

Effects of abolition of Resale Price Maintenance on Books in UK

1. History of RPM on books in the UK

Resale price maintenance on books was operated through the Net Book Agreement signed by almost all publishers in 1900. This provided for collective enforcement of the minimum retail price fixed by the publisher of any book. Publishers were not obliged to fix such minimum prices but, in practice, before 1990 all but a few titles (other than schoolbooks) were subject to a “net” price. Until 1957 booksellers who offered books at below “net” prices were subject to collective boycott by all publishers. From 1957 onwards, enforcement was through the courts.

During the early 1990s some major publishers, most of them multinationals, decided not to fix “net” prices for popular titles but offered them “non-net”. Initially only a few bookselling groups (Dillons among them) sold these titles, but when other retailers (eg WH Smith) joined the discounting of “non-net” books the Publishers Association decided that it would suspend the NBA (in September 1995). The UK competition authority, then called the Office of Fair Trading, continued with a formal case against the NBA in the Restrictive Practices Court and it was finally declared illegal in March 1997, a decision that reversed exemptions from UK competition legislation in 1962 and 1977.

Although the NBA was an agreement of publishers to enforce resale price maintenance collectively, it was effectively the result of collective pressure by retailers. Some evidence of this was provided by surveys conducted by Cranfield* in 1997. Asked to comment on the statement “The demise of the NBA has produced a number of threats for our organisation” only 13 of 69 responding publishers (19%) agreed, while the corresponding proportion of bookseller respondents was 207 of 326 (over 63%).

2. Changes in book prices since 1996

Harmonised indices of consumer prices have been published by Eurostat* since 1996, which in principle allow international comparison. Davies et al* discussed the difficulties in constructing a price index for books, including the practice of using pricing points (eg £5.99, £7.99 etc) and the treatment of “three for the price of two” and similar offers. More research may be needed

before definitive conclusions can be made. **The Nielsen data would be useful here.** The official data contradict expectations: UK book prices have risen more than general consumer prices in the UK (Chart 1) and also more than book prices in France and Germany, where RPM has been retained (Chart 2).

