



THE ACQUISITION BY WOOLWORTHS OF
BERTRAM BOOKS, THE BOOK
WHOLESALE

SUBMISSION FROM THE BOOKSELLERS
ASSOCIATION TO THE OFFICE OF FAIR
TRADING

28th February 2007

BOOKSELLERS ASSOCIATION
272 VAUXHALL BRIDGE ROAD
LONDON SW1V 1BA

Tel: 020 7802 0802; fax: 020 7802 0803; e-mail: tim.godfray@booksellers.org.uk
Internet: <http://www.booksellers.org.uk>

THE BOOKSELLERS ASSOCIATION

To: Philip O'Donnell, Economist, Mergers, Office of Fair Trading
From: The Booksellers Association
Subject: **THE ACQUISITION BY WOOLWORTHS OF BERTRAM BOOKS,
THE BOOK WHOLESALER**
Date: 28th February 2007

1 THE BOOKSELLERS ASSOCIATION

1.1 The Booksellers Association [the "BA"] is a trade association, based in London SW1, with 4,339 bookselling outlets in membership, covering 1,316 businesses. The Association's purpose is to help members:

- Sell more books
- Operate from a lower cost base
- Improve competitiveness and productivity
- Network with others in the book 'world' and further afield
- Represent their views.

Membership

1.2 Members range from all the large bookselling chains to independents and specialists, both big and small. The table below gives some examples of the types of booksellers in membership.

<u>Type of bookseller</u>	<u>Example(s) of BA member</u>
Large chain with mixed business	W H Smith
Large specialist chain	Waterstone's, Borders
Large academic business	Blackwells
Department store	Selfridges
Small independent	Daunt Books, John Sandoe
Large independent	Foyles
Library supplier	Holt Jackson
Supermarket	Tesco, Sainsbury
Wholesaler	Bertram Books, EUK, Gardners, THE

1.3 EUK, THE and Bertram Books are all members of the BA.

2 OFFICE OF FAIR TRADING CONSULTATION

2.1 The BA saw from *The Bookseller* dated 16th February 2007 that the Office of Fair Trading ["OFT"] was seeking views from interested parties as to whether Woolworths' acquisition of Bertram Books will result in a substantial lessening of competition in the supply of books.

2.2 Accordingly, the BA sent an e-mail on the same day to its members inviting them to give their views - both for and against the acquisition - to Chris Bowden at the OFT and to do so before the end of 23rd February, on which the OFT planned to end its consultation.

2.3 A number of members availed themselves of this opportunity and some elected to send copies of their submissions to the BA.

2.4 On 21st February, the OFT gave a time extension to the BA (for which many thanks), allowing the Association to put forward its views by 28th February 2007.

2.5 The following e-mail was then sent out by the BA to its members:

The Office of Fair Trading is currently considering whether Woolworth's acquisition of Bertram's will result in a substantial lessening of competition in the supply of books.

The OFT set aside a brief period for consultation. The BA circulated an e-mail to its members on 16th February advising them that the OFT was asking for views from interested third parties by 23rd February, giving the contact details of the OFT's Case Officer.

The BA has been granted an extension to respond, so if you have not given your views either for or against, you are most welcome to send your comments to the BA's Chief Executive, Tim Godfray [e-mail: tim.godfray@booksellers.org.uk] who will ensure that they are passed on to the OFT in full.

Apart from seeking your views on whether you believe the acquisition will result in a substantial lessening of competition, the OFT would also like to know:

1. What the possibilities and practicalities might be of direct supply from publishers to independent booksellers?
2. The differences between this case (for which the OFT has received many complaints) and the recent acquisition by Woolworth's of AMP Entertainment Holdings more familiarly known as THE late last year (for which the OFT received very few complaints from booksellers).

3 THE BA'S COUNCIL

3.1 The Association is governed by a Board of Directors known as "the Council". The Directors come from booksellers large, medium and small, general and specialist, traditional and non-traditional. Representatives from EUK and THE are on the Board.

3.2 The BA Council met on 22nd February 2007 to consider whether the Association wished to make any formal representations to the OFT.

3.3 The BA Council took the view that this is a commercial matter between members and that the correct course of action was for the BA not to make recommendations - to either its members or the OFT - but to canvass the views of its members and to pass them on in full to the OFT.

4 FEEDBACK RECEIVED BY THE BA FROM MEMBERS

4.1 What follows in Sections 4 - 8 inclusive is an analysis of the views received by the BA from its members.

4.2 The vast majority of respondents (over 85%) were against the proposed acquisition of Bertram Books by Woolworths. [*See Appendices A and B for copies of the full replies received.*]

4.3 Independent booksellers have told us that they are heavily dependent on wholesalers sourcing most of their product through this route quickly, efficiently and cost-effectively. This, we have been advised, would be put at significant risk if independent booksellers were forced to go direct to publishers, and the number of wholesalers was reduced from three to two. Having at least three wholesalers offering this service is seen as critical by the majority of respondents, enabling members to negotiate better terms, switch between wholesalers, maximise availability and access to new titles, and the economic delivery of stock. Concerns were expressed that Woolworths would have a high concentration of market share relative to Gardners. The view is that this may reduce the levels of competition and the need for wholesalers to compete strongly on price.

4.4 Respondents were concerned that the businesses of independent booksellers would be put at risk if Bertram Books was not independent of one of the major suppliers of books to the market. It was felt Woolworths would be able to control pricing and would look to service their large customers as a priority, potentially with advantageous terms which could undermine the independent bookseller. The acquisition would increase pressures on the independent bookselling sector, who are already finding it extremely difficult to compete against the supermarkets, the big bookselling companies, the internet, and charity shops.

