

The impact of ending RPM on books: 20 years of evidence from the UK

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Contents

- The UK Net Book Agreement (NBA) & its collapse
- Key insights from 2008 report for the Office of Fair Trading evaluating the impact of abolishing the NBA
- Subsequent developments in the industry – market structure & prices
- Some open questions on developments in the UK.

The UK Net Book Agreement

- From circa 1900 – around 1996 the Net Book Agreement (NBA) prevented retailers from selling a book under the publisher's chosen (net) price.
- 1962 Restrictive Practises Court (RPC) allowed the NBA to continue: 'books are different'.
- Formally abolished by the RPC in 1997. But by then it had effectively collapsed anyway partly due to:
 - pressure from the EC – cross border considerations (UK & EIRE)
 - entry of supermarkets – buyer power.

2 Research Objectives

- 1) Use the abolition of the NBA as a case study to assess the impact of a competition policy intervention on productivity:
 - pre v post
 - publishers & retailers
 - comparison with Germany.

- 2) To develop a general methodology appropriate for assessing the impact of competition policy interventions.

Decomposing productivity changes

- **Within firm effects**

- competition, or the threat of entry, puts pressure on firms to use their resources more efficiently

- **Between firm effects / market sorting**

- competition can reallocate market share, with higher productivity firms gaining market share at the expense of less productive firms

Entry

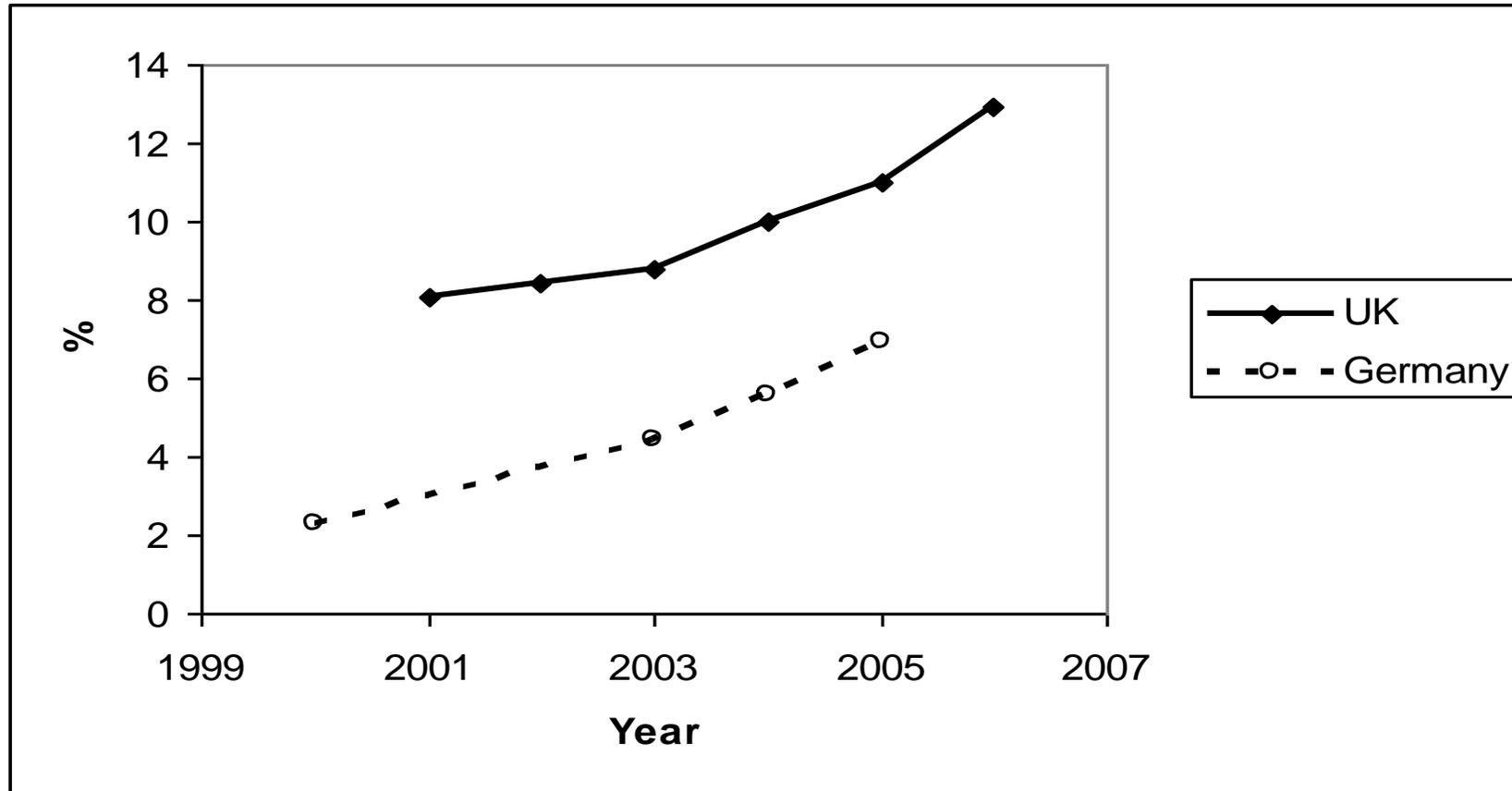


Supermarkets, internet retailers +Borders (1998-2009):

	1995	2005
Large/ Multiple Stores	31	42
Independent Stores	28	11
Grocery multiples	1	8
Internet	0	11

Arguably entry was facilitated by freedom to discount
- suggested by comparisons with Germany

