

The plot thickens

Will new American bookseller Borders eat the New Zealand market? By Frances Walsh

On a sunny Sunday afternoon the place is hopping. People are peering at books hitherto unseen together in a single New Zealand bookshop: a shelf full of Platos, 40 shelves of military history and a fat volume entitled *Colloquial Polish*. The American chain Borders has opened up a three-storey-high store in Auckland's Queen St in the Force Entertainment Centre, and boasts 140,000 book titles (to Queen St's Whitcoull's 10,000 titles), 3000 magazines, 45,000 CDs, and 5000 videos. Its hours are 9.00am to midnight every day. The precarious business of bookselling has just got tougher.

This is a so-called "destination store", with its library-like stock, its range of US newspapers (the *Atlanta Journal-Constitution*, the *Dallas Morning News*, the *Philadelphia Inquirer*) and its cafe, where it's okay to study unbought books and magazines over espresso and pecan pie. Borders is very American heaven.

With about 280 outlets, Borders is big – the company trails only Barnes & Noble as the world's largest bricks-and-mortar retailer of books and music. It is number three in the cutthroat cyber business, after Amazon.com and Barnesandnoble.com. Such macro muscle in such a micro-market.

Asking local retailers for their views on the Borders fallout is like playing verbal pass the parcel. Whitcoulls, which accounts for half the country's yearly \$200 million book market and is itself part of the American-owned Blue Star chain, along with Bennetts and London bookshops, is unconcerned. At least publicly. General manager Fran Stanley predicts that Borders, which targets the top end of the market, won't seriously threaten her mid-market operation, which also sells stationery. Borders doesn't. "Personally, I think we retail better because we understand the local market," Stanley says.

At Flying Pig, a recent entrant to online selling, founder Stefan Preston fingers the independents as the imminent losers and claims that Australian-based

Dymocks "must be sweating buckets" – a hypothesis rejected by that company's general manager, Paul Sunde. Jo McColl, of the independent Unity Books, says that she will survive by dint of knowledgeable staff and loyal customers who visit her, relative to Borders, pint-sized, cosy shop. "People don't necessarily want to wade through every book in the universe to find a book they like. In Unity we like to think we carry the best of the best." Her forecast? "It'll turn into a dogfight between Borders, the Warehouse and Whitcoulls. They'll just cut prices."

At Borders, reassurance comes with an American accent. "We're not discounters. We offer customers service and range," says Kate Sprouls, the New York-born, Melbourne-based operations director for the Pacific Rim. "We grow the market."

Like Starbuck's, another US fixture coming soon to a corner near you, Borders had folksy beginnings. In 1971, brothers Tom and Louis Borders opened a bookshop in Ann Arbor, the college town that's the site of the University of Michigan. By 1992, the Borders operation had bulged to 14 stores, and Kmart picked up the brothers for a cool \$US100 million. In 1995, Borders bought back its stock and with Waldenbooks – America's leading mall retailer – went public as Borders Group, Inc. (Animal House, which sells gifts for pets, and toy chain All Wound Up are also part of the conglomerate.)

Since 1997, Borders has been advancing on the world. "You look at your growth opportunities," says Sprouls. "A lot of places in the world will respond to our offering." Three of Borders' overseas outlets rank among its top five performers.

Auckland is Borders' ninth international store; the company has outposts in Singapore, Australia and Britain, and plans to open six more international stores during 2000. Canada is not on the itinerary. Borders had to scuttle a joint venture there in the face of government opposition, which feared that the retailer's centralised buying would undermine local distributors and copyright holders. Canadian laws protect cultural industries.

