



# Ad Rem

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*The impact of the 4th sector is still powerful*



## THE AUSTRALIAN BOOK INDUSTRY Challenges and Opportunities



accenture

Ad Rem



*These participating companies and associations made the Ad Rem project possible.*

Allen & Unwin	Dymocks Booksellers	Océ
Angus & Robertson	Fuji Xerox	PacStream
APIS Business Services	Gleebooks	Page One
Australian Book Prod'n Industry Study	Griffin Press Australia	Pan Macmillan
Australian Booksellers Association	Harlequin Mills & Boon	Printing Industries Association of Australia
Australian Paper	HarperCollins Publishers	Paperlinx Merchants
Australian Paper Industry	Hodder Headline Australia	Penguin Books Australia
Australian Publishers Association	John Wiley & Sons	Random House Australia
The former Australia Print Group	Landmark School Supplies	Random House International
Big W Discount Stores	Leading Edge Books	Scholastic Australia
BookTrack Australia	Ligare	SeekBOOKS.com.au
Business Advice	Lothian Books	Shearer's Bookshops
Common Ground	Macmillan Education	The SOS Printing Group
David Jones	McGraw-Hill Book Co. Australia	University Co-operative Bookshop
dbooks	McPherson's Printing Group	University of Queensland Press
DISR	Monash University Bookshop	Whitcoulls
D.W. Thorpe	Nelson	



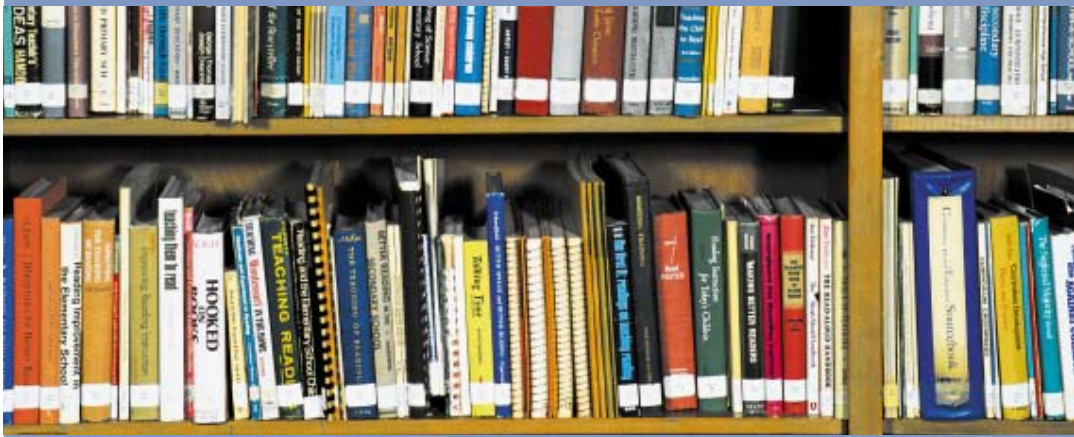
## Introduction

### The Australian Book Industry: Challenges and Opportunities

This report represents the results of an industry-wide study, entitled Ad Rem, that was carried out by Accenture with the Australian book industry. It aims to provide the reader with a high level synthesis of the key insights and recommendations resulting from the study. (For details, see box on 'The Basis for this Report: Ad Rem', pg. 2.)

The report examines the major trends affecting the industry, utilising industry-wide data to help build a shared understanding of current challenges and opportunities. It also explores alternative future scenarios to highlight the options and choices to be made. These scenarios provide vivid pictures of the alternative futures available to the Australian book industry, ranging from the intimidating to the inspiring.

Courses of action are then proposed which would lead the industry towards positive outcomes. The report argues that a joint industry approach to supply chain reform would dramatically lower the overall cost structure of the industry. Greater *collaboration* and *consolidation* offer opportunities worth approximately \$155 million. Adopting this approach would shift the basis of competition in the Australian book industry away from supply chain activities, towards customer acquisition and satisfaction. By focusing intensively on customers, the industry could shift gears from "survival" to "growth" and accelerate into a positive future.



**The Basis for this report:  
Ad Rem**

Ad rem is Latin for 'to the purpose; to the point'. This name signifies the project's vision of providing the first stepping-stone for the Australian book industry's change agenda based on rigorous and in-depth analysis.

The goal of the Ad Rem project was to identify and evaluate the challenges and opportunities faced by the Australian Book Industry, and to provide insights as to how the industry, and its individual organisations, could achieve a sustainable strategic position in the future.

Specifically the project aimed to:

- Determine the value chain drivers and the competitive situation
- Determine possible industry scenarios and assess their implications
- Determine how companies in different parts of the value chain could position themselves for the future

Ad Rem was a project funded by the Commonwealth Government through the Department of Industry, Science and Resources, from the Infrastructure and Industry Growth Fund. George Gatehouse, CEO of McPherson's Printing Group, initiated the project. A Steering Group, representing the book industry value chain, was formed to oversee the progress of the project and ensure that objectives were met, to the benefit of the Australian book industry at large.

Accenture was selected as the consulting partner for the Ad Rem project, with responsibility for the day-to-day management of the project and the compilation and analysis of industry data. Accenture undertook 150 face-to-face interviews with more than 50 organisations. It conducted six industry workshops and analysed corporate and operational data from 27 participating companies.

The list of industry sponsors for the Ad Rem project included Allen & Unwin, Angus & Robertson, Dymocks Booksellers, Harlequin Mills & Boon, Gleebooks, Griffin Press, HarperCollins Publishers, Macmillan Publishers Australia, Penguin Australia, Scholastic Australia, University of Queensland Press and many more. Other companies and book industry organisations also supported the project including the Printing Industries Association of Australia, the Australian Publishers Association and the Australian Booksellers Association.

The Ad Rem project was undertaken during a 16-week period from May to August 2001. This report represents the culmination of the two phases of Ad Rem, which included Scenario Planning and Value Chain Analysis. The detailed results of these phases and other information about the project are available on the Ad Rem web site: [www.adrem-online.net](http://www.adrem-online.net)

**GROWING SALES**

"140 million books were sold in Australia in 2000, generating \$1.9 billion in revenues for booksellers and publishers."

**DECLINING VALUE**

"The shrinking market and the sector's overcapacity have exacerbated price competition between Australian printers to the extent that they now survive on wafer thin profit margins, averaging 1.3 percent in 2000."