4.5 Although some respondents were in favour (or not against the acquisition), they were all relying on market forces and regulation to maintain their existing terms. These respondents felt that as there would be two competing wholesalers competition would be maintained.

5 IMPACT OF DIRECT SUPPLY TO INDEPENDENT BOOKSELLERS

Reduced speed of supply

5.1 Wholesalers in general provide a next day delivery service which few publishers can match. It is this speed in supply which gives the independent bookseller a competitive edge. One of three suppliers out of stock still gives a 2/3 chance of getting there, since many have accounts with all three. Accounts with only two will have a direct impact and could reduce levels of availability.

Additional costs

5.2 Costs to process: wholesalers simplify the ordering process and reduce the need for infrastructure, as there is only one supplier rather than a relationship with each individual publisher.

5.3 Infrastructure costs to handle the number of publishers is lower e.g. invoicing.

5.4 Minimum quantities often have to be ordered, which could lead to additional costs to buy and then to sell through any surplus. Many publishers are unwilling to ship in small quantities, giving minimal discounts and charging for postage.

Potentially reduced buying power

5.5 It was believed there would be a drop in margin if each publisher was dealt with individually.

Access to new titles

5.6 With the decline of the publishers' representatives and the ever increasing territory they are expected to cover, many independent booksellers felt they would not get a visit from a publisher's rep to subscribe to new books.

6 DIFFERENCES BETWEEN EUK TAKING OVER 'THE' AND NOW BERTRAM BOOKS

6.1 The current case will lead to consolidation from three major wholesalers to two. The earlier acquisition by Woolworths of AMP Entertainment Holdings ['THE'] was regarded as simply a change of ownership - the fact that the owner also sells books is not a big issue as their book sales are so small. Booksellers still had the same number of suppliers to choose from.

6.2 Respondents felt that this recent acquisition of Bertram Books will reduce the level of service. Comment was made that THE offered booksellers something different and additional: in particular, access to CDs and DVDs alongside books, enabling independents to broaden their stock and to compete more effectively. This was not believed to be available from Bertram/THE under the merger plans.

6.3 THE's internet ordering facility was particularly imaginative too, and subject to frequent improvement. The acquisition of THE promised increased competition and improved services: the merger with Bertram Books was felt to lead only to less competition and choice.

7 COMMENTS IN FAVOUR FROM THREE MEMBERS

7.1 The minority view was that as long as there is one competing wholesaler in addition to Gardners there will be adequate choice. In theory the remaining two should improve service, otherwise they will lose business to publisher's hotlines.

7.2 Furthermore, that as long as margins are maintained there should not be a problem.

8 GENERAL COMMENTS GIVEN TO THE BA AGAINST THE ACQUISITION

8.1 Over 85% of respondents were against the acquisition and gave the following reasons:

Reduced levels of choice of wholesaler

8.2 Too much power would be given to a single supplier. Some felt that although *The Bookseller* trade magazine put Woolworths market share at 47%, the merged group might well have a share closer to 60%.

Reduced levels of service to independents

8.3 Competition between the three main national wholesalers at the moment was felt to lead to a plethora of services to bookseller customers (e.g. EPOS systems, special discounts on promotional items, speed of supply and the provision of product data). This was believed to suffer if there were only two wholesalers.

8.4 The point was made that the speed of delivery, variety and amounts of stock carried will all be dictated by the wants and needs of Woolworths - and Woolworths alone.

8.5 The reduction of wholesalers from three to two was viewed as resulting in a reduction of options and restriction in this service, as currently the wholesalers differ in terms both of stock held and services offered.

Reduced ability to negotiate

8.6 A bookseller might have negotiated x% with Bertram Books and y% with THE. If the acquisition goes ahead, the bookseller might well end up with the lowest percentage.

8.7 At present, there is reasonable competitiveness in the wholesale supply chain with three wholesalers. Booksellers play off one wholesaler against the other in order to achieve better trade terms. With only two main national wholesalers, this ability will be greatly lessened. More choice is essential in order to keep margins at a reasonable level.

Reduced competitiveness of independents and increased threat of supermarkets and large customers

8.8 Through concentration, the enlarged Woolworths operation would be able to obtain higher discounts from suppliers, and therefore have the ability to offer higher discounts to the supermarkets and the large customers; the latter would be able to discount even more deeply; independents would be put out of business.

8.9 Woolworths are already retail competitors to booksellers; if Woolworths owned THE and Bertram, a major competitor to booksellers was felt to have direct control over the independents' competitiveness.

8.10 Woolworths would be able to give preferential terms to its own shops.

8.11 The perception is that Woolworths intend to become a serious player in the book market and that in the future they will be able to control not only their supplier but also the supplier to their competitors.

8.12 The focus will be on the big booksellers at the expense of the independents.

Reduced choice of bookseller

8.13 If independent bookshops go out of business, consumers will suffer; there will be fewer good bookshops offering knowledge and service.

8.14 There will be reduced diversity and choice for the reader.

8.15 Specialist books will be reduced.

8.16 The acquisition would increase pressures on the independent bookselling sector, who are already finding it extremely difficult to compete against the supermarkets, the big bookselling companies, the internet, and charity shops.

Increased costs

8.17 We were advised that costs to operate will increase as independents will be forced to go direct to publishers.

8.18 Moreover, that minimum order quantities will increase.

9 CONCLUSION

9.1 Although - for the reasons given in 3.3 - the Association is not making recommendations in this matter, it is clear that the vast majority of those who have expressed views to the Association are against the acquisition.

9.2 It is hoped that this submission enables the OFT to obtain answers to the two specific questions which it raised with the Association and for it to receive useful feedback from the BA membership.

Tim Godfray
Chief Executive