

For Tilly
from Coles M&M's

Alan Preston
Comment
p 26



Stationery & bookstores

It's dynamite out there in the world of booksellers and stationers. As Annie Gray reports, the industry has been turned on its head in the past 18 months to two years and the battle for market share has not abated

Traditionally the bookselling and stationery market could perhaps have been viewed as quite a gentlemanly affair, but in the past seven to eight years corporate reality has hit and retailers are having to adapt their marketing, branding and customer focus to hold onto market share.

There's also more pressure on suppliers to meet customer requirements. The book market itself is very different from any other retail sector in that it's governed by international copyright laws producing an industry where only one supplier can give you a Grisham, a Cornwell or a Michael King.

There's very little statistical information available about the industry as a whole. On the book side, some hard evidence comes from the Ministry of Cultural Affairs and a Statistics New Zealand study, *Household Spending on Culture 1996*.

This shows that in the 1995/96 year New Zealand households spent more than \$8 million every week on publications, a total of \$437 million a year. Newspapers are the most frequently bought item as they are cheaper, but more money is spent by households on books and magazines. The survey estimated that households

spent \$125 million in the year to March 1996 on magazines.

While it's difficult to be accurate about book spending, the survey estimated that in the same period household expenditure on books totalled \$198.5 million for the year. And book retailers are confident the market will continue to grow.

While, like other areas of retailing, the market is somewhat flat at present and booksellers are working hard for their customers, there appears to be a certain element of buoyancy out there.

Chief executive of Paper Plus, Garry Donoghue, believes there's a resurgence in the book industry at the moment, partially on the back of new players into the field. He says the Australian franchise chain, Dymocks, has stimulated the market overall.

The huge overhaul of the bookselling and stationery sector in the past few years can probably be dated to 1991 when Whitcoulls, then owned by Brierley Investment, was sold along with OTC, Whitcoulls Office Products, Bennetts, School Supplies and a share in University Bookshops to the Rank Group.

Rank already owned Government Print and in 1992 changed its name to Whitcoulls Group Ltd and acquired

several other businesses to form a bookselling, stationery and printing/publishing business with sales of more than \$500 million a year.

In 1996 the Whitcoulls Group of companies were bought by the giant, US Office Products, through Blue Star Group Ltd, bringing the Whitcoulls group of companies under the same umbrella as Blue Star's stationery, furniture, office automation and printing business. As this article was being compiled Blue Star unveiled plans to expand its book and stationery retail group at opposite ends of the market.

Blue Star's chief executive of consumer retailing, Mike Ferrand, said in a press release the strategy would see the company introduce a premium range of stores and a new chain of one-stop convenience book and stationery outlets around the country. He believes the introduction of the new stores will "even more tightly target" customers needs and will complement and extend the range offered at the revitalised Whitcoulls and London Bookshop outlets.

He told *New Zealand Retail* that the premium stores were likely to start coming on stream next year and, while details were not being released, in late September it seemed that out of the current two brands – London Bookshops and Whitcoulls – three brands would emerge. Some of the group's existing stores will be converted into either the new premium brand or the new one-stop

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convenience stores.

Mike Ferrand says the premium brand will be in key sites and malls, as will Whitcoulls, but the one stop convenience stores will be more rural based.

As to whether the move has been prompted by the emergence of Dymocks, Mike Ferrand said while Dymocks had forced the group to look closely at the market, it had only been one factor and a number of other issues also came into play.

Primarily, he says, the re-branding of the stores has arisen from very wide research into what the group's customers are looking for. He sees the move as a "big call" for the Blue Star group and says the re-branding is totally consumer based. It also underscores the group's confidence in the New Zealand book trade. "This is a significant move for us and we would

not do it if we did not believe the opportunity was there."

Targeting and growing the market seems to be what Blue Star is looking at right across its brands.

While Dymocks is growing, it's still probably the Paper Plus chain which is Whitcoulls' main contender. With its chain of 83 independently-owned book and stationery stores throughout New Zealand and another three stores due to open in Auckland, Paper Plus has a greater store count than Whitcoulls. But in terms of volume, the Whitcoulls group holds just over 50% of the book market.