"While publishers have enjoyed sound growth over the six-year period to 2000, they have also experienced a decline in value, caused by price competition and increased costs."

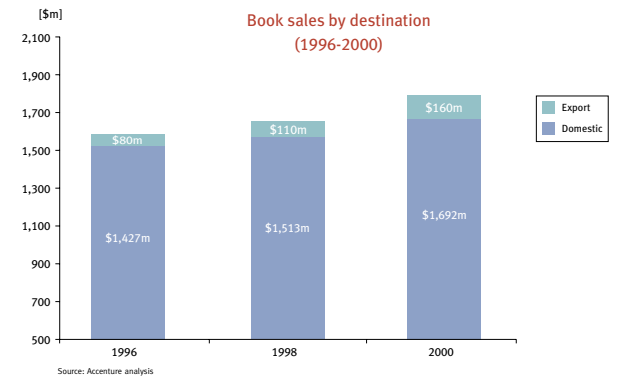
"Different channel mixes, greater discounting and increased occupancy costs have all been key contributors to decreasing booksellers' profitability."

# Challenges

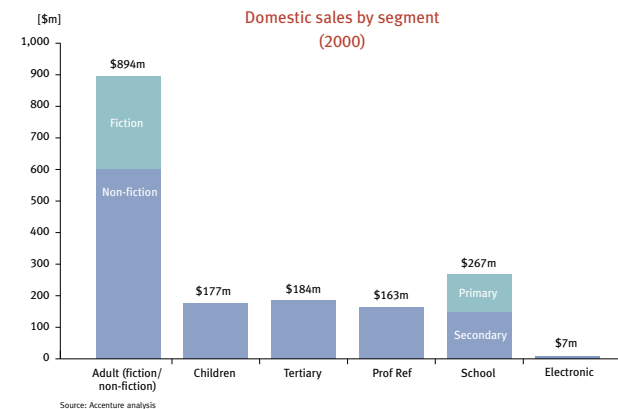
**THE STATE OF THE INDUSTRY**

**Growing Sales**

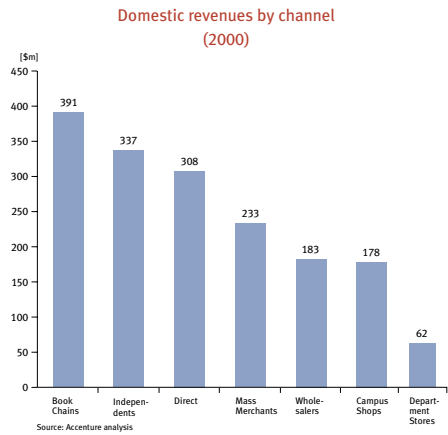
140 million books were sold in Australia in 2000, generating \$1.9 billion in revenues for booksellers and publishers, up from \$1.6 billion in 1998 and \$1.5 billion in 1996.



More than half of book sales, 53 percent, were general fiction and non-fiction trade books. Ten percent were children's books. Educational books, including primary and secondary school books as well as tertiary and professional reference books accounted for the remaining 37 percent.



The highest revenue earning sales channel for books in Australia is book chains (booksellers with more than three outlets under a common banner). Independent shops make up the second highest revenue channel. Direct sales account for 18% of total domestic sales and include mainly educational sales plus sales through book clubs.



The domestic bookselling sector, excluding the direct sales channel, was worth \$1.4 billion in 2000, and included sales through book chains, independents, mass merchants, wholesalers, campus shops and department stores.

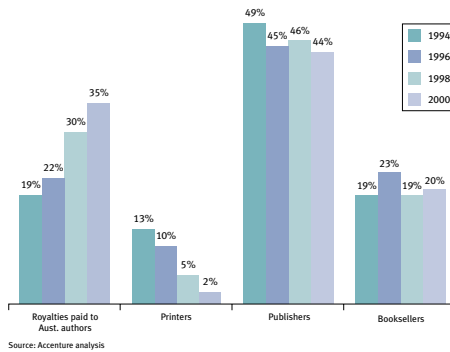
The publishing sector has also experienced steady growth for several years, reaching revenues of \$1.2 billion in 2000. 72 percent of this revenue was generated from sales through booksellers in Australia while the remaining revenue was generated from direct sales and export. The Australian book printing sector makes about half of its revenues from the publishing sector while the remaining revenue is generated from federal and state governments, companies and individuals publishing their own books. The book printing sector generated revenues of \$250 million in 2000.

### DECLINING VALUE

The Australian book industry has steadily increased total book sales in dollar terms over the last six years, but fewer dollars have been reaching the bottom lines of industry players. In fact, the total profits, or value, generated by authoring, book printing, publishing and bookselling in Australia have declined over the period.

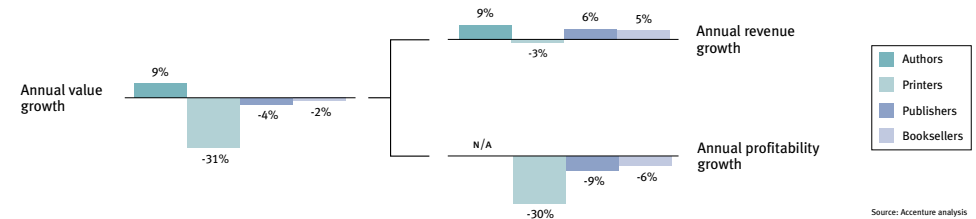
While the aggregate revenue for the four sectors of the Australian book industry's value chain grew by 5 percent each year over the past six years, total industry profitability declined from 11.1 percent to 7.6 percent. As a result, the value generated by the industry was reduced by approximately 2 percent each year between 1994 and 2000. Had the industry managed to obtain as much profit from its aggregate revenue in 2000 as it did in 1994, an additional \$100 million would have been added to the bottom lines of industry players.

Share of value for sectors in the Australian book industry (1994-2000)



The industry's decline in value has not been evenly distributed across its key sectors. While authors and booksellers have managed to increase or at least maintain their share of the value created, the share of value captured by printers and publishers has declined steadily.

Annual growth in value, revenue and profitability for sectors in the Australian book industry (1994-2000)



Looking closer at the links in the value chain, three of the four - book printers, publishers and booksellers - are experiencing declining profitability.

