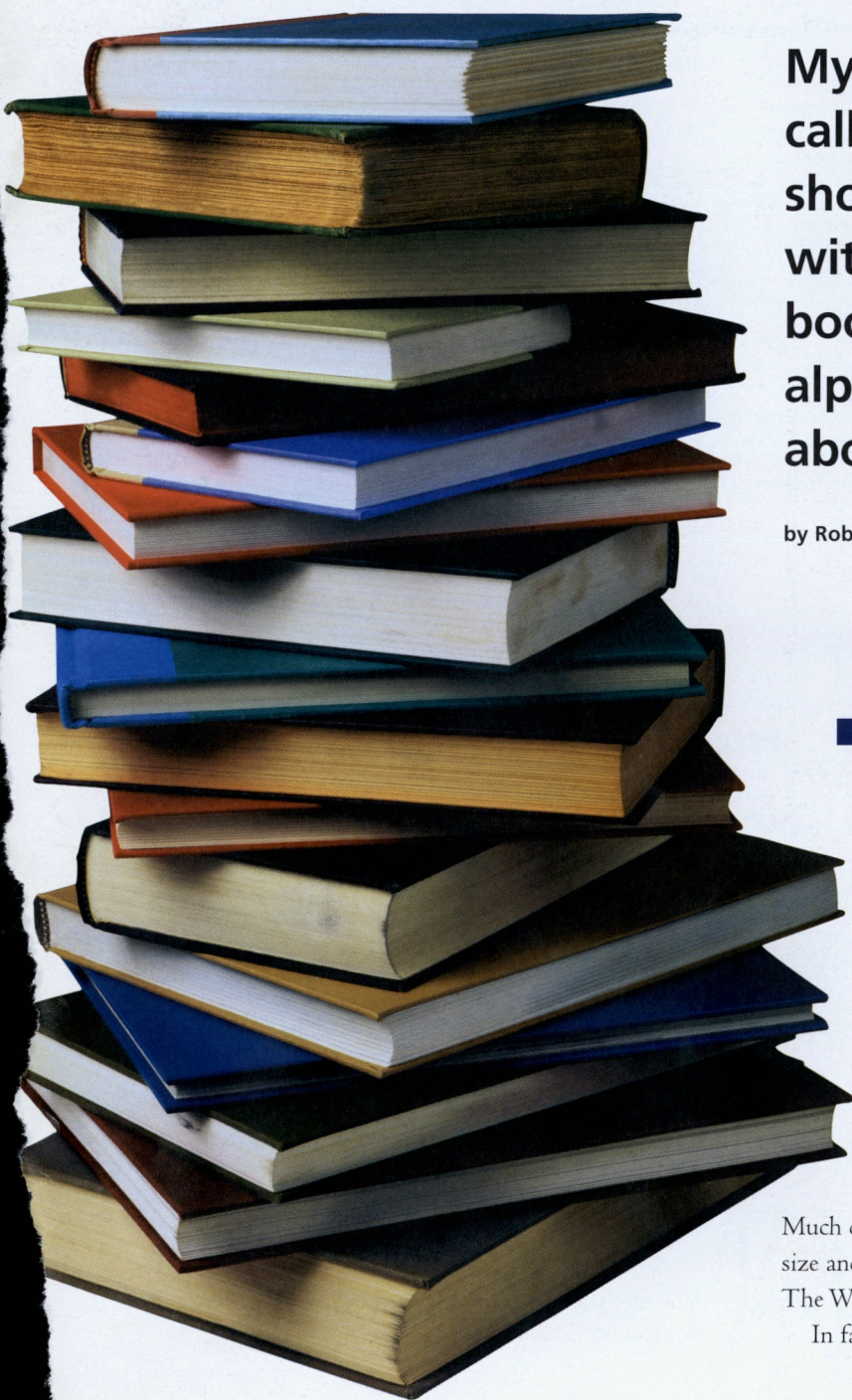


Looks good **on paper**



My son has a favourite story called *I like books*. Each page shows a monkey interacting with different books: funny books, counting books, alphabet books, books about monsters and so on.

by Rob Lee

To produce a story for children about liking books is a great ploy – encouraging a life-long love for reading. But I'm a bit concerned about the symbolism of the primate.

Why? Well, for many retailers being in books is proving to be a bit of a monkey on their backs. As for many retail sectors, booksellers increasingly have to bear the pressure brought about by squeezed margins, mergers, acquisitions, diversification and new technology.

And, for some, getting a slice of the \$200 million a year market is proving increasingly difficult.

Does size matter?

Much discussion in recent times has been around the power, size and scale of New Zealand's two biggest book retailers – The Warehouse and Whitcoulls.

In fact, the issue even reached the giddy heights of national

television. TVNZ's *Bookenz* addressed the issue in October where it posed the question 'How big is too big?' in relation to Whitcoulls.

The show adopted the stance that Whitcoulls is raising the ire of Kiwi publishers and writers, who say it is getting too dominant.