Whitcoulls' general manager, Stefan Preston, says his chain currently dominates the market in four out of six categories: books, videos, greeting cards and personal stationery.

His sees Whitcoulls stationery as targeting the convenience market and the SOHO market. There is a perception among some in the industry that Whitcoulls is moving back towards more of a book focus after tending to lean more towards stationery in the past few years. This is partially fuelled by the re-positioning of the Whitcoulls stores, marked by the new store in Dunedin.

Stefan Preston says the re-positioning is all to do with the way Whitcoulls markets itself. Two years ago the group was very price dominated and the move now is more towards a value dominated approach. He points to things such as the successful Whitcoulls' List earlier this


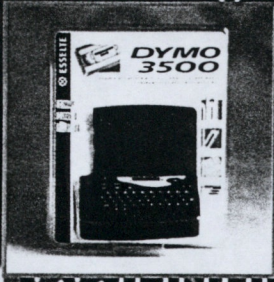

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year. "What we are doing is unlocking the mystery of books," he says.

He sees the new store in Dunedin as taking a position in the family market. It's a warm, friendly store with lots of graphics. The mix of 55% magazines,

videos, cards and stationery and 45% books will remain the same but the target market is basically the family.

The new store has a children's area with books, toys, computers and videos to watch. Just three weeks into the re-

positioning, Stefan Preston said customers were already complaining they could not get their children to leave.

Four Whitcoulls stores will be refurbished before Christmas and the group is committed to redeveloping and re-imaging its other stores over the next three years.

Stefan Preston believes the bookselling and stationery market has become more sophisticated, especially at the high end, and the competitive environment has made the market more dynamic. He puts this down to a number of factors. These include the increasing sophistication of customers; higher rents in key malls around the country and the greater use of IT in the industry.

Right across the sector, IT is playing an increasingly important role. Booksellers can identify immediately through point of sale scanning what's selling and what's not and can react very quickly to trends. Preston says IT has endless possibilities and with retailing in essence being a scale business, it can add great value to an operation.



Whitcoulls new-look format in Dunedin. The mix of 55% magazines, videos, cards, stationery and 45% books remains the same. The target market is basically the family.

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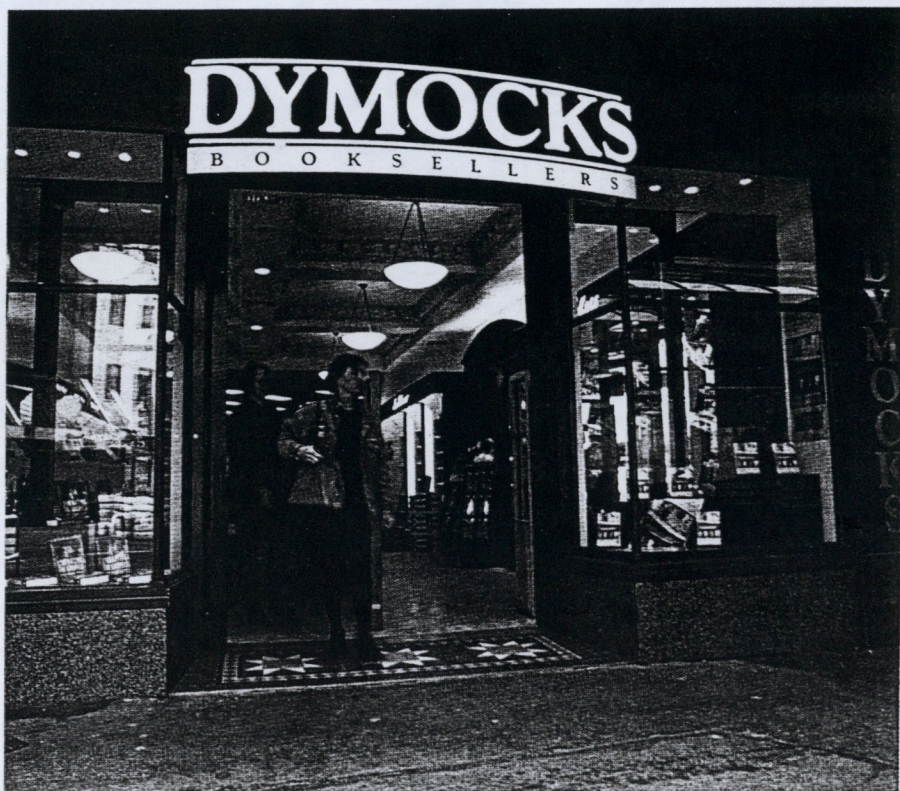
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Preston concedes that Dymocks has had an effect on the group, but says it's not necessarily a negative effect. "We've noticed them but we are not concerned at all about new competition. New competition can take a slice of the market or they can grow the market. Probably it falls somewhere in between."