This report has not analysed authors as businesses. Authors have fixed costs that are not easy to quantify, and so this report expresses the value generated by authors as the income they receive from Australian publishers. With increases in authors' revenues, their share of value in the industry grew from 19 percent in 1994 to 35 percent in 2000. This rise was not due to authors receiving increased royalties and fees per title, as these have in fact decreased slightly from 13 percent in 1994 to 12 percent in 2000. Rather, the rise was due to the strong overall growth rate of the publishing sector, and particularly the strength of Australian titles. In 1994 less than 58 percent of all titles published in Australia originated in Australia, compared to more than 61 percent in 2000.

The book printing sector has suffered declines in both revenue and profitability, resulting in a downturn in share of value from 13 percent to two percent from 1994 to 2000. The sector's total revenue was almost \$300 million in 1994, but decreased to \$250 million in 2000. This decline was primarily due to Australian publishers choosing to print overseas. In 1994, 68 percent of Australian publishers' printing costs went to Australian book printers. In 2000, Australian book printers retained only 48 percent of publishers' printing business. The shrinking market and the sector's overcapacity have exacerbated price competition between Australian

printers to the extent that they now survive on wafer thin profit margins, averaging 1.3 percent in 2000.

Publishers have also experienced some decline in their share of value, sliding from 49 percent in 1994 to 44 percent in 2000. Despite this, they still retain the highest share of value in the chain. While publishers have enjoyed sound growth over the six-year period to 2000, they have also experienced a decline in value, caused by price competition and increased costs. This has dragged their profit margins down from 14 percent in 1994 to less than eight percent in 2000 and has affected both large and small publishers alike.

Although the bookselling sector has maintained a fairly stable share of value over the six-year period (19 percent in 1994 and 20 percent in 2000), the actual value generated by the bookselling sector has decreased, similar to the situation in the printing and publishing sectors. Our research suggests that different channel mixes, greater discounting and increased occupancy costs have all been key contributors to decreasing booksellers' profitability.



### What is Scenario Planning All About?

In 1943, Thomas J. Watson, CEO of International Business Machines (IBM), predicted that there would one day be a global market for a total of five computers. Like many business leaders who simply extrapolate from the past, Watson misread the future.

Scenario planning helps executives think clearly about the future. It is a strategic methodology that assists leaders in imagining possible futures and understand the implications for business. It typically focuses on a five to ten year time-scale. Scenario planning does not provide exact predictions. It aims to determine, not what *will* happen, but what *could* happen. At its best, scenario planning challenges conventional practices, questions assumptions and stretches the imagination.

Scenario planning is complex, and there are a number of possible approaches to the process.

It typically begins with stakeholders identifying the uncertainties facing their industry. Of these, the most critical uncertainties are then combined to form the basis of divergent, yet plausible scenarios. Narratives describing each scenario are developed.

The implications of each scenario are then identified and appropriate strategic responses are formulated. These help define how a company might react within a given scenario. Perhaps more importantly, they aid in the identification of strategic options that will be beneficial to a company within any scenario and which could be considered immediately.

Finally, early indications (or 'warning signs') for each scenario are identified.

These are events/observations in the industry environment that indicate the emergence of a particular scenario. With ongoing monitoring of the industry for the existence of such early indications, companies can prepare for emerging scenarios.

The strength of scenario planning on an industry basis relies heavily on the input of diverse stakeholders. Properly conducted, it is a powerful way to help executives understand the critical uncertainties facing their industry and the challenges and opportunities that may arise for their companies.

#### PARADISE FOUND

"An integrated network of specialist companies, each one focused on its core skills within printing, publishing or bookselling, would be using the industry network to extract maximum efficiency for responding better to customer demands."

#### LAND OF THE GIANTS

"Highly diversified global companies from outside traditional media industries would come to dominate the Australian book industry, sweeping through and buying up companies and skills along the industry's value chain."

#### DOG EAT DOG

"The industry would have blurred boundaries between sectors and competition would be less about growing the total market than about cannibalising other parts of the value chain."

#### SHOULDER TO SHOULDER

"Intense collaboration across the chain would result in lower costs and higher profits for all industry players."

## Facing the Future

### FOUR SCENARIOS

Looking ahead, many book industry players are unclear about the direction or intensity of change, and are unsure of how to maximise their own chances of success in an increasingly difficult business environment. In 2001, as part of the Ad Rem project, Accenture brought together more than 80 individuals representing over 40 organisations from the Australian book industry to consider how the future might unfold. Through a process of scenario planning, participants set out to imagine and develop possible futures, and to understand the implications of each future for their businesses. (For details, see box on 'What is Scenario Planning All About?', pg. 6.)

Participants commenced the process by defining the key uncertainties which might drive their industry. These uncertainties were later grouped as demand driven and supply driven.

On the demand side, future possibilities ranged between:

- i) High, diverse consumer demand, and
- ii) Static, declining levels of consumer demand.

Participants discussed:

- Can books compete with a range of leisure activities, from computer games to pay-TV?
- How will changing demographics affect reading behaviour?
- Will paper books prevail or will eBooks and other digital devices take over?
- Where and how will customers buy their books - as downloads from the Internet, from bookshops or local service stations?

On the supply side, future possibilities ranged between:

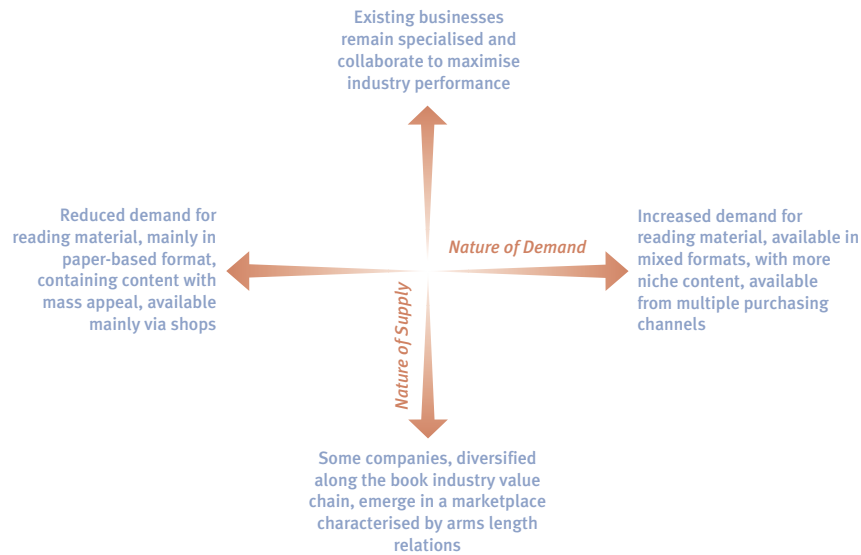
- i) A high degree of industry collaboration, and
- ii) A low degree of collaboration and blurred boundaries between industry sectors.