Online market share for book retailing – Germany & UK



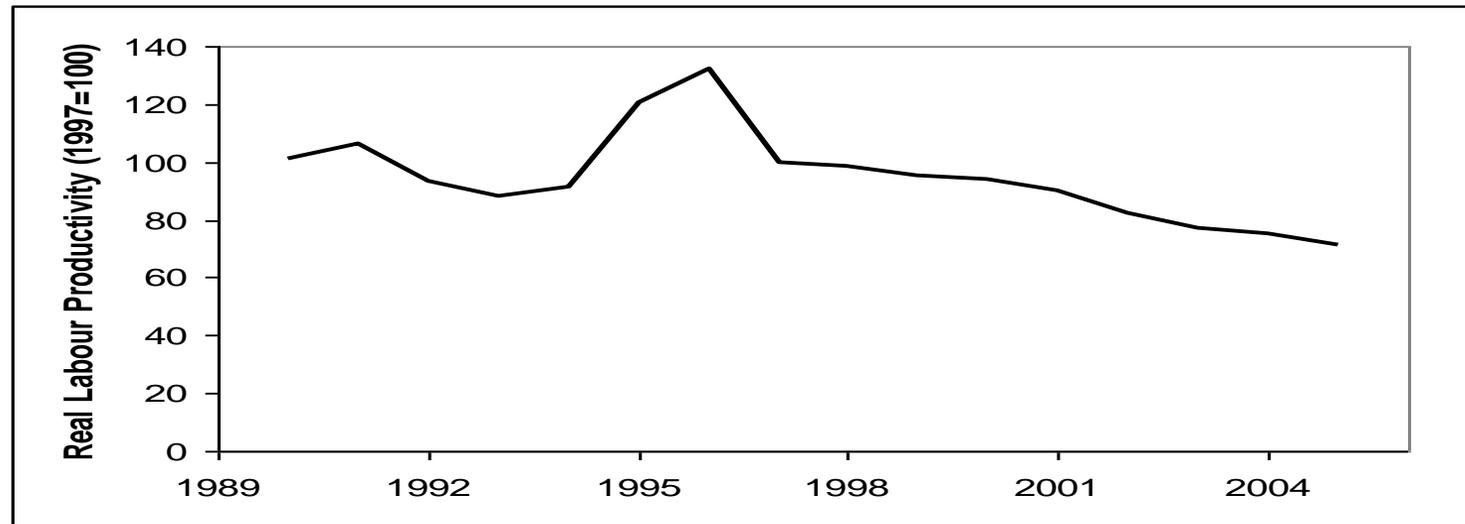
Quote 1 (from 1997)

Reaction from booksellers to Borders expansion to the UK:

‘(some booksellers) expressed fears that expansion of the US chains on the UK high street would be as ‘reckless’ as it had been in the US, and that a price war would break out.’