He believes retailing is increasingly about branding and that branding is all about market targeting and the value the market attaches to your brand. "The brand we are building at Whitcoulls is a family brand. Dymocks is not a family brand."

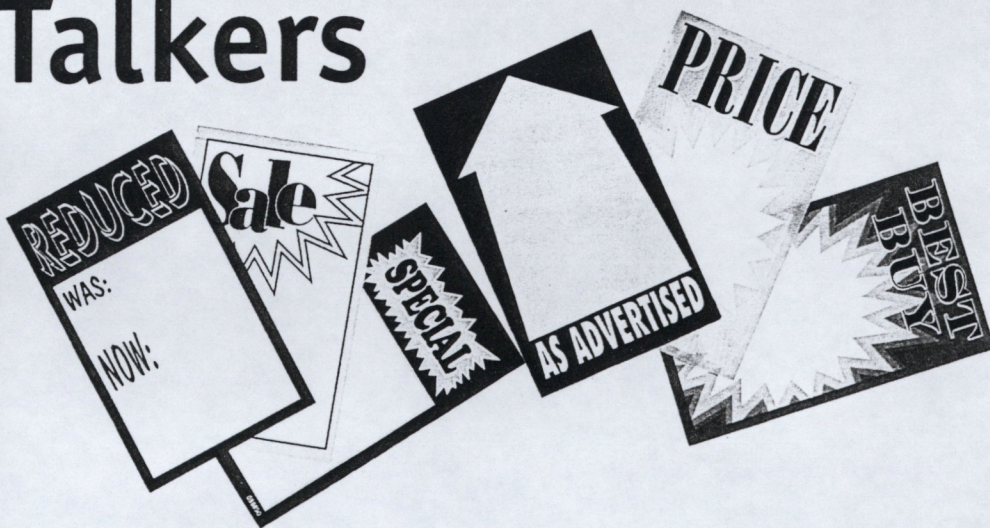
Dymocks set up shop in New Zealand in 1994 and now have seven stores with another due to open soon. New Zealand retail operations manager, Robin Arthur, says Dymock's point of difference from others in the market is that they are book specialists. No cards, no stationery, no videos and no allied merchandise.

He sees the chain's niche not so much at the top end of the market, but as general booksellers with a wide range and knowledge. It's a niche he believes New



Dymocks Booksellers: sticking to the knitting. In-store: no cards, no stationery, no videos and no allied merchandise.

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Arthur says Dymocks' market share is growing and that the chain is "pleasantly surprised" with the reception it's received in New Zealand. He believes the three things that separate Dymocks from the competition are range, product knowledge and in-store ambience. Arthur says book buyers are browsers and Dymocks aims to provide a restful decor which encourages browsing, with comfortable leather armchairs and an elegant appearance.

Of this ambience he points to the store on Lambton Quay. "I swell with pride when I go in there with its space, and high stud. It looks like a store with a billion books."

Dymocks retail catchphrase is 'The Booklovers Bookstore' and he says that encapsulates what the chain aims to be.

Sites are all important and the chain intends to concentrate on the main centres and larger provincial centres.