Participants discussed:

- How are industry players going to supply books to their customers?
- How will industry sectors manage their business relationships?
- Will the book industry develop new models of business, moving away from the current structure of publisher, printer and bookseller?
- Will publishers print books, booksellers publish novels, or will printers sell directly to the public? Or will the status quo remain?

In total, over 160 uncertainties were identified. The more important ones were grouped together and then drawn on a scenario map with two axes.

## Scenario map



Based on these axes, four future scenario worlds were created: Paradise Found, Land of the Giants, Dog Eat Dog and Shoulder to Shoulder. Set out below is a brief description of each scenario – four very different worlds in which Australian book industry players might find themselves, in five to ten years. (A full narrative on each scenario is at the back of this report, pg. 26.)

### PARADISE FOUND

In a Paradise Found world, the Australian book industry would be transformed. It would consist of an integrated network of specialist companies, each one focused on its core skills within printing, publishing or book selling, using the industry network to extract maximum efficiency for responding better to customer demands. It would be a profitable industry within a dynamic and growing market. Consumers would buy plenty of books and book content from multiple outlets, and the industry's high responsiveness to consumer fads and fashions would enable a better fit between supply and demand than ever before.

A Paradise Found scenario would be characterised by:

- Increased demand for paper and electronic books, especially with niche, community and lifestyle content
- Wider range of content available via multiple distribution channels

- Standards agreed at an industry level
- Intense industry collaboration, high sector consolidation and company specialisation
- The exporting of content and book standards overseas by educational publishers
- On-line self-publishing managed by industry players, rather than individual authors

Early indications that the industry is approaching a Paradise Found scenario would include: increased demand for reading content across all types of media; collaboration between industry sectors; and Australia's emergence as a leader in the global book market in certain areas, for example in supply chain integration.

### LAND OF THE GIANTS

In a Land of the Giants world, highly diversified global companies from outside traditional media industries would come to dominate the Australian book industry. Consumer demand would surge, allied to dramatic technological change. But it would be the big global players who would really capture the advantage, sweeping through and buying up companies and skills along the industry's value chain. With their global brands, bundled products and services, and superior price points, the big players would quickly position themselves as the undisputed titans of the new era. But it would not just be

## Book industry scenarios



about the giants. Demand for books in Australia would be very high and diverse in terms of content, format, and delivery mechanisms, and many Australian businesses would be servicing the total needs of profitable niche segments by diversifying along the value chain.

A Land of the Giants scenario would be characterised by:

- Domination by global players
- Overall increased demand for all reading materials, online, paper and eBooks
- Predominantly proprietary industry standards
- A strong focus on cross-selling and bundling of books with other media products
- Many new, well developed sales channels
- eLearning providers and media companies taking over the educational market

Early indications that the industry is approaching the Land of the Giants scenario would include: increased demand across all media; consolidation within the existing value chain; the market entry of global companies from outside traditional media industries; and a few companies dominating the book industry.

### DOG EAT DOG

In a Dog Eat Dog world, industry players would have it tough. There would be limited cooperation and no single prevailing business model. The industry would have blurred boundaries between sectors and competition would be less about growing the total market than about cannibalising other parts of the value chain. This scenario would also witness the erosion of demand for reading material. People would be less interested in pursuing their special interests than in sharing global communal experiences. While niche buyers with special interests would still exist, most demand would be for mass-experience reading material delivered in traditional book form.

A Dog Eat Dog scenario would be characterised by:

- Low demand for niche books and eBooks, but high demand for 'blockbusters'
- Fierce price-based competition between industry players, lowering margins
- Low level of industry cooperation, joint coordination and agreement on standards
- Breakdown of traditional industry sectors with many competing business models



### BookTrack

Since December 2000, BookTrack has offered Australian publishers and retailers a continuous sales measurement service for books.

BookTrack collects transactional data from book retailers at the point of sale and ensures that detailed, accurate information is available on which books are selling and at what price those books are being made available to consumers.

BookTrack operates by linking into EPOS (Electronic Point of Sale) systems of participating retailers, copying the temporary day-end sales files and formatting them into BookTrack's preferred format of ISBN, quantity, price and date. This is then converted into Top 5000 Charts, Market Share and Period Trend reports.

Client Service Manager, Kirsty Ward explains "BookTrack empowers book publishers and sellers to make informed decisions in the areas of sales and marketing, supply chain management and reprinting, as well as serving as input to publishers' strategic planning and undertaking of author/genre analysis".

HarperCollins' Barrie Hitchon, who is a strong advocate of BookTrack, emphasises that "...publishers must commit adequate time and resources to derive the potential value from a tool like BookTrack".

It has been estimated that BookTrack Australia's initial coverage was about 45 percent of the book trade at the end of 2000 and included 700 general bookselling outlets worth approximately \$7.5 million (400,000 unit sales) a week. BookTrack intends to continue expanding its coverage.

BookTrack Australia is a joint venture between ACNielsen and J Whitaker & Sons.



- Limited sharing of sales data for aggregation at an industry level
- Universities relying mainly on self-printed course packs

Early indications that the industry is approaching the Dog Eat Dog scenario would include: a reduction in the number of books sold; a significant reduction in the number of titles published; a decrease in consumer spending on books; a fall in membership of industry associations; and increased overseas sourcing of books.

### SHOULDER TO SHOULDER

In a Shoulder to Shoulder world, the Australian book industry would experience a reduction in demand for reading material, and mainstream books would remain the bestsellers. Each sector of the industry would remain specialised, but the industry as a whole would be promoted as a national model of supply chain efficiency. Intense collaboration across the chain would result in lower costs and higher profits for all industry players. This would enable the industry to withstand a lack-lustre demand for books and content.

A Shoulder to Shoulder scenario would be characterised by:

- Reduced overall demand for reading content, including paper, online and eBooks
- Strong supply chain focused cooperation between industry sectors
- Sales data captured and used across the value chain to optimise processes
- Improved profit margins across the value chain
- Agreement on nation-wide educational standards

Early indications that the industry is approaching the Shoulder to Shoulder scenario would include: increased trust; lower return rates; and shared distribution networks. The establishment of an industry wide association and high industry backing for a sales data aggregator such as BookTrack would be other indicators (for details, see box on 'BookTrack', pg. 10).