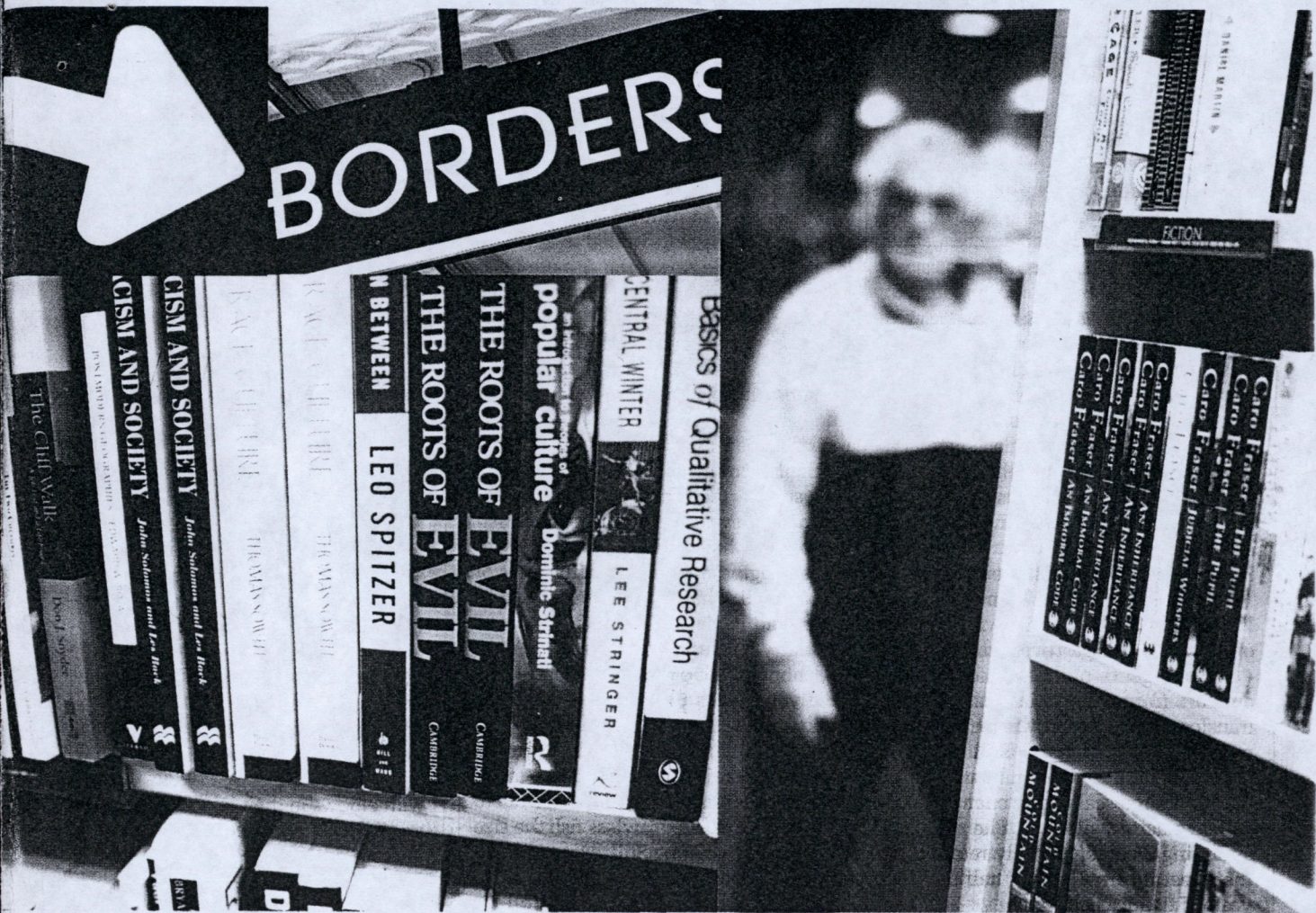
In the early 90s, Borders and Barnes & Noble rolled out their superstores across America, doubling the retail area devoted to the selling of books. But the hoped for market expansion, as measured in numbers of books sold, didn't happen. The average American household spent \$US164 on reading in 1997, compared to \$US201 in 1987. In March this year the US publishing industry did report a 6.5% increase in sales; however, unit sales of books declined by 30 million in 1998.

Says an American Booksellers Association report: "The awesome investment publishers made in the superstore model, and now the Internet model, have only cost them in profits that the book-buying public must make up for." The Association also reported that the number of independent book stores has almost halved. Marginal or midlist books, analysts say, are falling off the edge.