Dymocks sees marketing as critical and

each individual franchisee is compelled to spend a percentage of the turnover on marketing.

Special orders, while not always profitable, are seen as a critical part of the business and technology also plays an important role. Arthur believes the chain has one of the best inventory systems in the bookselling world. He's very comfortable with the recent moves by the Warehouse chain of stores to begin supplying books. "There's no point bemoaning the fact there is a new market player. Possibly the Warehouse is selling books to people who might not usually buy books."

The Warehouse Group is the first major New Zealand general retailer to start stocking books and by all accounts the venture into the printed word is going very well. Perry Lennon of Link Retail Services, who oversees the Warehouse book venture, says the group is targeting the concerned parent market with children's/educational books along with

best sellers. He believes the Warehouse has grown the market at the best seller end, pointing out that book shops can be intimidating for some customers.

Anyone with a letterbox or television set will be aware of just how heavily the Warehouse promotes its products and Perry Lennon believes the group has probably advertised books more often this year than any other bookseller.

He also feels that in certain sectors Warehouse sales may well have been additional to what the traditional book market would have sold.

One area where the bookstores may be losing out is on the magazine front. Stefan Preston says this is a very fragmented market and Whitcoulls operates in the ranged area of the market.

At Paper Plus Garry Donoghue says he is conscious of the move by some supermarket chains to expand their range of magazines but Paper Plus comes in on a reasonably firm footing. Many of their

The Independents

It's a romantic image. The elegant bookstore where customers browse a selection of some of the finest books in the world, relax into a comfortable reading room, serenaded by jazz and classical music. A store that is open late into the evening, a quiet retreat after a hard day in the corporate world or a gentle end to an early dinner.

It might sound all very New York, but it's a vision that is working for Joy Draper, the owner/manager of the Time Out Bookstore in Auckland's Mt Eden Road.

She began opening until 9pm after a visit to New York and what started as a five day-a-week venture into the late night arena has turned into a seven day-a-week affair. And it's a move customers appreciate as much as the fresh flowers, the reading room and the overall ambience of this tiny independent retailer.

The bookstore, which Draper bought six years ago, is one of an estimated 300 independents that litter the country. Joy targets the upper end of the literary market, specialising in photography and design books and holds a backlist of most of the top literary titles – a service she sees as pivotal. Her customers come in for the ambience and for book-related information.

She believes there's room in the market both for the big and smaller book sellers although trends in the United States may counter that. There the giant chains have, at least anecdotally, made life difficult for smaller booksellers in some areas.

Draper says customer loyalty plays a huge role in the success of her business. "I have customers who come in and say they have seen a book somewhere else and could I please get it for them. The customers are fantastic."

Many of the country's smaller booksellers are firmly entrenched in their own niche and, like Alan Preston, founder and managing director of Unity Books, are "not unhappy" about the future of smaller book sellers. He believes independents can be faster on their feet in reacting to situations however he warns there is a greater edge to the market today. Retailing from year-to-year is hard graft and he points to a reduced level of professionalism in the book trade in general.

This sentiment is echoed by other players. They say there are moves afoot to raise the standards of both suppliers, in terms of delivery and access to overseas books, and retailers. There appears to be some sentiment that book

suppliers are often not meeting market expectations.

Unity has just celebrated its 30th birthday and Preston now owns a second store in Auckland as well as his original store in Wellington. "When we started off I used to say we were trading in the holes left over from Whitcombe and Tombs."

At the time, it seemed to him that there were some specialist books that were not being sold through the bigger retailers. Preston sees his shops today as "general specialist" book stores catering for wider literary tastes than some of the larger chains may cater for.

Like the Time Out Bookshop, he also runs a back list, a service he sees as an important part of a bookstore's function.

After 30 years in the book trade, Preston says retail today has moved into an era of wheeling and dealing and discounting and customers will go where they perceive the best deal to be.

While customer loyalty is important, his shops now provide an added incentive with a discount card allowing one free book for every 10 purchases. "While the free 11th book cuts margins, it's working very well and has been well received over the past year or two," he says.

stores have built up a strong clientele who subscribe to magazines through their local bookstore.