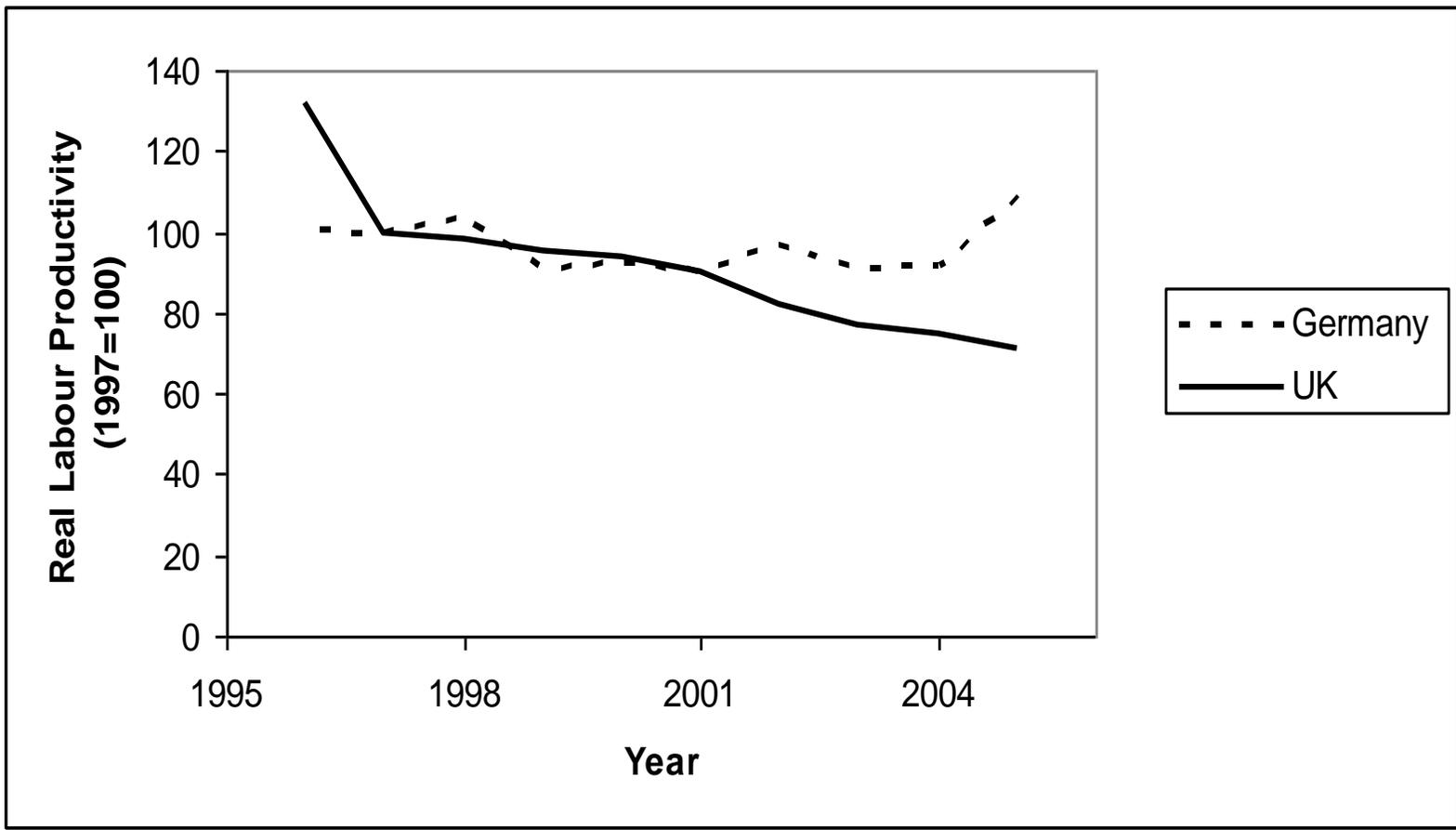


UK bricks & mortar book retailers real labour productivity



**Negative WITHIN firm effect for bricks and mortar incumbents
&
by no mean just affecting small independents**

Bricks & mortar book retailers in Germany and the UK real labour productivity



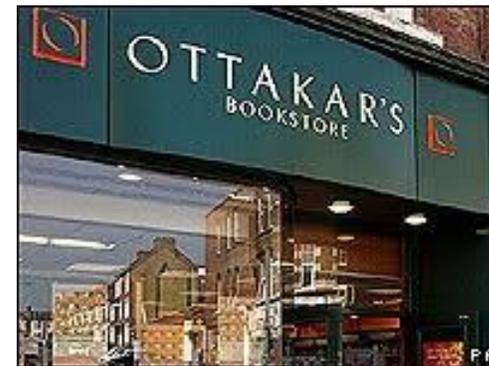
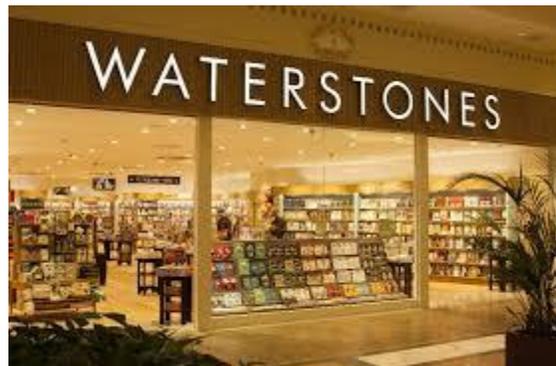
a similar decline in productivity wasn't observed in Germany

Quote II

In 2006 Waterstone's described themselves as:

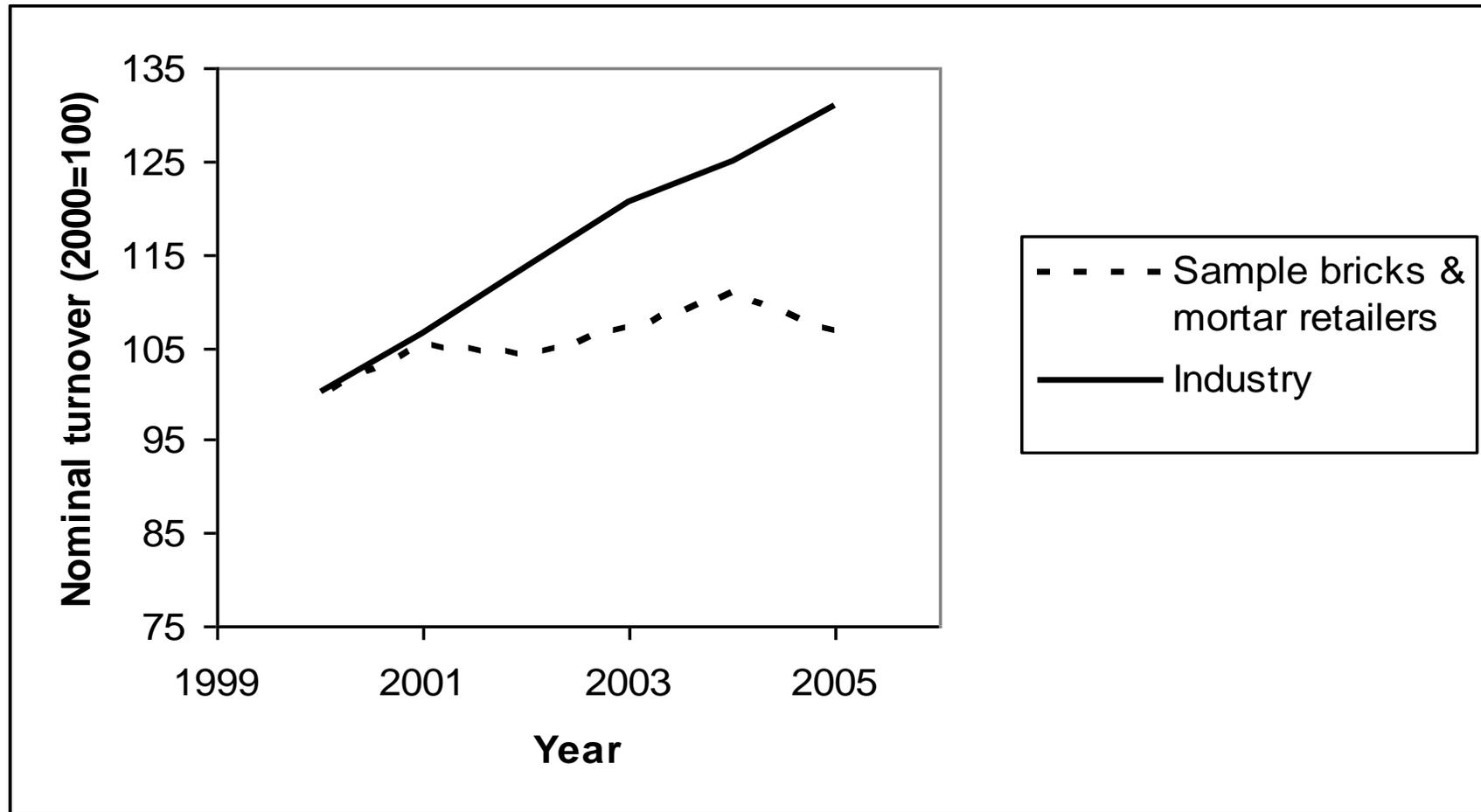
'caught in a 'pincer movement' between, on the one hand, the supermarkets offering a limited range but substantial discounts, both on best sellers and on an increasing number of deep-range titles, and, on the other hand, the Internet retailers offering a very extensive range.'