### Authors' Perspective

Australian authors want to see the development and support of Australian content. Interviews with Australian authors were conducted as part of the Ad Rem project, through which three key issues came to the fore: authors' relationships with publishers, parallel importation and the potential of internet self-publishing.

Most authors acknowledge that there has been an increase in new Australian content published over the past five to ten years and they agree that the book industry supports a solid talent base in Australia. Nevertheless, authors still have some major concerns. They are worried that publishers' editorial standards are falling because less time and attention is given to editing and proofreading. They sense that publishers are allowing emerging authors far less time to get established, leading to a dangerous situation in which Australia progressively becomes a nation of one-time authors.

Many authors strongly oppose the Copyright Amendment (Parallel Importation) Bill of 2001.

They believe it will reduce the royalty earnings of Australian authors, because their books could be imported into Australia from overseas providing a significantly lower 'export royalty'. A long time opponent of the suggested legislation, Garth Nix, argues: "... Australian publishers will find their most profitable books undercut by dumped, remaindered or just opportunistic overseas editions. This could drive Australian-owned independent bookstores out of business and result in the international publishers in Australia simply distributing books published overseas." (See also separate box on 'Parallel Importation', pg. 14)

Many authors have flirted with the idea of self-publishing on the Internet but few have actually done so. While most recognise the potential of delivering directly to the end-consumer, they believe that it is

currently not a viable alternative due to a lack of well-defined digital rights and limited consumer demand.

Some even question the Internet's ability to facilitate electronic delivery as they argue that only well known authors will have the 'brand' to shine through the mass of poor quality self-published texts clogging the Internet. However, most authors are becoming aware of the potential importance of digital rights and are emphasising rights management in their contractual relationships with publishers. (See also separate boxes on 'Self-Publishing', pg. 18 and 'Copyright in a Digital World', pg. 20.)

In spite of these issues and challenges, many authors maintain that the future for Australian authors is bright. Books play an important social role, and there is a genuine demand for Australian generated content. As one author, Rosie Scott, summed up, "...there is still a huge book buying public out there, and there is always a place for a storyteller in Australian culture."

"The industry does not have to slide into a Dog Eat Dog world; rather it can climb into a Shoulder to Shoulder world."

"The industry can make dramatic improvements to the performance of its total supply chain, effectively taking the 'noise' out of the industry."

## From 'Dog Eat Dog' to 'Shoulder to Shoulder'

In the process of scenario planning, the Australian book industry participants generally took a pessimistic view of the industry's outlook. Most book industry executives thought the scenario most likely to emerge in the short term was Dog Eat Dog, a world in which low demand and low levels of collaboration combine to deliver poor economic returns to the industry. This pessimistic outlook reflects the recent overall decline in industry profitability and the low levels of collaboration between today's industry players.

However, movement to such a negative scenario is not inevitable, and the Australian book industry need not passively watch the future unfold. Many players today invest considerable management time and capital, competing in areas that do not provide competitive advantage. This can change if industry players adopt strategies that involve *collaboration* and *consolidation*, along the lines outlined in this report. The industry can make dramatic improvements to the performance of its total supply chain, effectively taking the 'noise' out of the industry, and thereby improve the bottom lines of its individual companies. The industry does not have to slide into a Dog Eat Dog world; rather it can climb into a Shoulder to Shoulder world.

The industry can go further still. Strategies based on supply chain *collaboration* and *consolidation* will liberate companies' resources, allowing them to compete on factors that stimulate demand. This would shift the basis of competition, allowing industry players to differentiate on customer-oriented parameters. The best performers would set new standards for the entire industry and ultimately help nudge the industry from a Shoulder to Shoulder scenario to a world of Paradise Found.



### The 30-day Rule and Parallel Importation

The 30-day rule refers to the 1991 amendment to the Australian Copyright Act that allows an Australian publisher sole copyright of a book title within Australia (for as long as it remains in print), under the condition that the title is available on retail shelves in Australia within 30 days of its initial publication elsewhere in the world. If this condition is not satisfied, booksellers are free to obtain copies of the title from any other supplier worldwide.

In June 2000, the Australian Government announced its intention to make changes to the Copyright Act that would abolish the 30-day rule and open the Australian book market to so-called 'parallel importation'. This has resulted in heated discussion and debate in the book industry and in the Australian Parliament. The Senate investigated the issue via its Legal and

Constitutional Committee; the proposal has been before the House of Representatives; and a publication was tabled for debate in the Senate. The issue of abolishing the 30-day rule has been a source of controversy because of its potential consequences for the book industry and, more broadly, Australian culture.

Supporters of parallel importation argue that an open market would guarantee the greatest availability of titles at the cheapest prices for Australian consumers. They argue an open market would create a more competitive and efficient industry, and enable booksellers to combat the increasing threat of Internet book sales and multinational retailers.

Supporters of the status quo contest the notion that book prices would fall and argue that abolition of the 30-day rule would allow remaindered copies of overseas editions to be dumped in Australia. They argue that parallel importation would undermine the royalty earnings of Australian authors, remove the incentive to develop Australian content, and lead to an overall decline in the Australian printing and publishing industry.

### COLLABORATING TO REDUCE RETURNS

"By undertaking such collaborative strategies and reducing returns to an average of 7 percent, the industry could capture an estimated \$47 million a year."

### COLLABORATING TO REDUCE INVENTORY LEVELS

"In 2000, publishers and booksellers had annual stock levels of \$825 million in the supply chain, equivalent to 317 days of supply."

"If the industry were to manage inventory at the levels of its best performing publishers and booksellers, it would enjoy savings of approximately \$39 million."

"If the industry were to manage write offs at levels currently recorded by its best performers, then a saving of at least \$9 million could be made each year."

## Opportunities through Collaboration

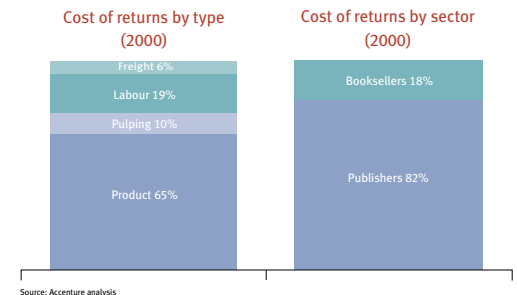
### COLLABORATING TO REDUCE RETURNS

As in many other countries, publishers' desire to increase sales has led the Australian book industry to tolerate a high level of overstocking and subsequent returns. Today, the industry shares no consensus on the issue of returns; some believe all books should be returnable, some believe no books should be returnable and others hold positions somewhere in between.