Back home, how feasible is Borders in a city of one million people? "I don't have much hair left, but I'm rubbing it, wondering: what they are doing here?" says Michael Glading, managing director of Sony Music NZ. Another industry insider says that Borders could survive without making a profit for some time. No New Zealand bookseller is in that position.

Although Borders earned \$US92 million last year on sales of \$US2.3 billion, the retailer's shares have lost more than half their value in a year, largely on concern that superstores would lose out to rivals such as Amazon.com, which began selling books on the Internet in 1995. Losses on Borders online operation have continued from the site's inception in 1997. Borders isn't alone here; profits remain elusive in the e-retailing space and, despite all the hoopla, in the US online sales account for just 2% of retail sales. Margins are razor thin as onliners discount furiously and pour money into marketing, hoping to reap rewards down the line.

The behemoth, unsurprisingly, plays hard ball. Borders' terms of trade are the discreet talk of the industry. Typically publishers give retailers anywhere in the



region of a 40-50% discount on titles – the higher discount is rare. Blue Star would usually get 45% discount. Borders asked for a 50% discount, says Jenny Nagle, managing director of Addenda Ltd, an independent publishing house. The terms were also sale or return. Nagle refused, as her standard trading terms are 40% firm sale. Sprouls, meanwhile, denies ever asking for 50% discount from publishers.

The company's trading practices are currently under scrutiny in the US. The American Booksellers Association and 26 independent bookstores have filed an anti-trust lawsuit against Borders and Barnes & Noble, alleging that the pair use their mega-clout with publishers to obtain illegal deals and preferential treatment. The association contends that this has driven chain superstore profit – and market capture. Sprouls is flummoxed: "I can't contribute anything to that discussion ... what we do here is similar to what we do anywhere in the world ... everything we do here is legal."

Trouble at mill, too. In 1996, at the Philadelphia Borders, employee Miriam Fried was fired for being, she said, a union supporter. The Philadelphia City Council passed a unanimous resolution asking for her reinstatement, and the intellectual heavyweight Noam Chomsky (in stock at

Auckland Borders) also supported her cause. Fried didn't get her job back. Since then Borders have been picketed as far afield as Melbourne. Alexis Buss, Industrial Workers of the World (aka the Wobblies) organiser, says that Borders is only unique in that it went head to head with the union. "I'm sure Barnes & Noble would do the same thing." In New Zealand, a not particularly union-friendly country, Sprouls is not unique either: "We're not anti-union. It's about creating the right working environment. Are we doing right by our employees? That's what we ask ourselves every day."

And it works hard to do right by its customers. Each shop pulls in the book-loving and the idle with 30 in-house events a month: Memphis Borders has live local grooves; California Borders screens interested customers on National Anxiety Disorder Screening Day. In Auckland, on the day the *Listener* visited, a clairvoyant gave numerology and tarot readings, perilously close to a shelved book entitled *The Complete Idiot's Guide to Being Psychic*.

(In the US, it's also said to be a good pick-up place. In Auckland, a man browsing among the Foucaults in Borders' philosophy stacks approached a woman and said, "Excuse me, do you mind if I ask you

a question?" She: "Of course not." He: "Do you believe in free will?" She: "Yes of course I do. I'm Catholic.")

But scepticism is abroad. When Borders stocked the Auckland shop, it bypassed local publishers and record companies to source directly from the US and Australia (except for some New Zealand titles). "They are not contributing to the book economy here," Nagle says. And their profits go offshore.

Sprouls, "foggy" from a recent flight to the UK to open another store in York, just "can't say" what percentage of stock came from local suppliers. "We bought from everywhere. We'll continue to buy from places where we have the best advantage ... it's not just a question of terms, but also one of fill."

Glading is not a lone industry voice when he says it doesn't make sense for Borders to source product offshore. Sony can supply at often cheaper rates and "way quicker". On the book front, Tony Harkins, managing director of Penguin New Zealand, says local pricing is globally competitive: Australian prices can be as much as 20% higher. And delivery time here is just as good. Auckland Borders, guesses Glading, just went with a familiar model, thinking, "We've done it in Baltimore, why not do it here?" ■

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