

Effects of the abandonment of the NBA – most recent data

Frank Fishwick, 29 April 1999

Scale of discounting

Important to emphasise that discounting remains confined mainly to limited range of best-sellers, with occasional bigger price-promotions and somewhat wider discounts at Christmas. *Publishing News* this week lists 153 books discounted by one or more national chains of bookshops, books/stationery outlets and/or supermarkets:

WH Smith	80	
Waterstone's	7	
Dillons	10	(only one in common with Waterstone's)
Sussex Stationers	47	
Safeway	16	
ASDA	32	
Tesco	20	
Woolworths	10	
Sainbury's	9	

(The total of 231 reflects discounting of the same titles at two or more of these chains.)

Cranfield research suggested that about 20% of books to which minimum (net) prices would previously have been applied are now bought at discount. The proportion of all books claimed to have been bought at discount was over 40 per cent, but this includes bargain books, book clubs and low-price editions published as such.

BML reported in March that the main reason for growth in the consumer market in 1998 was greater purchase of discounted books. The volume and value of full-price purchases fell.

Market growth

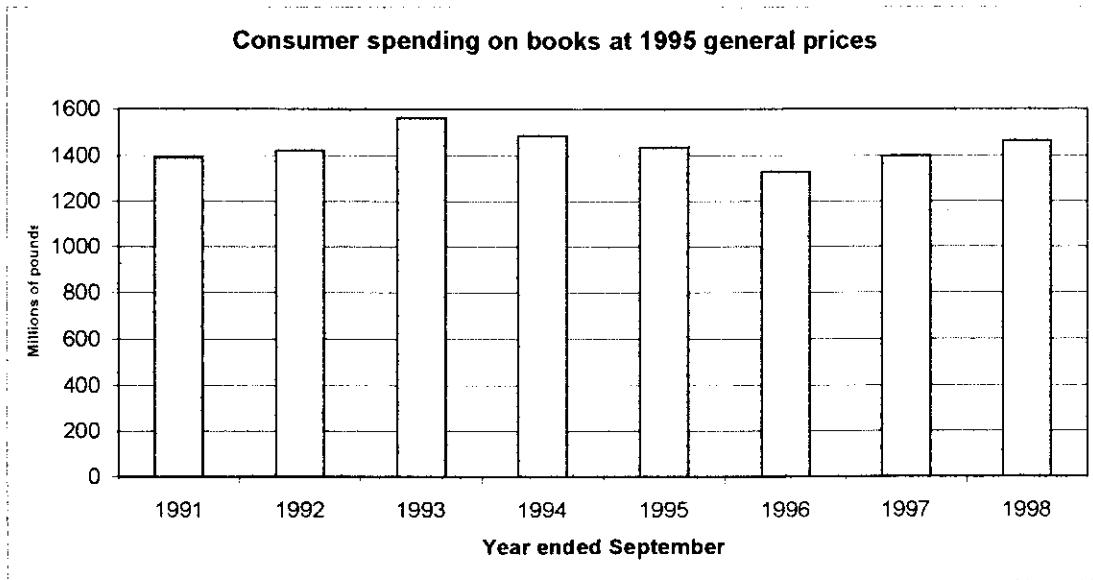
The last full year with the NBA in effective force (discounting of Reed and Hodder titles was exceptional) ended in September 1995 and it is probably best to compare years ended September to trace the effects. The ONS figures (published in *Consumer Trends*) suggest that the market has grown over the three year period only through price increases:

Analysis of changes in consumers' expenditure on books

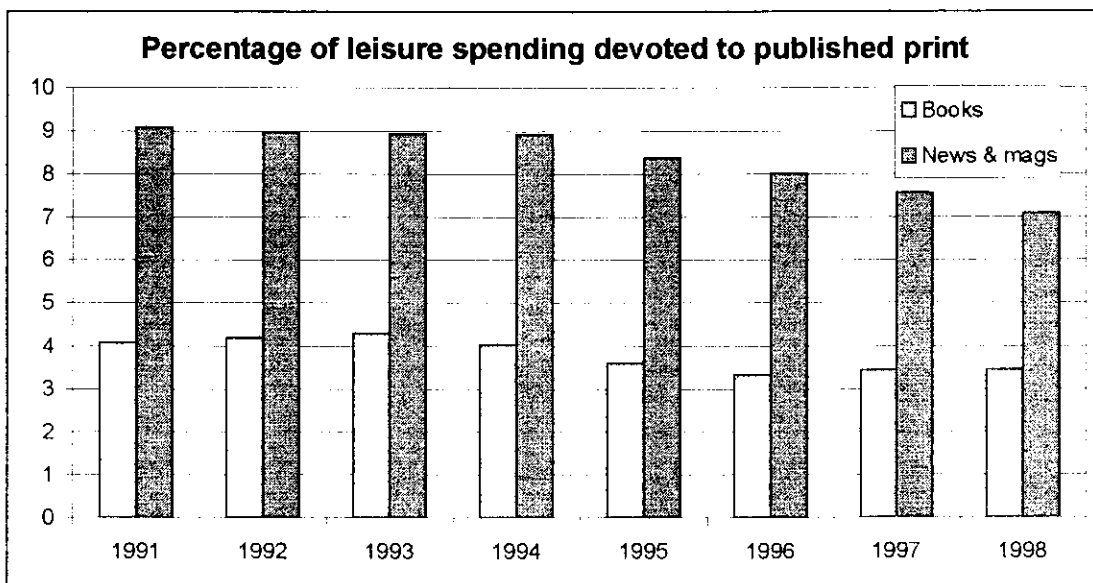
	Year to			Three years to Sep-98
	Sep-96	Sep-97	Sep-98	
Total expenditure	-5.2	8.3	8.4	11.3
Volume	-7.5	3.7	4.1	-0.1
Price	2.5	4.4	4.2	11.5