+ used this as an efficiency defence for Waterstone's/Ottakar's merger (2006)

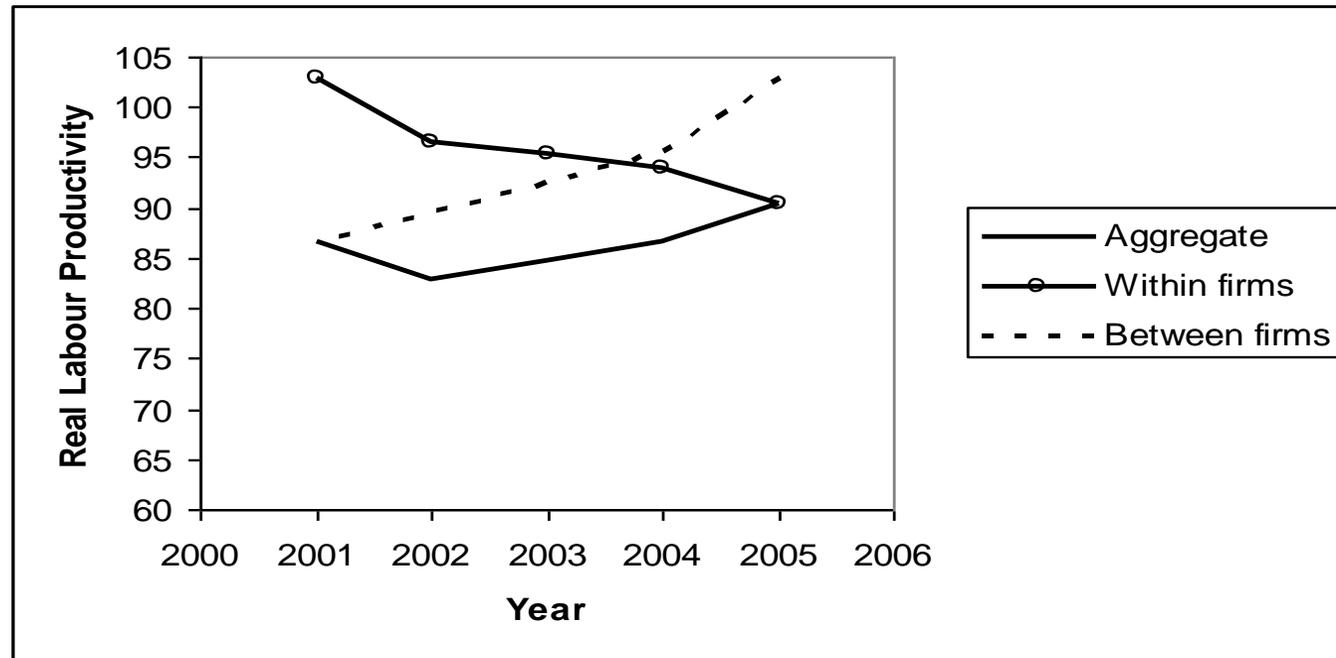


Nominal turnover

sample bricks & mortar retailers v growth industry turnover

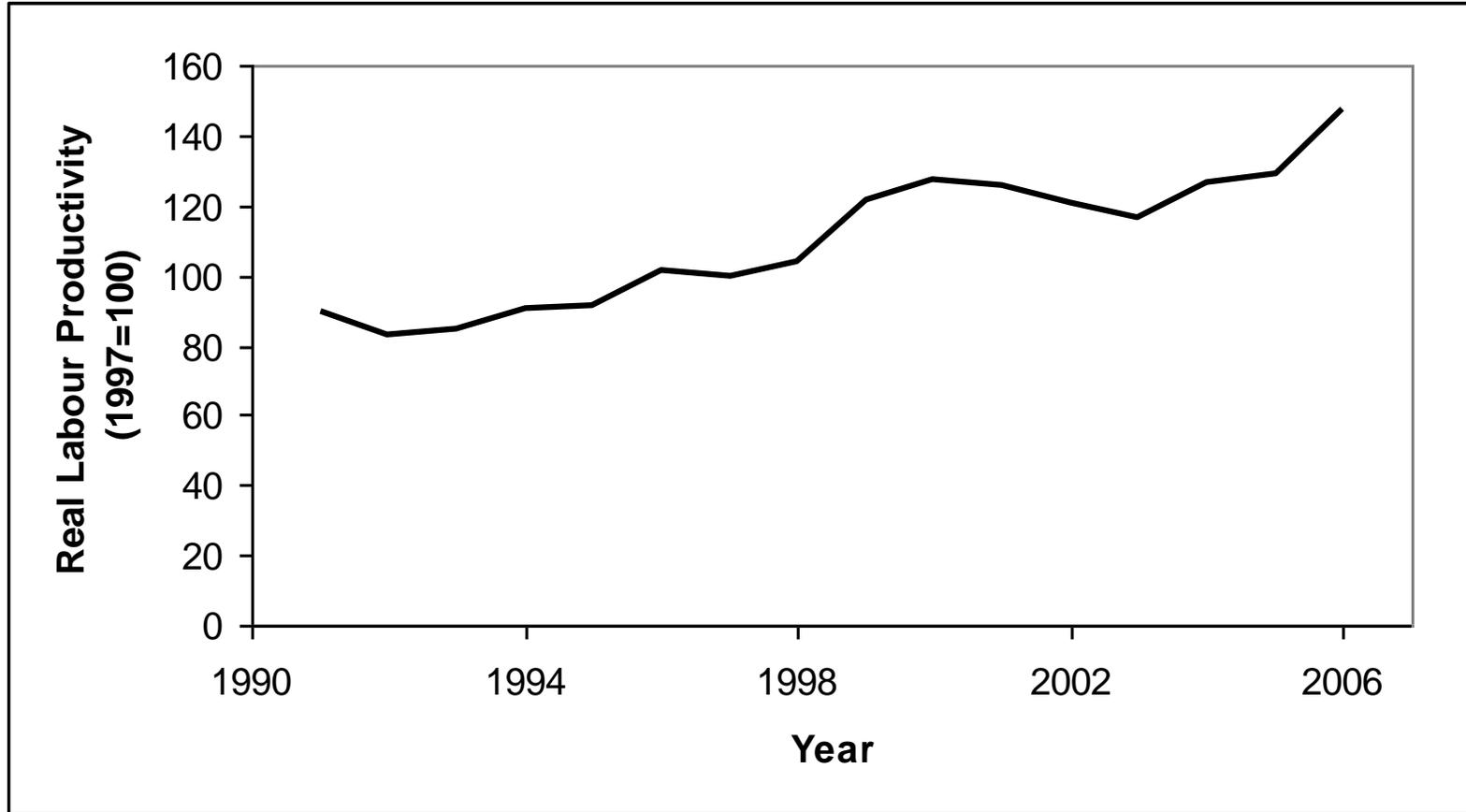


Smkts & Amazon's productivity = fixed at 3x Waterstone's level in 2005



	Absolute change	% change
Aggregate	3.8	4.3
Within	-12.5	-12.1
Between	16.2	18.8

UK publishers real labour productivity



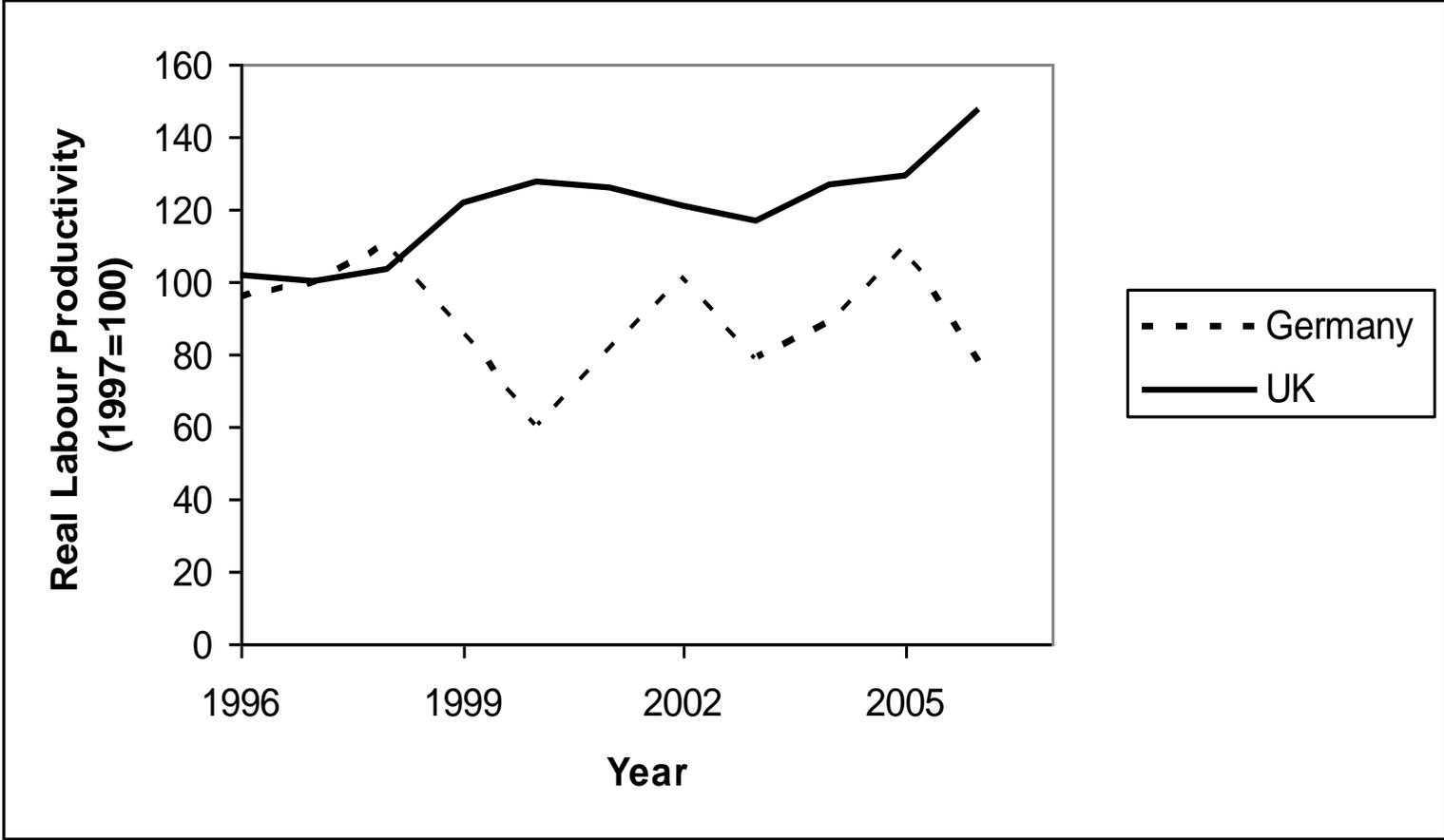
WITHIN firm productivity gains

UK publishers real labour productivity % change 1992-2005

	1992-95	1995-2005
Aggregate	26.3 (8.7 p.a.)	55.1 (5.5 p.a.)
Within	20.5	59.5
Between	4.8	-2.8
Large	-2.5	82.9
Small	49.9	42.1

**BUT slower productivity growth after the NBA
& smaller publishers disproportionately affected**

Publishers in Germany and the UK real labour productivity



On the other hand UK favourable post NBA in comparison to Germany

Overall conclusions from our 2008 report

- The abolition of RPM facilitated a wave of new entry in the retail market
 - **AND** this impacted particularly on incumbent retailers.
- Opponents had for a long time argued that removing RPM would seriously jeopardise **small independent retailers**, who would be unable to survive in the face of discounting competitors.
- But as the new entrants started to grow it was also the much larger chains, that became unable to counter the challenge of new entrants.