Returns are ultimately about risk. The degree to which publishers sell a book on 'sale or return' reflects the degree to which they are prepared to carry the risk for that title. If the title is a winner, then both the publisher and bookseller reap the benefit, but if it is not a winner, then the publisher carries a disproportionate amount of the cost.

Publishers have traditionally carried this risk because returns provide three benefits. First, returns allow publishers to push books into the market, increasing sales. Second, the returns system provides an incentive for retailers to fill shelves, maximising consumer appeal and spend. Third, returns create a shelf-clearing mechanism to ensure space is always made available for new titles. Without returns, booksellers would carry more of the risk and might behave more conservatively. In an industry in which many new books hit the market each month, conservatism is not a preferred characteristic for the 'window' to the market. Changes in the industry's treatment of returns have nevertheless taken place. For example, over the past two years, some Australian publishers and booksellers have agreed to move to 'firm-sale' conditions on backlist titles. The logic behind this move, which effectively means booksellers cannot return unsold backlist books, is that backlist titles have established sales patterns, making future demand easier to predict.

In 2000, 13 percent of all books distributed in Australia were returned, representing an industry-wide cost of approximately \$101 million. Of this total cost, 82 percent was incurred by publishers and 18 percent by booksellers.



Source: Accenture analysis

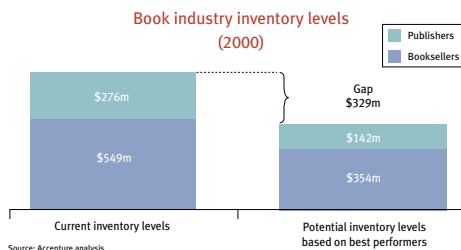
If the current logic about the role of returns continues to prevail, then returns will represent an ongoing cost to the industry. But, even so, costs need not be this high: an annual cost of \$101 million is not inevitable. Even if the industry retained its current approach to returns, it could still reduce average return levels from 13 percent to about seven percent, the level of the industry's best performers (taking into account a representative mix of trade and educational publishers).

The key to lowering returns lies in adopting an industry-wide cooperative approach to demand planning, including the sharing of market information and title forecasts, beginning at the early stages of product development. The industry could also agree on collective strategies and policies for managing returns, including industry-wide agreement on a set of standard procedures for processing returns, aided by, and managed on, a shared platform. Booksellers could make point-of-sale information available to a data aggregator such as BookTrack so channel information could be made transparent to publishers which, in turn, could use the data to assist in commissioning projects and making decisions on first-run print jobs and replenishment. By undertaking such collaborative strategies and reducing returns to an average of seven percent, the industry could capture an estimated \$47 million a year.

### COLLABORATING TO REDUCE INVENTORY LEVELS

While the book industry recognises that inventory management is a critical component of the total value chain, it has not kept pace with best practice techniques of inventory management introduced by other industries. As a result, the industry has not yet realised significant opportunities for reducing its high levels of inventory.

In 2000, publishers and booksellers had annual stock levels of \$825 million in the supply chain, equivalent to 317 days of supply.



Source: Accenture analysis

Current inventory levels reflect incentives for publishers to reduce unit costs through commissioning long print runs and for both publishers and booksellers to provide customers with high availability of stock. Even so, stocks need not be as high as they are. For instance, few publishers have adopted progressive or leading inventory management practices, such as key performance indicators linked to customer service levels, systems supporting perpetual inventory tracking and supplier managed replenishment schemes.

If the industry were to manage inventory at the levels of its best performing publishers and booksellers, then it would enjoy a one-off reduction in inventory amounting to about \$329 million. Assuming a cost of capital of 12 percent, this would translate into savings of approximately \$39 million in working capital. Similarly, if the industry were to manage write offs at levels currently recorded by its best performers, a saving of at least \$9 million could be made each year.

The key to realising such reductions lies in two areas. First, visibility of network-wide inventory can be improved. At present, publishers are uncertain about their stock levels, the location of stock, how quickly it is moving and if, or to where, it should be reallocated. Inventory could be made visible across the supply chain, including stock in publishers' and booksellers' warehouses, in stores and within channels of return.

Second, publishers and booksellers could work together to bring greater transparency to the supply chain by leveraging continuous point-of-sale data. Continuous sales data could be used in conjunction with inventory tracking so that stocks could be supplied to those outlets where sales volumes flag the need for stock. Initiatives such as these would also allow real-time information to assist with decisions on print-runs, replenishment and stock reallocation.

The end result would be a better match between supply and demand, thereby creating greater 'wins' for all participating booksellers and publishers. Booksellers would receive more timely fulfilment, lower lost sales and altogether better supply of the right books, at the right place and at the right time. Publishers would have fewer returns, lower stock-outs, higher inventory turns, lower write-offs and more timely reprints.

### CONSOLIDATING DISTRIBUTION

"If the industry consolidated distribution and reduced average unit costs to levels now enjoyed by the best performing publishers, it would realise savings of approximately \$50 million a year."

### CONSOLIDATING PROCUREMENT

"Consolidating the procurement of paper could lower the industry's average purchase price, reducing the absolute cost of paper by an estimated \$10 million each year."

### CONSOLIDATING THE PRINTING SECTOR

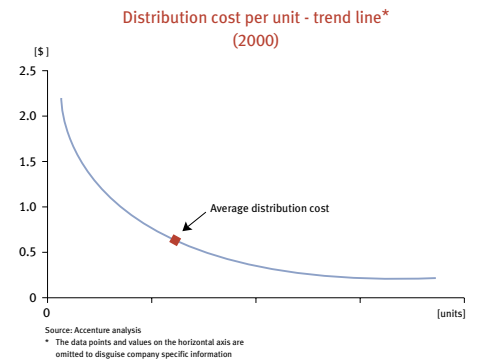
"The market has too much capacity and printers cannot maximise the advantages of scale economies. This presents an opportunity for printers to investigate options that lead to consolidation, including mergers, acquisitions and strategic partnerships."

## Opportunities through Consolidation

### CONSOLIDATING DISTRIBUTION

Distribution is another integral part of the supply chain, not yet fully exploited by the industry. Distribution is a volume driven activity; its costs are largely determined by the volume of product being distributed. In the book industry, distribution reflects economies of scale, with smaller publishers incurring significantly higher distribution costs than larger publishers.