The index used by the ONS purports to discount into account. Opponents of RPM may argue with some justification that in the later part of the period the market is responding to discounting by switching to the titles concerned and this is reflected by the 4.1 per cent increase in the volume of books sold. (More about prices later.)

For a simple comparison of market growth, it is probably best to correct the expenditure data for general inflation (ie by the all-items RPI). This shows how much real money consumers are spending. After a drop in the first year after the abandonment of the NBA, this figure has risen to exceed slightly that for the last year when it was in effect.



It would be a mistake to conclude here that the abolition of the NBA had not led to any growth in consumer spending on books. Books have been doing better than other printed products in terms of their share of spending on “recreational and cultural products” (ONS).



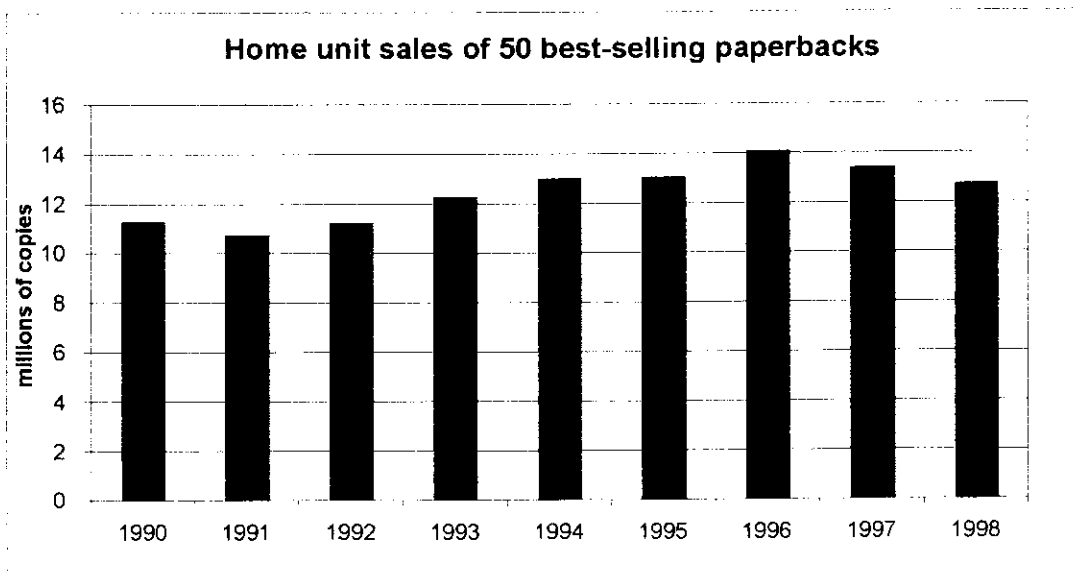
Some observers hoped that the end of RPM and the display of books at discount prices in non-traditional outlets (supermarkets and department stores) would expand the proportion of the population buying books. This had not happened up to March 1998, the latest period covered by the *Family Expenditure Survey*. The FES results suggested that the expansion of the book market had occurred because those households buying books were now spending more. Again, the data from BML suggesting an increase in the buying of discounted books in the last quarter of 1998 may change this situation.¹

	% of households buying any books in two survey weeks	Average expenditure (£) per book-buying household
1994-95	24.4	5.09
1995-96	22.8	4.90
1996-97	23.8	4.78
1997-98	23.9	5.47

Channels of distribution

Disappointing lack of evidence here. Immediately after the end of the NBA, supermarkets and mail order companies expanded their share of the market (at least in volume terms) at the expense particularly of CTN outlets and, to a lesser degree, independent bookshops. Book clubs are also believed to have been adversely affected but stats on this are hard to get

Subsequently supermarkets have lost sales relatively to bookshop chains, perhaps because demand for mass-market paperbacks has been eroded by discounting of hard-back editions.



¹ BML report an increase of 8 per cent in consumer spending on books in calendar year 1998 compared with 1997, with a volume increase of 6 per cent. The corresponding figures from the ONS (based on a very similar research survey) are 5.3 and 1.8 per cent respectively. My co-author at Cranfield, a consumer psychology specialist, prefers the ONS series, because the Family Expenditure Survey does not focus on books (or any other single product). This avoids a possible "desire for a halo" in reporting purchases to a dedicated survey.

This partly reflects a change in the balance of power in the book trade, with greater dependence on a small number of national specialist chains. The growth of these chains is not, however, primarily due to discounting.