Developments since our study

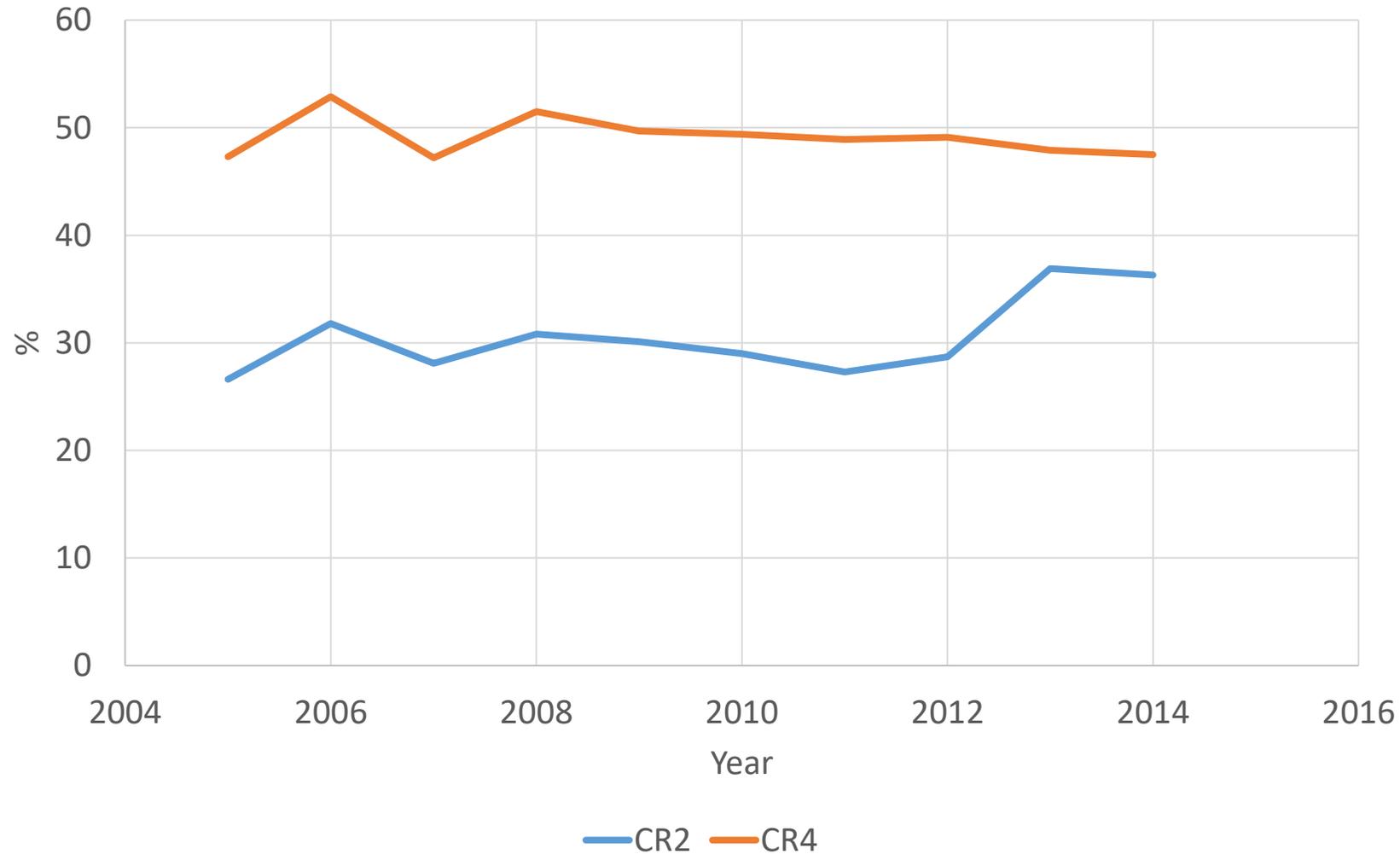
	1995	2005	2014
Large/ Multiple Stores	31	42	
Independent Stores	28	11	
Bookshops			38
Supermarkets	1	8	7
Internet	/	11	46