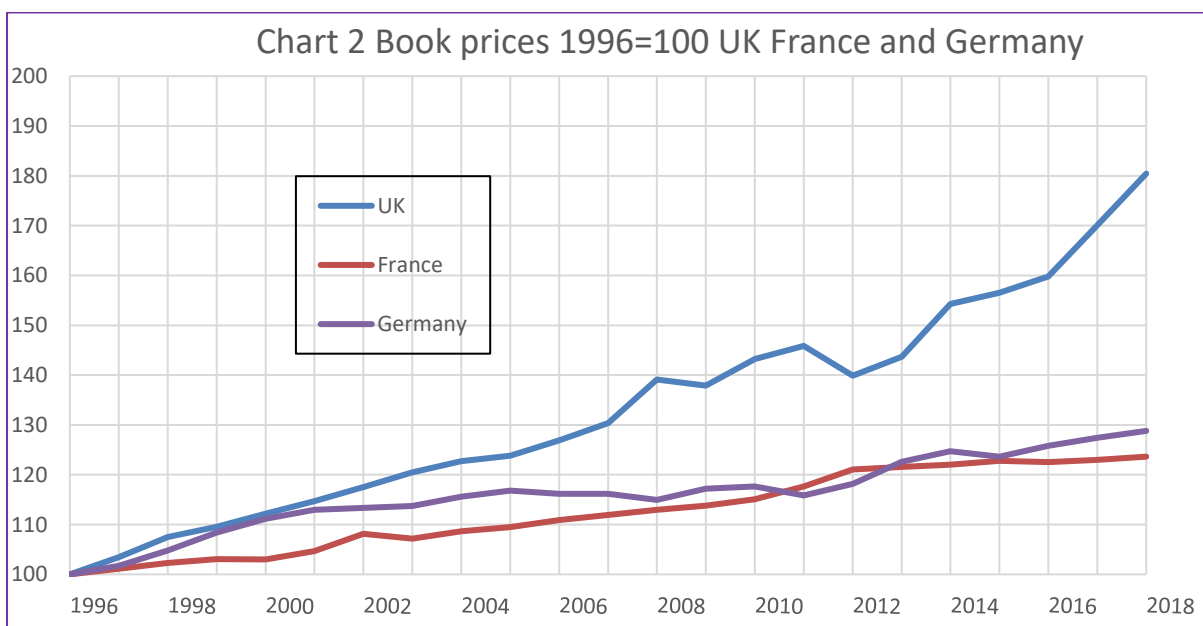
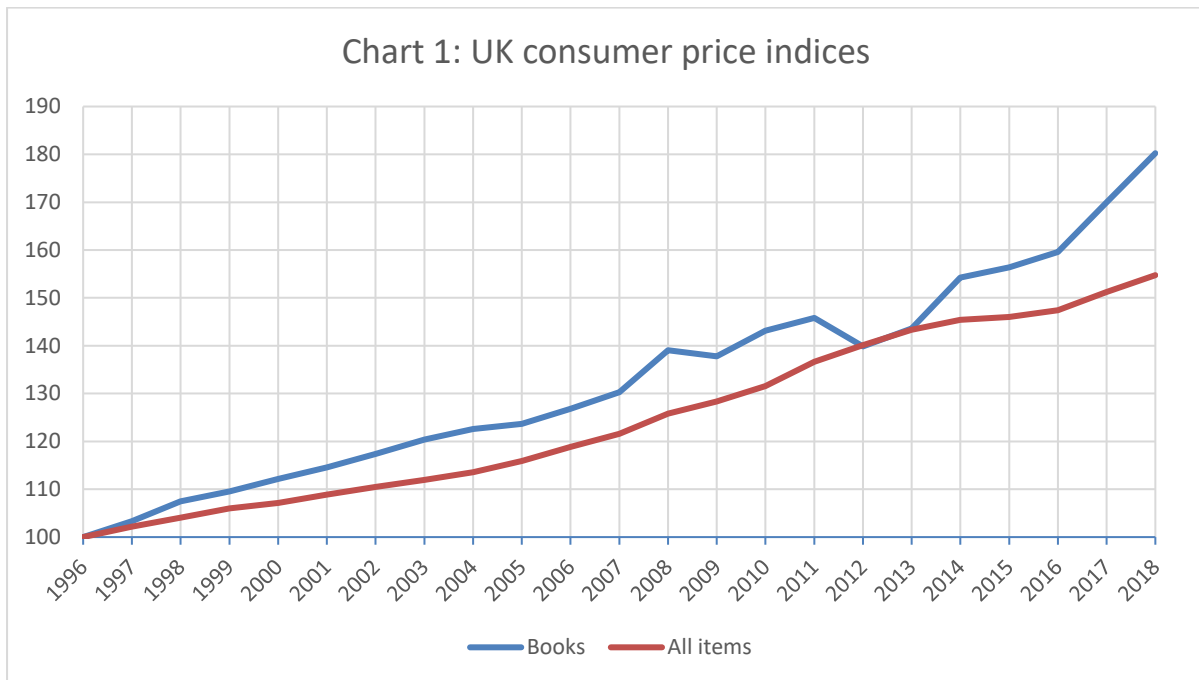


Table 1 compares the increases between 1996 and 2018 in each of the three countries in the official indices of book prices and of all items.

Table 1 : % Changes in prices 1996-2018			
	UK	France	Germany
Books	80.4	23.6	28.8
All items	53.9	38.3	37.4

These official data show that book prices in the UK after the abolition of RPM rose faster than general inflation and faster than book prices in France and Germany, which rose less than national all-items inflation.

The prices of bestselling titles at certain outlets, particularly Amazon and supermarkets, are widely discounted. These discounted prices are taken into account in the compilation of price indices. However, retail prices recommended by publishers and usually printed on books are the reference point for such discounts and many titles are sold at these higher RRP.

3. Reasons for book price increases in the UK since 1996

One major reason for the rise in book prices in the UK has been the increase in gross retail margins conceded by publishers to retailers, the result of much greater concentration in retailing and in retailers' buyer power ("oligopsony"). Fishwick (2008) analysed this up to 2007. The trend has continued.

Table 2 Gross trade margins of retailers
% of recommended retail price

	General	Acad/prof
<u>1995</u>	<u>42</u>	<u>30</u>
2004	55.8	35.7
2005	57.4	36.3
2006	58.2	36.4
2007	59.4	37.2
2008	60.4	38.0
2009	62.1	38.3
2010	61.4	39.1
2011	60.4	38.0
2012	62.5	41.7
2013	64.2	41.7
2014	64.3	38.5
2015	63.1	38.5
2016	65.0	39.8

The data in Table 2 from 2004 to 2016 are sourced from annual reports of the Publishers Association, those for 1995 are based on research presented in Fishwick and Fitzsimons 1997*. In 2007 specialist bookshops accounted for 47 percent of the total value of book sales; by 2013 this share had fallen to 38 per cent and the greatest decrease had been among smaller independents, giving buyer power to the larger retailers, particularly the principal Internet seller, Amazon. The danger of oligopsony was predicted by the Restrictive Practices Court in its 1962 judgment in favour of the NBA.*

Clearly, the data here need updating. If this paper is to go further, we need access to Nielsen figures and must contact the Publishers Association and request post-2016 issues of their Yearbook.