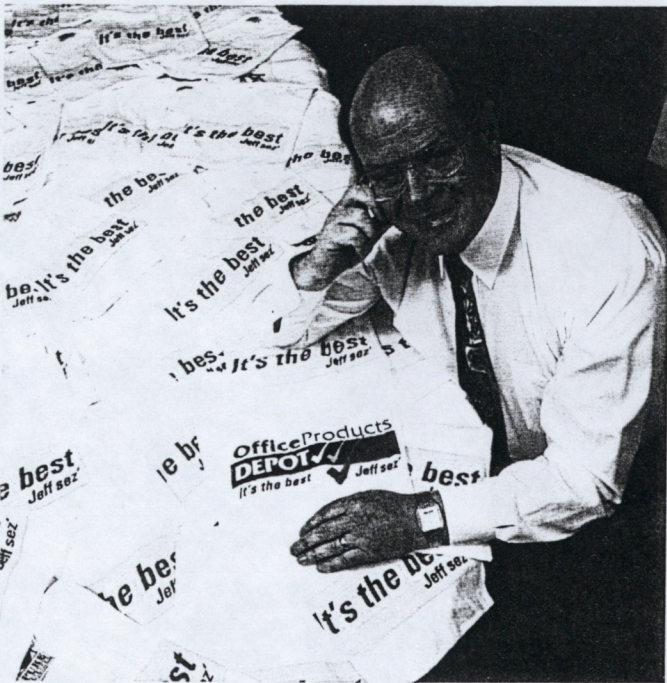
Magazines are not a big cost item as they are stocked on a sale or return basis but there is no question the supermarkets are taking a slice of the market. A survey by ACNielsen of magazine sales through New Zealand supermarkets for the 52 weeks to 7 September, 1997, shows the supermarket magazine market standing at \$75.8 million dollars – an 11.7% growth on a moving annual total. The physical number of magazines sold rose 12.1% to total 34.6 million.

While the book retailers work to come to terms with the changing market environment, the stationery and office products market has also undergone a period of enormous change and the dynamics are continuing to change each day.

Again it's the Blue Star group and its vertical integration of the whole office products market which has turned things on its head. The industry has traditionally been dominated by New Zealand firms but as US Office Products came in and another American giant, Corporate Express, also took a stance, smaller local players have had to rise to meet the foreign challenge.

Blue Star is easily the biggest in the sector, with interests in every area of the office supplies market. Chief executive of Blue Star Business Supplies Group, Steve Phillips, says the group's aim in New Zealand is to provide by far the best quality of service to the market.

While this consolidation of interest under the Blue Star banner is one factor leading to changes in the market, another, according to Warehouse Stationery's Terence Delaney, is that historically the stationery market in New Zealand has been something of a backwater with large margins and several steps in the supply chain. He believes the current shakeup is likely to

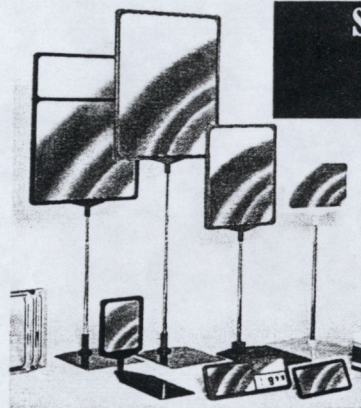


Kevin Mulcahy, CEO Office Products Depot: fighting back with a rebranding campaign and advertising targeting the general public.



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The moves by Blue Star had sent the sector into trauma for a while. It has taken 12 months for members to realise that US Office Products is not going to take over the market and that there has to be a place for independent dealers.

Kevin Mulcahy, CEO, Office Products Depot

continue.

Kevin Mulcahy, chief executive officer of Office Products Depot, says the moves by Blue Star had sent the sector "into trauma" for a while. He says it has taken 12 months for his members to realise that USOP is not going to take over the market and that there has to be a place for independent dealers.