By 2014 a substantially changed UK retail landscape

Comparison with Germany

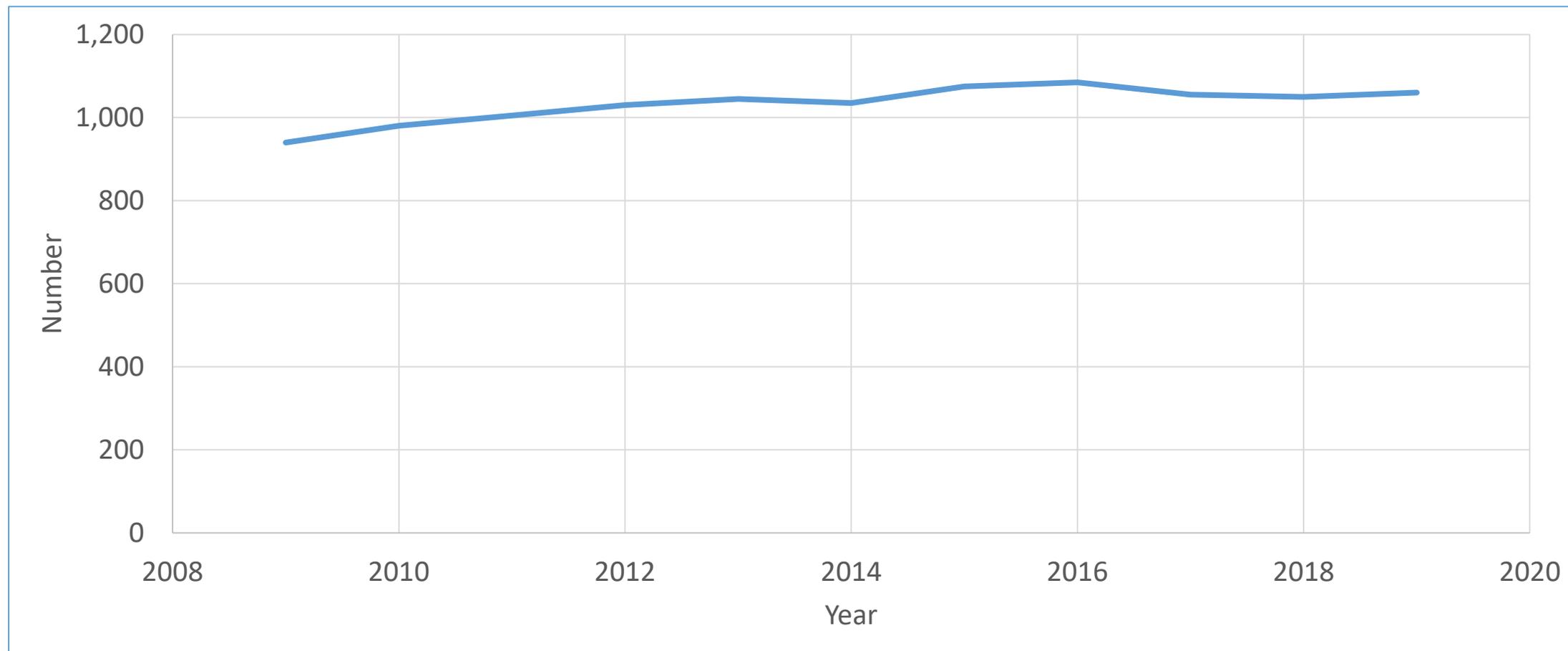
	2005	2005	2014	2014
	UK	Germany	UK	Germany
Bookshops			38	47
Supermarkets	8		7	
Internet	11	7	46	16

UK publishing market concentration



Smallest enterprises increased from 14 to 26% of the number of enterprises

Number of book retailers



Number of enterprises in book retail by turnover

Turnover (Thousand £s)	% change in no. of enterprises 2010-19
0-49	50
50-99	7
100-199	-7
200-499	-16
500-999	-50
1000-1999	-33
2000-4999	-50
5000-9999	0
10000-49999	50
50000+	0
TOTAL	8

Smallest enterprises increased from 14 to 26% of the number of enterprises

Retail prices as % of RRP

Year	Best sellers (top 5,000 titles)	Deep range titles
2001	88%	93%
2002	84%	93%
2003	82%	92%
2004	80%	90%
2005	75%	90%