In 2000, the average distribution cost for publishers was \$0.63 cents a book, with considerable disparity between the highest and lowest cost points.



Recently, some publishers have tried to use distribution processes to gain a cost and/or value-add advantage. Despite their investments in new and improved warehousing and distribution infrastructure, unit costs across the whole industry have been increasing. While there is room to improve distribution processes at a micro level, the greatest improvement potential lies at an industry level.

The industry's current distribution system is fragmented and duplicated, with widely varying costs. It is possible, for example, for two books commissioned by two different publishers to be printed by the same printer and then transported to the same bookseller, but with one changing hands in the distribution process only twice and the other changing hands more than five times. One book might cost as little as 30 cents to distribute and the other might cost a couple of dollars. Not only is there duplication in freight, but many publishers also



### Self-Publishing

Authors are the source of content on which the entire book industry depends. With self-publishing on paper and on-line becoming increasingly viable, the question is being asked: is self-publishing a threat to the existing Australian book industry?

Author James Bradley believes not. He notes that paper-based self-publishing is already established for amateur writers, but argues that the distribution and promotional strengths of the publishing houses will continue to attract professional authors. As to the future of electronic self-publishing, James asks, "If Bryce Courtenay cannot produce a bestselling eBook with the help of a publisher, what chances of a successful independent e-title do less well known authors have?"

Others are discovering the surprising possibilities of self-publishing. As Cecilia Dart-Thornton explained to the ABC 7:30 Report on August 20, 2001: "I found out about a website which is for would-be authors and people can contribute little pieces of their writing and everyone critiques each other's work and tries to help each other improve." The editors of the site were so impressed with Dart-Thornton's work that they recommended her trilogy of fantasy novels to American publishing company Warner Books, a subsidiary of the media giant AOL Time Warner. As stated on the ABC, Dart-Thornton made the transition from, "obscure scribbler to published author with the world's largest media company

before Australian publishers had even heard of her." Authors generally take a positive view of the future for self-publishing in Australia. Veterans of the book industry think that significantly increased public demand and financial gains would be required before established authors bypassed their publishers. In an electronic world, self-publishers may be attracted to affordable distribution channels such as the Internet, but they will have to accept the possibility that their work may be drowned in an online deluge of titles.

manage their own warehouses independently, in which they typically undertake value-adding activities, such as material inserting, labelling, packing and cartonising. These circumstances point to the possibility of a solution that is based on *consolidation*.

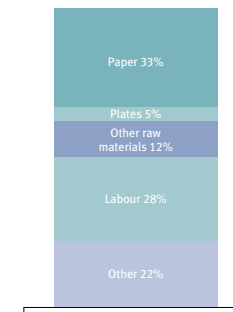
If the industry *consolidated* distribution and reduced average unit costs to levels now enjoyed by the best performing publishers, it would realise savings of approximately \$50 million a year. For example, medium sized publishers could combine volumes to achieve the same scale advantages as the larger publishers, pushing down average unit cost prices to at least levels now paid by the best performers. Furthermore, if several of the larger publishers were to combine their volumes, then average unit costs could fall even further.

By adopting strategies of *consolidation* in distribution, all participating publishers could position themselves for a 'win' because each would reap the advantages of absolute cost reduction.

### CONSOLIDATING PROCUREMENT

Australian book printers have been fighting for survival in recent years. Their profit margins have dwindled and individual printers have sought to compete on price. In this environment, minimising one's cost base becomes critical, and this starts with reviewing key cost inputs. Printers' largest input is paper, constituting 33 percent of total operating costs.

Australian printers' cost structure (2000)



Source: Accenture analysis

Paper is a commodity whose price is largely determined by purchase volumes. Nearly 70 percent of all paper sourced by Australian book printers is of one type (mechanical uncoated, less than 100 gsm). Each of the printers studied by Accenture in 2001 used a different number of suppliers, some using as few as three and some as many as 19. Average tonnage prices ranged widely, with a \$560 difference between the highest and lowest (allowing for differences in paper mixes). Current procurement practices not only create wide disparity between the price of paper and the number of paper suppliers, but they also result in fluctuating demand patterns, inhibiting the ability of paper suppliers to accurately plan and schedule. These situations could be dramatically improved with an aggregated procurement strategy.

Printers could work towards *consolidating* their procurement of paper by creating an independent entity (or using an existing paper merchant) responsible for aggregating paper demand. This arrangement would rely on printers sharing real-time paper demand forecasts and exploiting the opportunity to bundle volumes, while using the spot market for procuring less common paper types. This approach could lower the industry's average purchase price to at least that level now paid by the largest printers, thereby reducing the absolute cost of paper by an estimated \$10 million each year.

However, this does not mean that each participating printer would pay the same price for paper. *Consolidation* would lower the overall cost of the paper procured, but there could still be a relative difference between the prices paid by competing printers. For example, the entity responsible for managing the arrangement could discriminatorily pass on savings to each printer, charging lower prices to those printers that require larger volumes and have stronger credit worthiness. All participating printers could therefore enjoy lower absolute costs, but a relative cost difference between printers could remain, allowing large printers to maintain scale-based cost advantages.



### Copyright in a Digital World

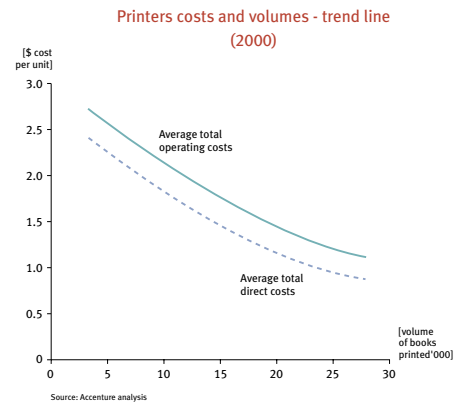
Clear protection of copyright is essential for creators and owners in any content driven industry. In Australia, the Copyright Amendment Act of 2000 (Digital Agenda) revised the Copyright Act of 1968 to give copyright owners the right to control how their work is electronically transmitted to the public and how it is made available online. The central aim of the reform was to ensure that copyright law continued to promote creative endeavour while allowing reasonable access to copyright material on the Internet and through new communications technology. Reasonable access was achieved through the exceptions noted in the legislation that aimed to replicate the balance struck between the rights of owners and the rights of users that apply in the print environment.