Another factor increasing UK book prices is the decline of sterling. Most printing and binding of books published in the UK is undertaken overseas. Sterling declined by 6 per cent on a trade-weighted basis between 1996 and 2018

(Initial calculations using input-output analysis suggest that the effect of this may be as little as 0.4 per cent, but more research is needed on imported inflation.)

4. Price-elasticity of demand for books

In determining retail prices, publishers (fixing RRP) and retailers (whether to discount) must consider elasticity of demand. There are several different definitions of elasticity in this context:

- between outlets for the same title
- relating to total sales of one title
- relating to the totality of all books.

Prima facie we would expect the first of these to be high, but there is some evidence that wealthier book-buyers in the UK shun discount outlets. **(This “Veblen effect” might be discussed with the CEO of both Waterstone’s and Gaunt Books, the same man! Waterstone’s do some discounting, Gaunt Books do none.)**

The elasticity of demand for the individual title may be difficult to predict. Much may depend on the reputation of the author, either as an author or in general.

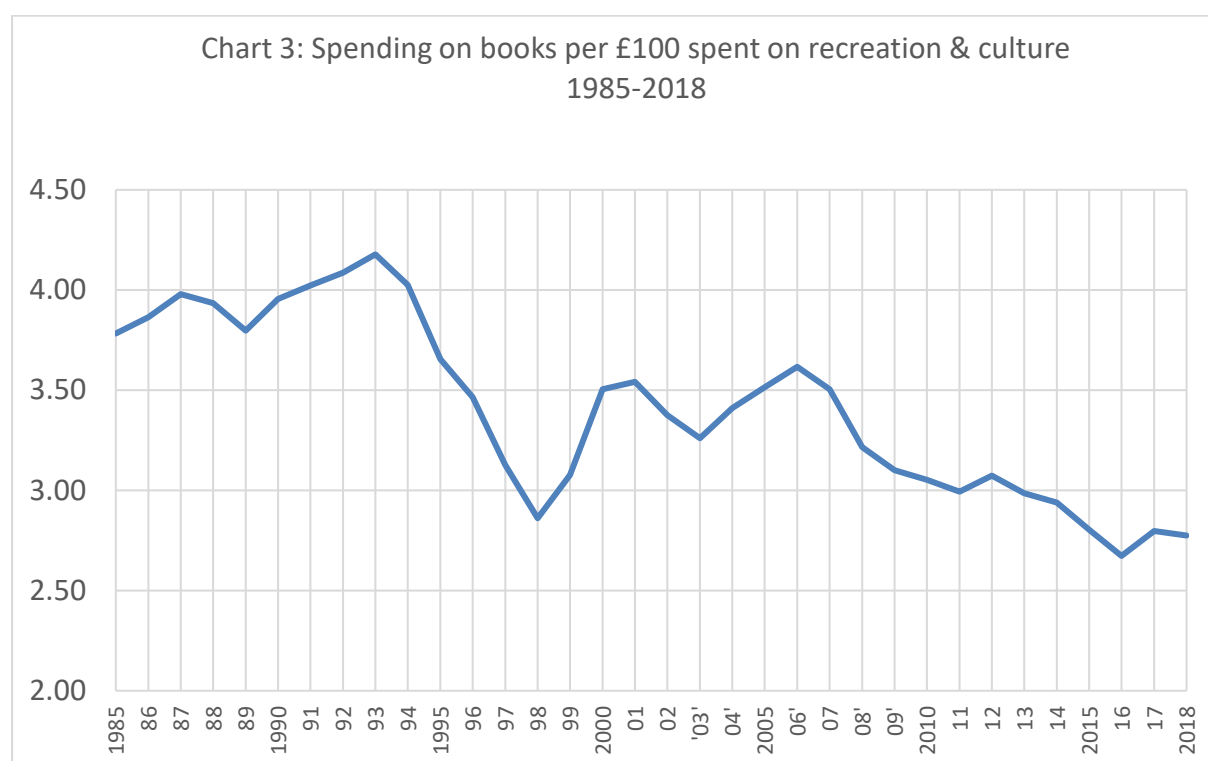
The third element of elasticity is perhaps most relevant to consideration of RPM, Books as products compete with a wide range of other leisure goods and services.

