliminates a significant competitive force in the market. For example, merger may involve a recent entrant or a firm which was expected to grow into a significant competitive force or otherwise to provide a significant competitive threat to other firms in the market \(eg by virtue of having a novel business model or a reputation for aggressive price cutting\)'. Competition Commission and Office of Fair Trading \(2010\), 'The Merger Assessment Guidelines', para 5.4.5.](#)

³³ <http://www.guardian.co.uk/business/2010/jul/01/amazon-takeover-bags-of-crap-site-woot>

12 APPENDIX A: QUESTIONS FOR AMAZON AND TBD

As we have noted, much of our data about Amazon's share of the book market had to be estimated. On other aspects such as horizontal issues and deal rationale, we are not in a position to present conclusive evidence. We therefore suggest that the OFT might consider putting the following questions to Amazon and The Book Depository.

12.1 Questions on markets and market shares

- *Are online and the High Street in the same market?*
- *What is the: % market share of the parties in the total book market (market 1); % market share of the Internet market (market 2); % market share of the Long Tail market (market 3)?*

12.2 Questions about horizontal issues

- *What is the degree of competition between Amazon and TBD in the Internet market and Long Tail market?*
- *Is there any evidence that the diversion ratio between them is low?*
- *Is Amazon using books as a loss leader to acquire customers?*
- *Is Amazon's UK operation being subsidised by the UK parent company?*
- *How profitable is Amazon's UK operation?*
- *How can Amazon ensure that customers will not be harmed through higher prices/delivery costs?*
- *Is there evidence that TBD's e-book customers will not be harmed due to a shift to Kindle from other formats offered on TBD?*

12.3 Questions about vertical issues

- *What is the degree of competition between Amazon and TBD with respect to third party seller listings?*
- *Is there any evidence that prices of listings are unlikely to increase following the merger?*

12.4 *What is the reason for such a high valuation of TBD, relative to its turnover and relative to other similar firms (eg, Waterstone's)?*

12.5 *We understand that Amazon is not intending to change the name of TBD post-merger. What is the rationale behind this decision?*

13 APPENDIX B

Amazon Media Portfolio

Amazon Websites

Canada, China, France, Germany, Italy, Japan, US, UK

Sales Programmes

Advantage, Pro Merchant, Fulfilment (New/Used Products)
Associates (Commission Sales)

Printing & Publishing

AmazonCrossing (Books in Translation)
AmazonEncore (Self-Published Books)
The Domino Project (Seth Godin Imprint)
Montlake Romance
Thomas & Mercer (Mysteries & Thrillers)
CreateSpace including BookSurge (POD Books, CDs, DVDs, MP3)
Kindle Digital Text Platform (Self Publishing e-books)

Used Books

Abebooks

Audio

Audible (Retail)

Brilliance Audio (Publishing)

Digital Reading

Kindle (Readers + iPhone & iPad apps + Kindle Development Kit)

Lexcycle Stanza (iPhone, Adobe)

Mobipocket (Blackberry, Palm etc)

Other Book Related Media

Book Tour (Directory of Authors & Events – part owned)

Foodista (Wiki for Recipes, Food & Cooking)

LibraryThing (Book Cataloguing - part owned)

Shelfari & Tastemakers (Book Social Networks)

Other Media Businesses

Amazon Studios (Film Scripts)

AmazonUnbox (Video on Demand)

Animoto (Slide Shows from User-Generated Music & Photos)

Box Office Mojo (Box Office Revenue Tracking)

CloudFront (Media Streaming)

DPRReview (Digital Photography Review)

IMDB (Internet Movie Database)

Lovefilm (DVD Rental & Online Video)

Reflexive Entertainment (Computer Game Developer)

SoundUnwound (Music Encyclopaedia)

Other Subsidiaries

Woot (Auction Site)

Yieldex (Online Advertising Optimisation)

Zappos (Clothing)