Prices

Two indices of prices are available (the PA series cannot be computed reliably from the small number of responses so far obtained). The *Bookseller* price index is based on an unweighted average of the list (recommended retail) prices of published titles. The ONS price index takes observed discounts into account, but only since 1996. We can therefore compare the two series over the period 1995 to 1998. It is probably most useful to confine the comparison to consumer books, because at least until the serious growth of Internet sales, discounting of academic/professional titles has not been widespread.

Indices of consumer book prices 1990 =100			
	Bookseller	ONS: books	ONS: All items
1995	117.9	121.8	118.0
1996	125.2	125.9	120.8
1997	126.7	130.9	124.6
1998	136.6	136.4	128.9
% change 1995-98	15.9	12.0	9.3

This table shows that list prices have risen much more than general inflation, but that for consumers the average effect has been moderated by discounting. The effect of discounting is less than might be expected at first sight, but this is because discounts have been applied mainly to the cheaper books, reducing the impact on the average amount paid for any given "basket" of titles.

Dare one suggest (in confidence) that, because of the increase in prices, many publishers and booksellers have gained rather more from the abandonment of the NBA than the average consumer!

Finally, an attempt to trace the different price experiences of publishers and retailers since mid-1995. The purple line in the graph overleaf shows an index of ex-warehouse publishers' prices for home sales, calculated by the ONS. The fall in retail prices in the third quarter of 1998 is difficult to explain: perhaps the ONS picked on outlets that discounted more in that quarter.

At the BML presentation in March, it was reported that book clubs have regained some of their market share, though I am not sure that there will be any hard evidence on this.

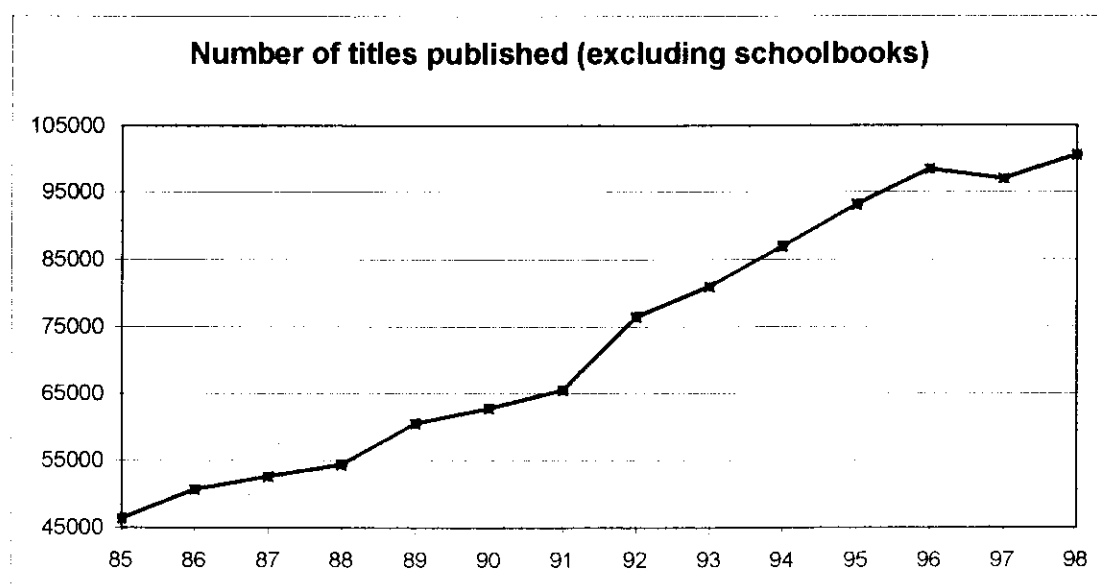
Effects on outlets

The main casualties of price competition appear to have been small mixed-goods outlets relying on a few shelves of mass-market paperbacks. This was revealed by Cranfield surveys and has also been reported by the Booksellers Association.

Smaller specialist bookshops have survived mainly because of improved stock-control and replenishment associated with EPOS systems and EDI links to wholesalers, who have both widened their stock range and improved delivery. If you want to get a particular book quickly (outside London), the independent is probably the best source. As the data presented from *Publishing News* show, Dillons and Waterstone's are not discounting for most of the year and this means that smaller specialists can compete with local chain opposition, except for the more limited range offered by most branches of WHS. Exceptions occur with more widespread and publicised discounting by local/regional chains, of which the most obvious example is Sussex Stationers.

Title numbers

Because the effect on specialist outlets has been less than many predicted, the argument that the end of the NBA would cause a contraction in title output does not yet apply. When title numbers fell in 1997, for the first time for 16 years, some people (including me) believed that this might be the start of a longer-term trend, but 1998 saw a resumption of the previous upward trend. (Schoolbooks excluded because non-net for many years.)



Our Cranfield report for Book Trust did show that smaller publishers of consumer books produced a smaller proportion of titles in 1997 than in 1995: the smaller 50% of publishers ranked by output accounted for 6.5 per cent of all titles in 1995 and 4.5 per cent in 1997.