Whitcoulls proved it packs a punch this year when it was the first to slash the price of the new *Harry Potter and The Goblet of Fire* down to a world record low \$19.95. TV, radio and print coverage portrayed the general hysteria around the release of the book, but they also highlighted some opposition to the Whitcoulls move - primarily from independent booksellers like Unity Books.

Newspaper headlines proclaimed *Harry Potter price war taken too far*, while others saw benefits for the customer with *Potter fans cash in on price war*.

Whichever way you saw it, small, independent booksellers accused the Whitcoulls giant of destroying their chance to compete on price.

So has the competition been taken too far? Are the likes of Whitcoulls and The Warehouse abusing their position?

Fran Stanley, general manager of Blue Star Consumer Retail (which owns Whitcoulls), says there are a number of reasons driving perceptions of the major retailers.

"Firstly, we introduced an inventory management system

about a year or so back and our overall stock holdings are tending to come down as you get better at managing inventory," she says.

"The publishers aren't getting quite as much business from us in terms of taking in the big numbers. We used to have to take in quite substantial quantities because we had no idea what our inventory was."

Nowadays that problem is pretty much rectified.

"The fact is we buy all the books we think we'll sell and we buy them in the quantities we think we can sell them to the punters. The problem is that publishers think they've got the best book and they want us to buy them in much bigger quantities than we're prepared to. As the biggest retailer, if we make a decision not to buy, it can seriously impact the economics of whether or not a title's worth publishing."

Stanley says any ongoing conflict between her group and publishers comes primarily from a difference of opinion.

"We research the market and have a pretty good idea of what it is New Zealanders want. We are buying those titles in a fairly responsible manner and their view is we should buy more and we should buy in greater quantity. My view is it's not their money, it's ours."

Stanley says the book market is a lot more competitive now than when she entered the business five years ago.

She also believes competition has heated up due to The Warehouse gaining more retail dominance generally.

"What this has tended to do is make larger players like ourselves and Paper Plus more price competitive than we were in the past.

"What you now have is an organisation like The Warehouse entering the market where generally 80 per cent of the sales come out of 20 per cent of the lines available and then they [The Warehouse] go for the 20 per cent and price clip it. That's basically how they make their profit."

Stanley cites the current Jeff Wilson book as a good example.

"Five years ago that book would have retailed pretty well at an undifferentiated price across the market. What you now have is a recommended retail on that at \$44.95 - The Warehouse is out at \$27.99 and we're out at \$29.95. So good news for the customer, probably not so good for the independent retail market."

Stanley believes the independent booksellers are doing it tough right now.

"Generally, any retailer in the market who is relying on a business that doesn't have a strong price element has got a problem," she says.

"We're in a bit of a recession, it's a very price-competitive



Blue Star Consumer Retail, including Bennetts and Whitcoulls, is looking for a buyer



Fran Stanley

market for discretionary income and it's a tough old call to be out there wanting \$45 for a kids book for instance. Those independent retailers that are off Broadway trying to slug it out with everybody else for a share of the market – it couldn't be easy."

Stanley considers it difficult for book retailers to truly specialise, primarily because there isn't the population to support it.

Yet Tilly Lloyd, manager of Unity Books, may beg to differ.

Lloyd says the two Unity bookstores - on Auckland's High Street and Wellington's Willis Street - have experienced good growth, despite a relatively soft winter for the trade in general.

"It's very busy in the trade at the moment and we're very pleased with how it's going."

Lloyd is adamant it's possible to survive on books alone in retailing, as Unity Books does, particularly when committed to quality New Zealand and imported books.

"We are doing it and doing it pretty well," she says.

Lloyd attributes much of Unity's success to its 33 years of existence and a solid relationship with New Zealand's literary scene, including publishers, writers, reviewers and customers.

Despite being "an absolute shrimp in the world of books", Lloyd does not believe size is an inhibiting factor.

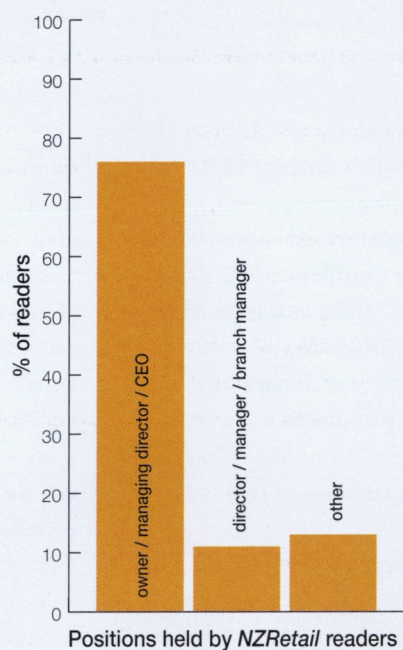
While Unity Books is not able to operate loss leaders or compete against the chain stores' reduced prices, both stores have a dedicated customer base prepared to pay more simply based on principle.

"It's great to have politicised customers," she says. "Price is only part of the formula. Our selection of books is our pride and joy. Inventory management is essential but it doesn't go far without passion and instinct and book knowledge. This stuff can get dumbed-down by the policies of the chains. Loss leaders are an aggressive strategy we cannot match."

