

Fixed vs. Flexible: What is the Impact of Fixed Book Price Systems on the Book Market?

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Research Question

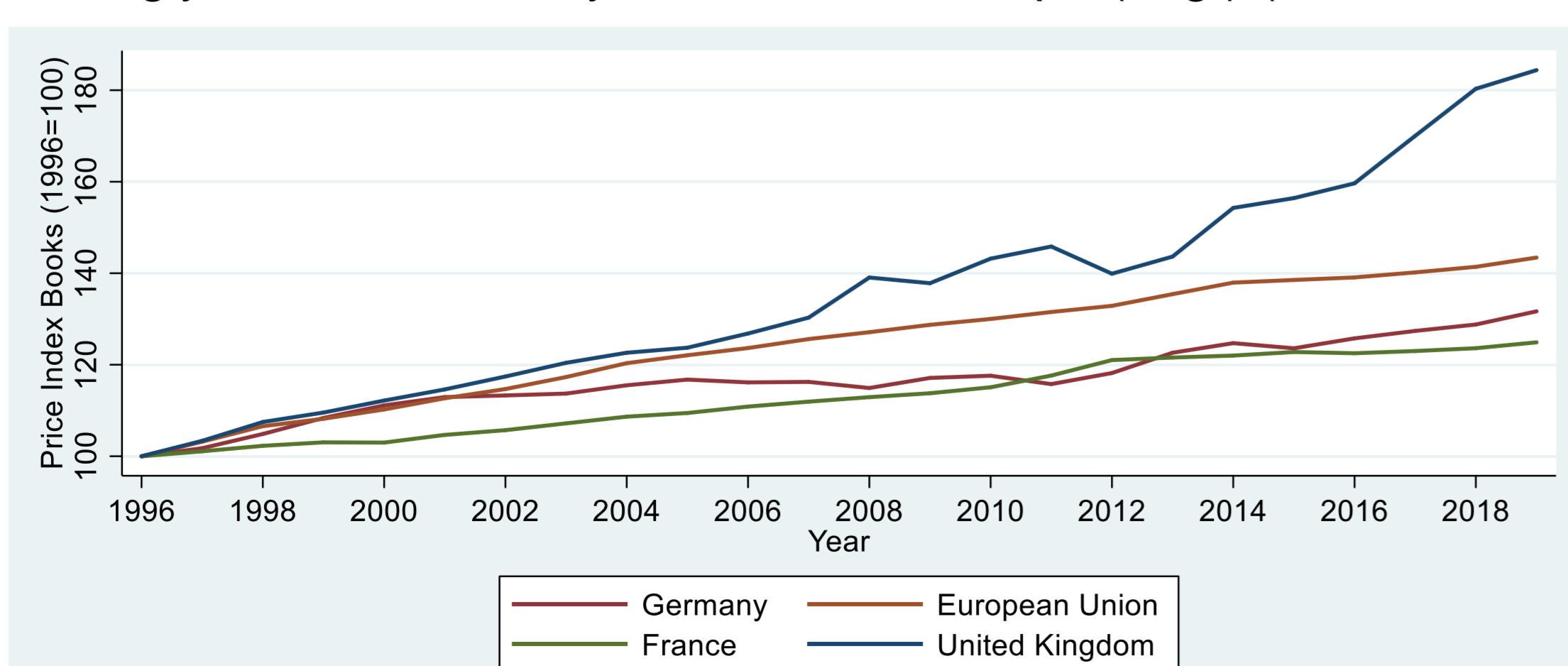
- There are numerous countries where book prices are fixed as well as many countries where book prices are flexible
 - fixed: France, Norway, Japan, Austria, Netherlands, Germany, etc.
 - flexible: United States, United Kingdom, Russia, Switzerland, Canada, Australia, South Africa, Iceland, etc.
- Fixed book price system as a form of resale price maintenance (RPM) not unambiguously harmful from an economic perspective
 - some negative effects are
 - prevention of price competition on retail level
 - increased potential for collusion (e.g., Jullien and Rey, 2007 RAND)
 - some positive effects
 - condemn free-rider-problem of service-provision (see Motta (2004) for an overview)
 - prevent double marginalization
 - effect on retailer concentration from Fishwick (2008 International Journal of the Economics of Business) of particular interest for the following analysis
 - with a fixed book price system in place, margins on retail levels are higher than without a fixed book price system in place → number of retailers higher with fixed book price system
 - hence, if a fixed book price system is removed concentration on the retail level will most likely increase
 - increased concentration can foster buyer power of retailers (e.g., supermarkets) → higher rebates on recommended resale prices (RRPs)
 - publishers may increase RRP in anticipation of high rebates
 - as a consequence of the increase in RRP smaller, less important retailers with lower buyer power may be confronted with increasing wholesale prices
 - supermarkets most likely stock up on popular bestseller titles rather than niche titles (loss-leader argument) → these titles are sold for higher prices at smaller retailers who are not able to receive high rebates
 - further increase in concentration
 - publishers may increase RRP for those titles for which they are not sure whether they become popular bestsellers → lower sales of “non-popular” bestsellers due to higher prices paid by smaller retailers and, therefore, by final consumers as well
 - niche titles may become more expensive due to publishers’/smaller retailers’ economies of scope and lower elasticity of demand of heavy book buyers
- Research goal
 - compare exemplary countries with and without fixed book price systems: UK and Germany
 - differences in wholesale and actual prices
 - composition of demand across different titles
 - strategies and “standing” of publishers and retailers