They are a constituent element of what the UK Office for National Statistics describes as “Recreation and Culture”. Regression analysis of consumer spending on this group of products as a whole is complicated by autocorrelation due to parallel changes over time, but we can eliminate this by correlating changes for year to year. One simple model produced statistically satisfactory results. Where Z represents spending on recreation and culture, C represents the real value of total consumer spending and P represents the ratio of the average price index for recreation and culture to that for all items (all three variables at 2016 prices), we have

$$\Delta \log Z = 0.0077 + 1.5768 \Delta \log C - 0.2829 \Delta \log P \quad R^2 = 0.74$$

T values: (3.18) (8.85) (1.96) DW=1.55

The elasticities of 1.58 with respect to aggregate expenditure and - 0.28 with respect to price are consistent with expectations, though the latter is only just significantly different from zero. There is no significant correlation between the two independent variables. This result confirms the intuitive expectation that consumer spending on recreation and culture is highly sensitive to income, but not to price.



While book prices rose by 315 per cent over the total period 1985 to 2018, the ONS estimate of prices of all recreational and cultural goods and services rose by only 1.4 per cent. Does the price of books compared with prices of

competing products within recreation and culture influence the share of books in the recreational and cultural market? The two are closely correlated: ($r = -0.82$, significant at 0.5 per cent) **but, while the regression equation linking the two variables appears to be robust, more research is needed to interpret this result. The availability of a vast range of new products for entertainment and culture makes it difficult to accept that relative price alone can determine 62 per cent (r^2) of variation in the share of books in total expenditure on recreation and culture.**

Chart 3 shows that the prosperity of the book market within the total market for recreation and culture peaked in 1993, two years before the abandonment of RPM on books. The competition from a wide range of new products, particularly in the form of consumer electronics, may have been a key factor underlying the 1995 decision to facilitate discounting of book prices. This thinking implies that book prices would fall, but (as shown above) this has not happened.

There have been numerous attempts to estimate the price-elasticity of demand for books from earlier data. An example is described in Fishwick and Fitzsimons (1997) where the logarithm of consumers' expenditure on books at constant (book) prices (Q) was regressed against the logarithm of real total consumers' expenditure (X) and the logarithm of the ratio of the book price index to that of general inflation (P). Over the 15 years from 1976 to 1990, this equation produced an estimate of price-elasticity of -0.87 .

$$\text{Log } Q = 1.43 \text{ Log } X - 0.87 \text{ Log } P - 6.83 \quad R^2 = 0.90$$

$$SE \quad (0.16) \quad (0.18) \quad (0.91) \quad DW = 2.29$$

This is close to the value of -1 , estimated by Écalle (1988) for the French market. It is also consistent with the estimate of unit price-elasticity for the Irish market calculated from observation of the impact of the withdrawal of value-added tax on books in 1982. (Fishwick 1986)

Attempts to replicate this constant-elasticity model for periods since 1990 have not been successful, possibly reflecting the large number of new influences on the book market and the wide divergence in price changes between discounted best-sellers and other titles. However, a "first-difference"

model analysing year-on-year changes over the entire period did show that changes in aggregate spending and changes in book prices (both variables corrected for general inflation) both had significant and opposing effects.

$$\Delta \text{Log } Q = 2.02 \Delta \text{Log } X - 0.98 \Delta \text{Log } P - 0.69 \quad R^2 = 0.48$$

$$T \text{ values} \quad (5.05) \quad (-2.85) \quad (-2.44) \quad DW = 1.56$$

This result is reassuring. The value of R2 shows that factors other than price determined 52 per cent of annual changes in purchases of books. For example, the publication of individual titles may lead to a leap in book-buying (examples are the Harry Potter series and the autobiography of Michelle Obama). However, annual price changes remained a significant influence, with price-elasticity again close to -1.