There are also other advantages to being independent.

"We don't have to deal with the centralisation issues of the chain stores and some of the distribution problems that they experience. We have great freedom to move quickly when a book

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is suddenly hot."

Lloyd considers the proliferation of good contemporary writing, media attention, a strong decade's worth of author events plus the increase of book groups to have contributed to the re-socialisation of books, making reading at least as popular as ever.

It is perhaps for this reason that Unity's strategy for the future is "concentrating on being an excellent bookstore and building on what we've got."

Such a strategy could equally be applied to Parsons Books and Music on Wellington's Lambton Quay.

Partner Julian Parsons, remains upbeat about his retailing of specialist books and classical music. He says he got into music retailing in the 1970s through a combination of accident and personal interest.

"It's now a fairly good combination because they (books and music) just happen to be a very good match."

It's working, he says, because when times get harder it is easier to be specialised.

"If you are into a specialised area you are less price sensitive and your product is more unique."

However, with the bulk of Parsons stock imported, pricing is currently a problem as it's dependent on the exchange rate.

"But the advantage in books is the

huge range of product available," he says. "You find what's good and what's good value. It isn't as though one has to choose from a small range of books – there's a huge range of books being published."

Parsons considers the pressure of time placed on people who buy books as a problem potentially affecting the whole book trade.

"Incomes are less of a problem, it's more a problem of them working harder and there are lots of alternatives... there's the movies, dining out. Reading is quite a wonderful time user," he says.

In terms of specialist book retailing, Parsons does not believe internet-based suppliers have affected his business.

"I am aware of quite a lot of people who use the internet for very specialised work books. They know exactly what they want, they don't need to see it and nobody in New Zealand will have it."

While the exchange rate and delivery costs involved in getting a book in from the USA may ramp up the price of an internet order, Parsons believes price is not the issue for those who need the right book quickly.

Books.com

Many bricks and mortar booksellers downplay the impact internet book-selling companies Amazon.com and New Zealand-based Flying Pig have had on sales.

They say that usually the books

ordered via e-mail are commonly available in store and can be imported in less than a week.

These facts may well have impacted on Flying Pig's average performance since launching last year, culminating in its conditional sale to the online division of IT Media in early November this year for an undisclosed sum. IT Media owns other publishing, internet and television assets.

In June, Flying Pig co-founder Stefan Preston laid off half his staff and handed the day-to-day running of the operation over to its financial chief, Mark Battles.

Preston is now a Pacific Retail Group (PRG) executive director.

Flying Pig is geared toward the New Zealand market and has 1.5 million titles on its database, compared with 30,000 held by a typical large New Zealand book store.

Booksellers bind

A number of other sales and acquisitions are looming on the books and stationers front for 2001.

The sale of Whitcoulls is just one example which, says Fran Stanley, is still on track for next year.

"We're in that lawyers-and-accountants phase at the moment," she says. "It's unlikely that we'll make any announcement until post-Christmas. My best guess is that it will be somewhere towards the end of January."

Also on next year's agenda is the prospect of lower book prices for the customer, according to Paper Plus chief executive Garry Donoghue.

Bookseller and stationer Paper Plus expects to cut prices early next year when a new associated brand is created via the acquisition of most of the provincial Topline and Paper World stores.

This augers well for the customer, with The Warehouse on public record saying it will match any price-cut from

Paper Plus.

"We're in the midst of bedding down that process – it's all but complete," says Donoghue. "It's going to be quite an exciting venture."

The alliance would capture about 24 percent of the stationery and book retailing market combined, obtained through "160 stores and growing."

Donoghue considers the domestic book selling scene to be fiercely competitive in certain segments – primarily new releases, sporting books and high-profile releases.

He also has some empathy with some of the concerns of smaller, independent book retailers.

"I can understand where they're coming from," he says.

Without naming names, Donoghue says he doesn't believe "the major retailer of books in this country" is a fully responsible retailer, given its position in the market.

"In truth, once you hold those sorts of shares, you do have a responsibility to the market and their influence on the market is very profound."

From his own perspective of retailing, Donoghue considers the book, stationery, greeting cards, magazines and gifts approach to be "a delightful retail mix" that has some top qualities, compared to being books alone.

"The market size of being books only is very, very dependent on the activities of the publishers, the new releases – they'd be tough yards."

Despite book retailing being a tough market, Donoghue considers Paper Plus to be having a good year.

"We've got some stores performing very, very well and we've got some stores in a newly intensely competitive environment that are hanging in there. Overall, we are happy with our current position and we are continuing to grow," he says.

e-books

With reading still a popular pastime for many people, the written word looks sure to remain. What looks less certain is what format that written word will appear in.

While for now my young son is content with the paper-based book that he can grasp, turn pages and look at the pictures, how long can we stave off new technology?

Already an American electronic publisher is pushing electronic book boundaries with an MP3-capable eBookMan.

Featuring a screen large enough to hold 30 lines of text and memory expandable to 64mb, Franklin Electronic Publishing's eBookMan includes personal information management functions and can play audio books and music files.

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There's that damn monkey again. **ER**

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