Data

- Germany
 - data on sales and revenues taken from media control metis
 - 2011-2018
 - weekly data
 - federal state level
 - number of retailers from membership data base of German Booksellers Association
- UK
 - data on sales, RRP and average sales prices (ASPs) from Nielsen UK
 - 2005-2018
 - Fiction
- Price indices taken from Eurostat

Abrogation of NBA

- After abrogation of the Netbook Agreement average book prices increased more strongly than in Germany, France and Europe (avg.) (see also Fishwick, 2008).



Source: Eurostat

Abrogation of NBA

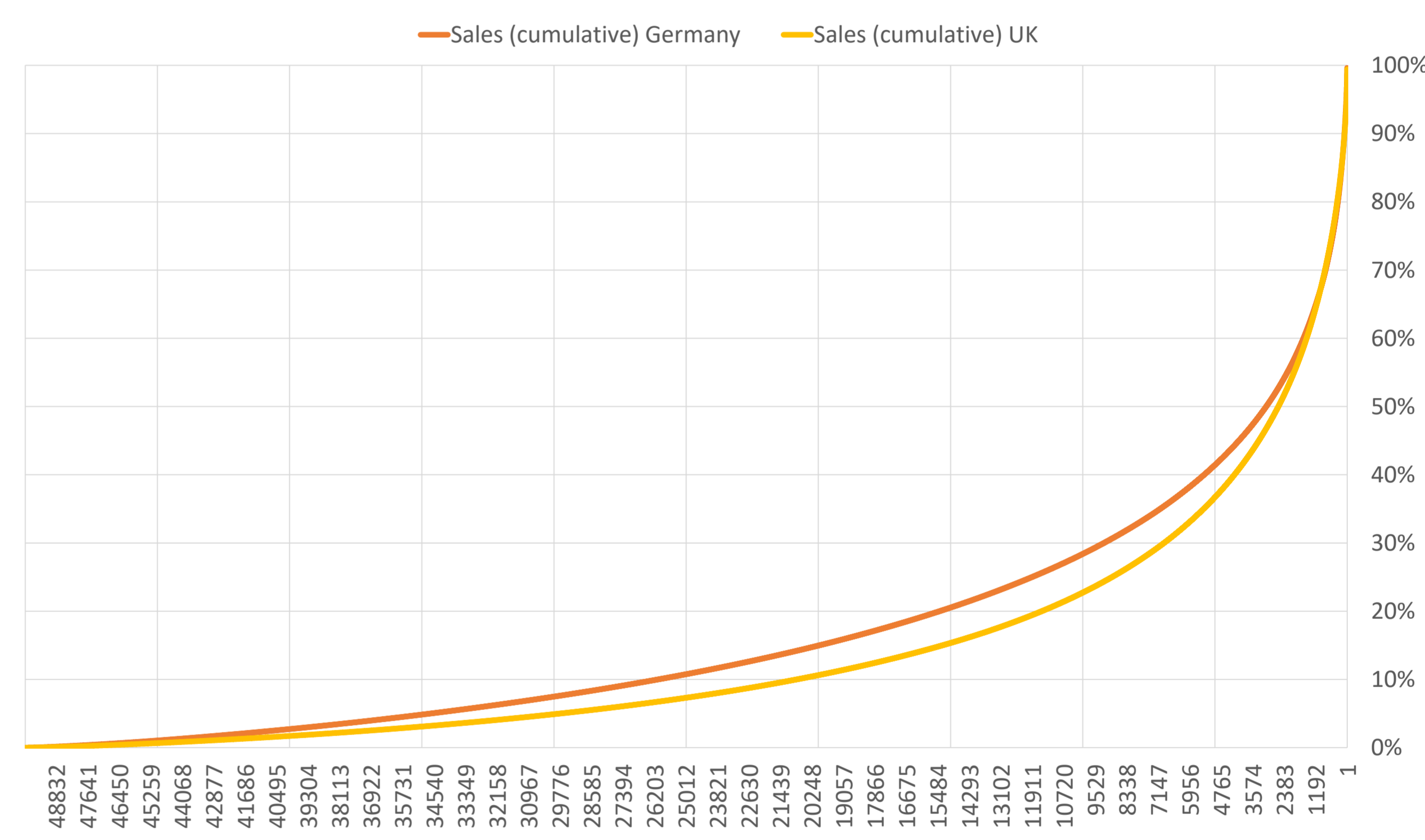
- Retail margins increased as the number of retailers decreased (1995-2001 by approximately 11.9%, Dearnley und Feather, 2002; Davies et al., 2004)
- Gross trade margins of retailers, % of recommended retail price:

Year	General	Acad/prof	Year	General	Acad/prof
1995	42	30	2010	61.4	39.1
2004	55.8	35.7	2011	60.4	38.0
2005	57.4	36.3	2012	62.5	41.7
2006	58.2	36.4	2013	64.2	41.7
2007	59.4	37.2	2014	64.3	38.5
2008	60.4	38	2015	63.1	38.5
2009	62.1	38.3	2016	65	39.8

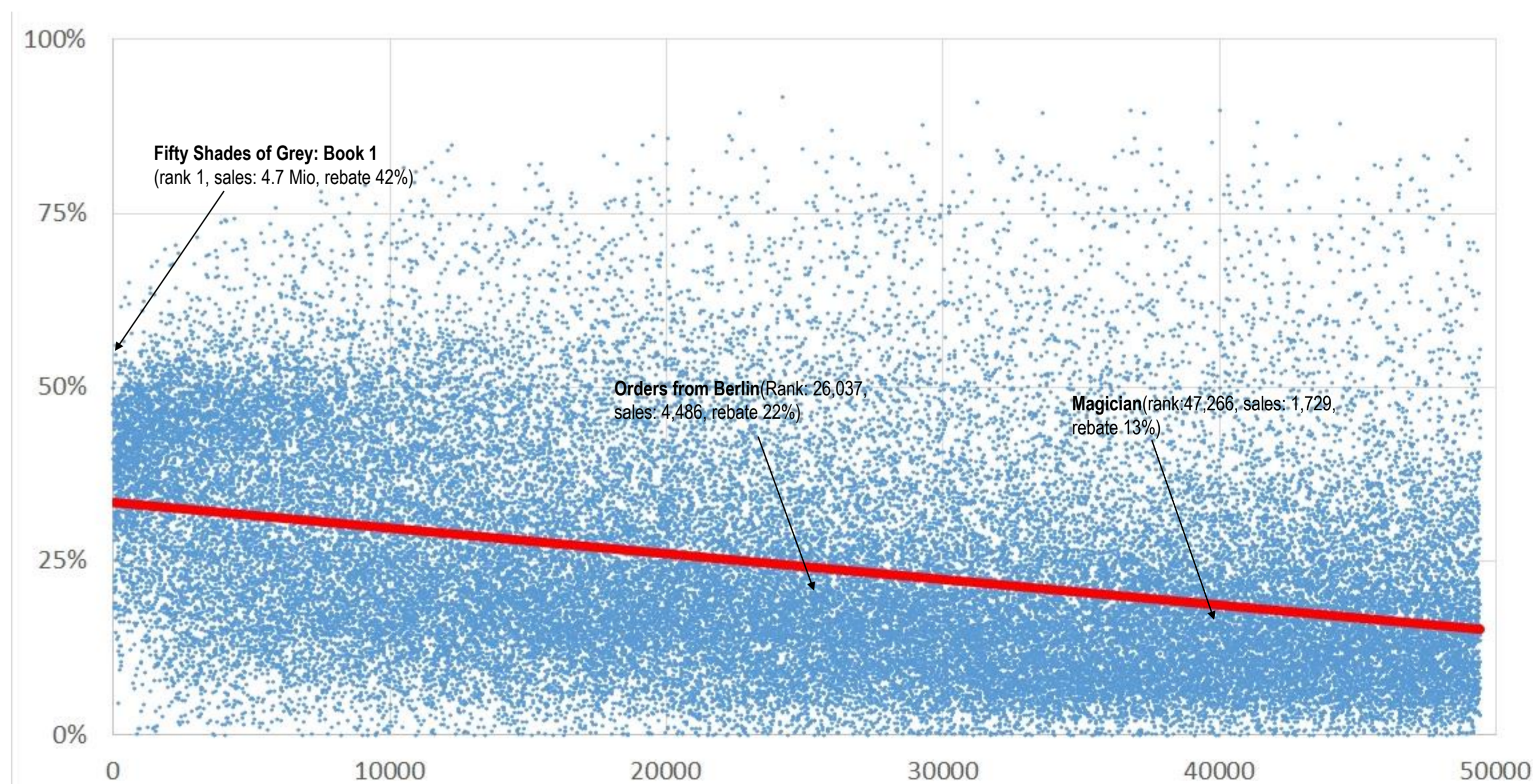
Source: Fishwick, 2019

Preliminary Results & Further Steps

- The following plot shows the cumulative sales in Germany (orange) and UK (yellow) as functions of the sales rank (Lorenz Curves).



- Titles which make up for the 70% lowest sales have an approximately 1/3 higher share on total sales (20.5% in Germany vs 15.3% in UK), which indicates that a broader range of titles is demanded by readers
- The following plot shows percentage rebates ($\frac{RRP-ASP}{RRP}$) per title ranked from 0 (book with highest sales) to 50,000 (source: Nielsen Bookscan)



- Rebates for top 7,000 titles on average approx. 50% higher (34.1% vs. 22.7%) than for the remaining titles.
- On average, the lower the sales rank the lower the rebates
- In combination with increasing RRP, this can be seen as an indication that in UK bestsellers are cheaper whereas the remaining titles become more expensive compared to Ger.
- Next steps
 - econometric analyses on rebate structure in UK
 - theoretical model on interaction between concentration and rebates for books with quality uncertainty