Initially, some retailers had been pinning their hopes on the Commerce Commission to slow down Blue Star. The Commission's chief investigator of business acquisitions, John Preston, says that when Blue Star took control of the Whitcoulls group, the Commission carried out a detailed investigation into the acquisition, mainly relating to the commercial stationery market. The investigation looked closely at the market share of all the companies in the sector and the competition in the office supply field.

Preston said factors such as the rapid growth of groups like Warehouse Stationery and the relative ease with which goods could be imported, meant the commission decided, at that point, not to proceed any further. However, it decided to closely monitor any further acquisitions by Blue Star over the following 12 months. That period ended in July. Preston believes estimates of the group's share of the market may be well above its actual share, especially in certain parts of the market.

Steve Phillips agrees there is room for independent and smaller players, saying Blue Star does its best to support them. "They are important to our manufacturing companies and it's important for us to

see the market is balanced. If you have too big a share, you can become complacent and that's unhealthy. It's important to have competition in the market."

Kevin Mulcahy believes there is growing recognition in the New Zealand market that buyers have to support their local operations. The Office Products Depot chain of 40 independently-owned stores has traditionally had a market split of 60/40 between corporate clients and the retail market. But in the face of the competition from the big players, the group is fighting back.

The depot has recently launched a total rebranding campaign including a revamp of store frontages, interior refurbishment and staff training. It has undertaken an advertising campaign targeting the general public for the first time, to lift its profile, and believes this will lead to the retail division growing to about 60% of the business.

The group is promoting itself as the only New Zealand-owned national chain in the market. "We recognise that price is important, without it being the only factor."

Market upheavals have also seen Blue Star take control of major manufacturer and importer of office supplies, Croxley. Smaller players want to ensure their supply lines are protected. Mulcahy says his group is quite open with Croxley that its supply lines "can't be compromised".

Other players agree the vertical integration of US Office Products into the market does pose its own problems in respect of supplier loyalty. However some say, because of its position, Croxley is perceived as working hard at gaining customer loyalty – even if some groups may be left feeling they are buying directly from a competitor.

Steve Phillips at Blue Star says Croxley retains confidential information and does not share information that might jeopardise its relationships with outside customers. Croxley is easily the biggest manufacturer/importer of stationery in New Zealand and Phillips says the company retains its competitiveness through quality branding and product.

And there are some new suppliers entering the field, both locally and from offshore. Kevin Mulcahy says it's important for his group to see these companies continue to supply the market and to

balance that up with quality and price.

Paper Plus is also a major player on the stationery front and Garry Donoghue admits the independently-owned stores have been under threat. But he says the SOHO market has had a positive effect on business. "A number of our members court SOHO business vigorously and some have done a very good job in that market."

Market players agree that while the SOHO market is growing, it's a tough market with Whitcoulls Office Products, Blue Star OP and Warehouse Stationery all targeting the same business. Steve Phillips agrees the SOHO market is expanding and says Blue Star will be making some strong moves to redesign the way it offers to this market. "At the moment, we provide a traditional service to that market. It's the area where there is the biggest proliferation of competition because it's the easiest to supply."

But there is also another new player in the office products market, again aiming specifically at the SOHO market. The emergence of Warehouse Stationery has had an impact and the group's high presence has to be recognised.

Warehouse Stationery has been operating for about five years as a stand alone business. Executive chairman, Terence Delaney, says Warehouse Stationery is very much directed at the SOHO market. "Primarily what we are trying to be is the stationary supermarket for SOHO." And it's working. Sales for the year 31 July topped \$23.5 million from the groups 13 outlets.

At present, the group only goes as far south as Wellington but it plans to expand into the South Island next year, probably eventually rising to 22 or 24 outlets nationwide.

Delaney says this industry is no different from any other in retail in that the consumer is looking for more value and identifying what that value means.

All the players spoken to were well entrenched in technology and the role it must play. Steve Phillips agrees that it's pivotal to his businesses and says that customer interaction is now very strong in terms of the information the group can supply to its big corporate customers. 