5. The market for books in the UK

Books are bought for educational and business purposes as well as for general entertainment and the analysis above relates to purchases by consumers. The consumer market represents about 93 per cent of the total retail market for books. **(This estimate is derived from 2016 data; I would try to use a 2018 figure, which I expect to be even higher, because of public expenditure cuts.)**

Estimates of the composition of the market for books in the UK have been provided by the Publishers Association(PA) since 2004. Data for 2004 and 2016 are summarised in Table 3:

Table 3: UK market for books at final buyer prices (£m)

	2004	2010	2016
Fiction	893	758	537
Non-fiction/reference	1099	1185	1304
Children's	421	473	534
School and ELT	248	231	330
Academic/professional	573	705	713
TOTAL	3234	3352	3418

I would try to get data for 2018 from the Publishers Association.

Comparison of the figures in Table with the price indices presented earlier implies a sharp fall in volume sales. Direct comparison is difficult because of

the advent of e-books. In 2004 sales of e-books were negligible; for 2016, published data from the PA facilitate estimates of the share of publishers' revenue in each of the five categories that is derived from digital material:

These estimates, included in Table 4, show that growth in digital sales may have moderated what would otherwise have been a severe drop in the quantity of books sold in the UK, especially in the fiction and academic and professional segments.

Table 4 : Changes in unit sales 2004 to 2016

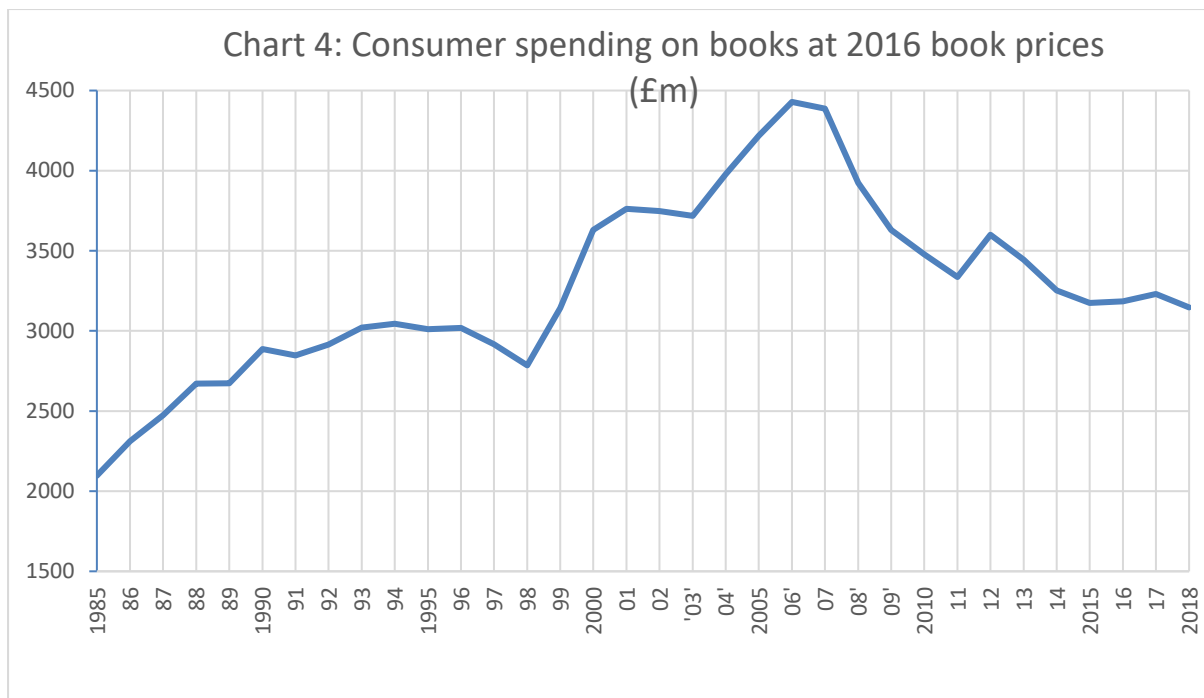
Unit home sales of books by UK publishers (m)				% of revenue
	2004	2016	% change	from e-books
Fiction	152	76	-50.0	31.5
Non-fiction/reference	119	138	16.0	4.4
Children's	129	120	-7.0	3.2
School and ELT*	27	22	-18.5	6.4
Academic/professional	32	23	-28.1	24.5
TOTAL	459	379	-17.4	15.1

*English Language Training (mainly exported)

Some of the books in all categories are sold to libraries (both public and academic), but most of those in the first three categories are sold to consumers, that is by people spending their own money.

Pending availability of data from the Publishers Association and Nielsen the evidence here is confined to figures in *Consumer Trends*, published by the Office for National Statistics.