Increasing discounts on RRP, especially for best sellers

Retail Price Index: books v all items

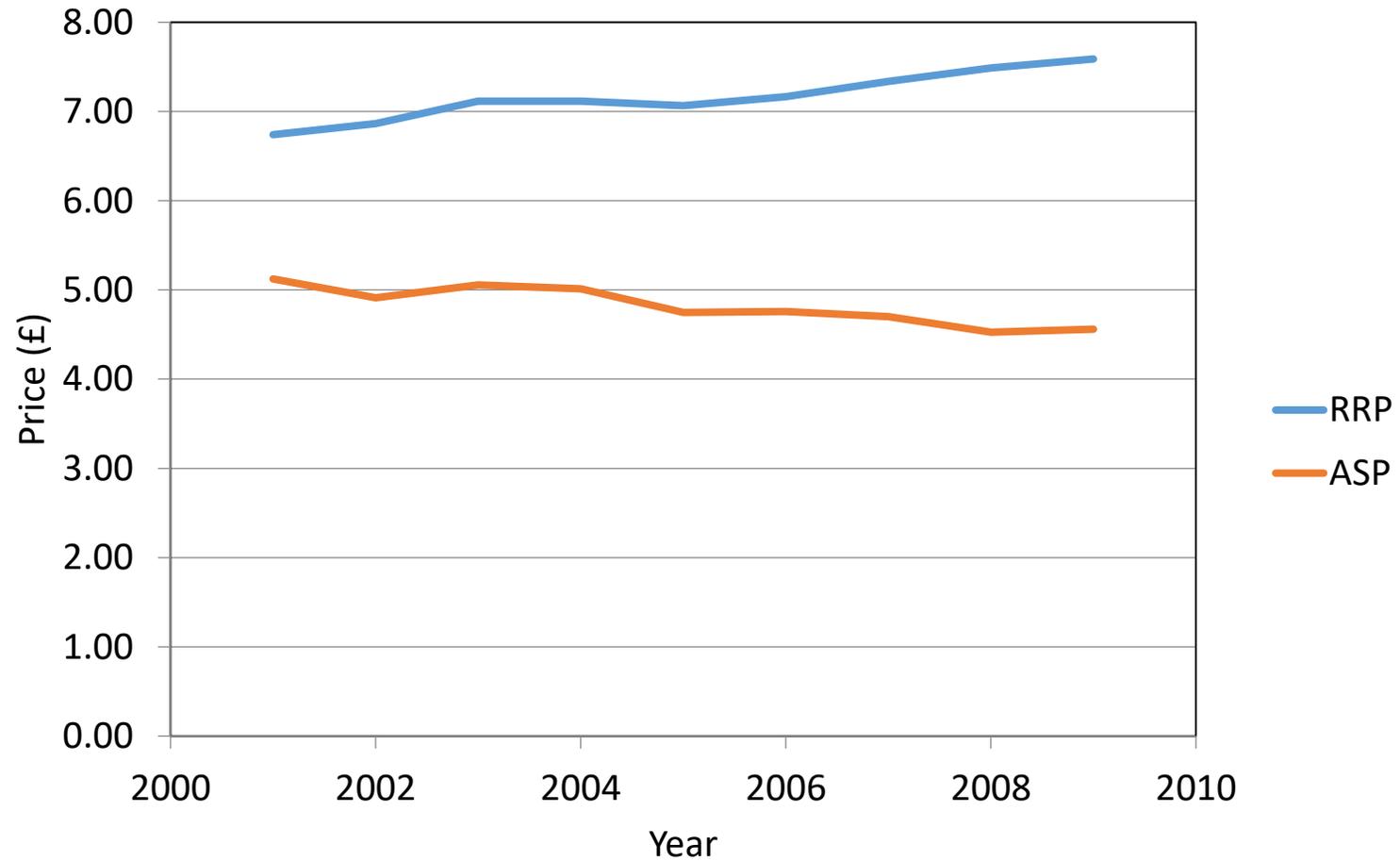


Wholesale price discounts

Retailer type	Estimated wholesale prices paid as % of RRP in 2005
Independent retailers	60%
Major chains	50%
Internet retailers	55%
Supermarkets	60%

Significant differences in wholesale prices paid across retail types

Prices of top 10 best sellers



Back of the envelope welfare estimate:

In 2005:

Best sellers (top 5,000 titles): 57% of titles by volume

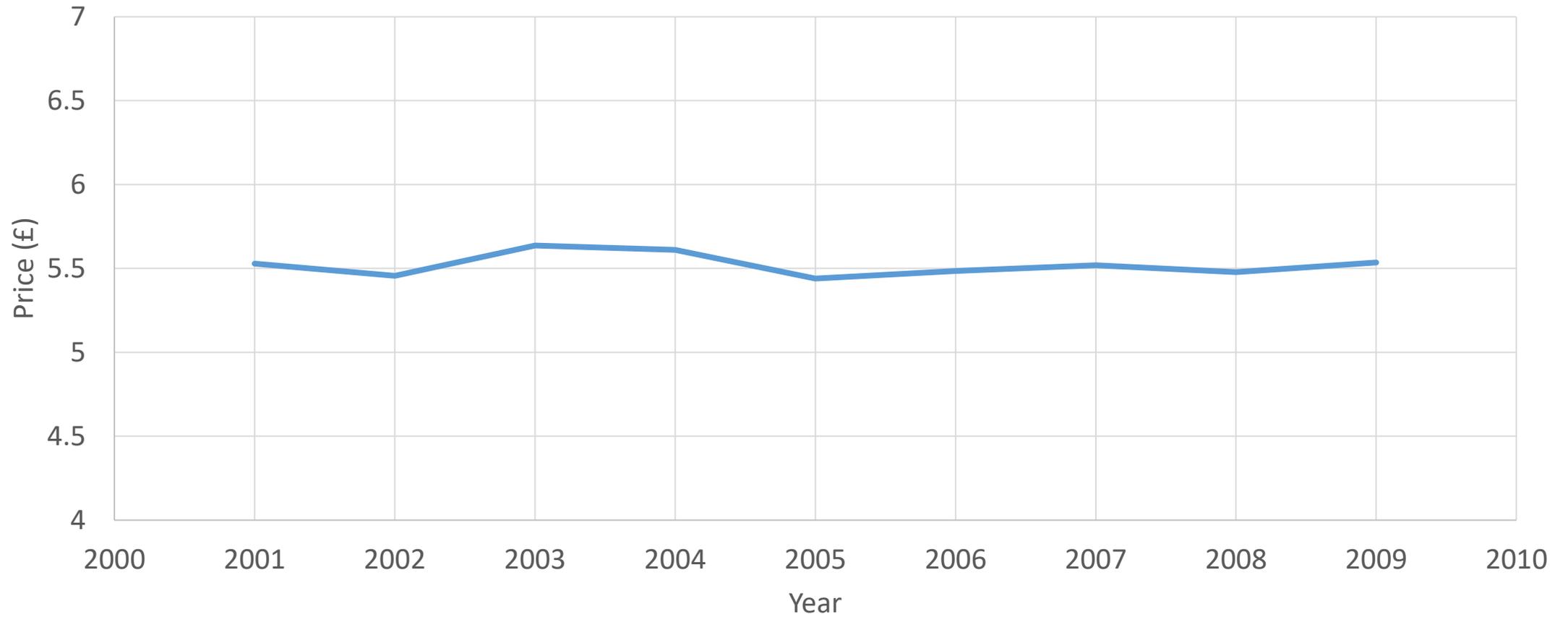
BUT:

Deep range titles: 43% of titles by volume & only 10% discounts on RRP

So:

Estimate of average price = $0.57 * (\text{ASP Top 10}) + 0.43 * 0.9 * \text{RRP}$

Estimated average selling price



Role of the RRP

- Some books sold at (or close to RRP)
- Others at considerable discount on RRP
- Potentially RRP increases used as a means for suppliers to counteract discount retailers
 - response to retailer bargaining power?
 - An aside in hub & spoke cartels – RRP can play be the focal point for coordination.

Previous literature on RRPs

- **Consumer-side**

- Loss aversion/gains relative to a reference price: Puppe & Rosenkranz (2011) and Fabrizi *et al.* (2016)
- RRP influences consumer search: Lubensky (2017).

- **Firm-side**

- the RRP allows a supplier to communicate info on its costs: Buehler & Gartner (2013)
- RRPs may facilitate collusion: Faber & Janssen (2017).

- The previous theoretical literature has typically considered symmetric retailers that receive take-it or leave-it offers from the supplier

-> no consideration of role RRPs in the bargaining process & differences across products/retailers.

Some open questions on developments in the UK industry

- What have the price effects been and what are the distributional implications?
- What role do RRPs play in bargaining & pricing?
- Are we really seeing a revival of independent bookstores?