Chart 4 shows that in real terms the UK consumer book market reached a peak of over £4,400 million in 2006. By 2018 it had fallen back to £3,150 million. It may be noted that the modest recovery in 2012 coincided with a fall in the index of retail book prices. This fall almost certainly reflects the increase in market shares of Amazon and of supermarkets that year, with more widespread discounting. The rise in gross retail margins and list prices followed in 2013 onwards; the rise in actual prices paid by consumers then resumed and quantities of books sold decreased.



The data show a consistent story: discounting led to oligopsony, the market power of major retailers led to higher retail margins, publishers raised list prices to maintain profit. Except where there were very big discounts, the prices paid by consumers rose. **While I think this analysis is robust, it contradicts some of the more positive feeling evident in the UK book trade about the abandonment of RPM. It would be advisable to use other data, from Nielsen and earlier sources to verify some of the statistics.**

The major institutional markets are for schoolbooks and for libraries, both academic and public. The schoolbook market is not relevant to the argument about RPM, since this price system was removed from schoolbooks in the 1920s and most sales are now direct from publisher to end-user. Theeketrkre are some “concerned parents” who buy books through general bookshops.

Sales to public libraries are mainly through specialist library suppliers, though some general retail book sellers also operate in supply to libraries. Under RPM libraries were normally offered a discount of 10 per cent off the list price. Fishwick and Fitzsimons (1997) reported that this discounted increased to an average of 25 percent after the abandonment of the NBA. These discounts led to a fall in library spending on books, reflecting the wish of libraries to cut costs. UK public libraries face a declining market. Comparison between

financial years 1995-6 and 2017-8 provides evidence of this. The total number of book issues fell from over 540 millions to under 183 millions; total public library expenditure on books fell from £110 million in to under £35 million in 2017-8.

The market for academic and professional books in printed form has been more resilient than one might have accepted. Sales of textbooks appear to have held up fairly well, given the competition from digital material.

6. Some concluding thoughts

The analysis of the consumer market in the UK since the abandonment of RPM suggest that the change in the pricing system has had an adverse effect. There is no equivalent of laws that prohibit exploitation of *état de dépendance* (France) or *Abhängigkeit* (Germany) and powerful retail groups can force suppliers (in this case publishers) to concede trading terms that are not justified by cost savings. This means that these powerful groups can offer discounts that smaller retailers cannot match. In Fishwick and Fitzsimons 1997 we report the case of independent bookshops buying popular books from supermarkets for resale at slightly higher prices. The result of this uneven competition is that the retail book market has become an oligopsony.

Analysis of individual titles by pricing points should reveal substantial diversity among market segments. Bestselling paperbacks with list prices of £7.99 or £8.99 can often be found in supermarkets or on Amazon at £3.99 or even £2.99, but less popular titles in the same format are found only at the publisher's list price.

Publishers and booksellers seeking to defend RPM in the 1980s argued that total sales would be lost if customers postponed purchases until they had searched different outlets to compare prices. This applies particularly where a customer enters bookshop and is attracted by a title that they had not previously thought of buying. Without RPM they may be tempted to look at the price on Amazon before buying; then subsequently they forget about the book or have second thoughts.

The social impact of these changes is complex. For those happy to confine their reading to bestsellers, the availability of cut-price mass-market

paperbacks is obviously a gain. Many of these people may be among low-income, less educated groups, who can now find books in many different outlets, outside the specialist bookshops, which they would rarely enter. Most other books are more expensive than they would have been under RPM, even after the retail discounts available from Amazon and other Internet companies.

One confusing aspect of the case for RPM is the “cultural” argument. This argument is that by protecting retailers from competition on popular titles, we ensure their survival and enable them to stock slower-moving, more specialist works. There are three counter arguments to this:

- (i) It may imply cross-subsidisation of slow-moving titles by best-sellers;
- (ii) Such cross-subsidisation may benefit wealthier consumers at the expense of poorer;
- (iii) Without the cross-subsidy retailers may make more effort to sell less popular titles or provide additional services

Experience in the UK since 1995 has lent support to both sides of the argument. Many specialist bookshops have closed or have “diversified” into a wide range of other products. Research has shown that sales of books respond to their wider exposition. On the other hand, some surviving specialists have responded to effective exclusion from the mass-market by focusing on more specialist markets (for example new authors, wide range on books on specific subjects) or services (for example signed copies of new titles).