However, this legislative reform has not resolved all the issues relating to copyright protection in a digital world. Michael Fraser of Copyright Agency Limited, for example, believes that the legislative exceptions do not succeed in protecting digital rights. He argues that, "Digital technology can powerfully make use of the exceptions in the online transactional environment..." which would make Australian authors and publishers reluctant to make their content available on-line. According to Mr Fraser, this failure of legislation will ultimately impede the advancement of online materials in Australia and limit the growth of Australia's export of intellectual property.

The digital rights debate is likely to continue for a long time. It involves a complex set of issues that will have a profound impact on the industry's willingness and ability to provide content digitally. The only certainty is that the issues will not disappear and that it is better to address them before market demand gains momentum. As Mr Fraser comments, "How we deal with these issues depends largely on the degree to which we can cooperate at an industry level".

### CONSOLIDATING THE PRINTING SECTOR

The Australian book industry has a large printing sector that is carrying excess printing and binding capacity. With a workforce of more than 2000 and around \$100m of invested capital, Australia's printing sector is made up of approximately 230 book printers servicing approximately 200 publishers and an unquantified number of non-publishing entities (such as individuals, corporations and schools). Reviewing the sector's large number of printers is important because it directly affects the economies that underpin the operations of individual printers. The sector's long run average cost curves illustrate the economics of book printing, with printers' costs strongly driven by scale.



However, with the sector's current structure, individual printing operations are unable to fully exploit scale because the abundance of printers has led to overcapacity. In 2000, for example, only 59 percent of book printing capacity was utilised while only 32 percent of binding capacity was employed. To address this situation, consolidation of the printing sector is required.

In recent times, there have been some moves toward consolidation among the larger printing companies. But, notwithstanding these developments, the industry still has too many printers sharing too little volume. As a result, the market has too much capacity and printers cannot maximise the advantages of scale economies.

This presents an opportunity for printers to investigate options that lead to *consolidation*, including mergers, acquisitions and strategic partnerships.

Two interrelated themes simultaneously underpin the recommended 'way forward' for the industry: *collaboration* and *consolidation*. By way of adopting strategies of *collaboration* and *consolidation*, the industry could not only free itself of key supply chain inefficiencies, but it could also avoid sliding into a world of Dog Eat Dog. That is, *collaboration* could help it avoid a world of limited cooperation, fractured business relations and a fragmented supply chain. Similarly, *consolidation* could help it avoid a world dominated by competing business models and competition based largely on price. A world of Dog Eat Dog could indeed be avoided. Instead, the industry could move closer to a world of Shoulder to Shoulder.



### The Digital Consumer

It seems that electronic content and eBooks have been 'the next big things' to happen to the book industry for the past ten years. The death of the printed book has been proclaimed several times, but the truth is that remarkably little research has been conducted into consumers' preferences. A recent nation-wide study by Accenture profiles the Australian digital consumer market, providing some useful insights into the consumer market for paper and electronic books. The Australian population retains a clear preference for paper-based reading material. The study showed that more than 75 percent of the population reads paper trade books while less than one percent read on-line novels. The low level of on-line consumption is remarkable in light of the optimistic projections of the late '90s but confirms the impressions of publishers and authors that demand for electronic 'trade' content has not really materialised. Similarly, textbook consumption is primarily of paper-based books, with 55 percent of the population reading textbooks.

Of these, about 18 percent of the population complement their texts with on-line reading. Selene Ng, manager with Accenture's Media & Entertainment practice, who led the research, suggests that '...digital reference material and textbooks will drive on-line book demand. In two years time 25 percent of the population will primarily go on-line to access reference material, 14 percent will primarily access textbooks, and only five percent will access trade content on-line'. While on-line reading has been slow, take up of eBooks in Australia has been almost non-existent. While the study indicates consumer interest in eBooks, consumers generally require a device that can handle more than nine hours of reading time per week, is portable, easy to use, and priced under \$200. In addition, the study reveals some important challenges for marketing and pricing of eBook content. Only 17 percent of potential eBook buyers would pay the same for electronic content as for the

equivalent book. But 76 percent of potential eBook buyers will buy the content electronically if it is available at 50 percent of the price of the physical book. So the paper-book lives, for another few years at least. The Economist (October 5, 2000) argues that the reality is that "People will not buy the [eBook] devices until lots of books are available for downloading". This forecast may provide some consolation for Australian book printers. But for how long? The same argument has been used in relation to numerous other innovative technologies, including DVD devices. DVDs would have limited uptake, argued some analysts, because mass content was not available. This was, however, only a short-lived prophecy, because the industry quickly answered the call by supplying mass content and agreeing to a set of industry standards. The question for the book industry, therefore, is when or will enough books be downloadable to drive an uptake of eBooks?

### WITH THE NOISE TAKEN OUT

"By streamlining the supply chain, the noise could be taken out of the industry, freeing time and money for competing with more customer focused strategies"

### CUSTOMER FOCUS

"The industry cannot absolutely control the propensity of consumers to demand books, but it could still be of considerable influence if each industry sector became absolutely focused on servicing the next link in the chain."

## From 'Shoulder to Shoulder' to 'Paradise Found'

### WITH THE NOISE TAKEN OUT

By streamlining the supply chain, through *collaboration* and *consolidation*, players could effectively take the 'noise' out of the industry and in so doing, reduce the overall cost of books. If passed onto consumers, these cost savings alone would stimulate demand. As a senior executive of a leading book chain recently told Accenture – "I know through experience... demand for books in this country is highly elastic". That is, demand is highly sensitive to changes in price.

Some companies in the supply chain are able to gain a competitive advantage from lower costs. These are, however, few in number and their cost advantages typically result from their substantial scale. However, seeking a cost advantage is only feasible to the extent that the size or unique position of a company allows it to provide real and sustainable value to its customers. A publisher, for example, should not undertake its own distribution unless its scale and process leads to a substantial cost advantage over and above other publishers.

Stimulating demand through cost-based strategies, however, is only half the story. If the industry moved to a world of Shoulder to Shoulder (the route on the scenario map below, marked '1'), by taking the noise out of the industry, it would free time and money for individual players to focus on building and exploiting core competencies for delivering maximum value to the customers they serve. New parameters of competition could then be set, encompassing those things that directly affect customer satisfaction and thus help stimulate consumer demand.

### Navigating the scenario map





In essence, this is a longer term prospect that represents an opportunity for the industry to move from a Shoulder to Shoulder world into a world of Paradise Found (the route on the scenario map marked '2') – where a high degree of industry cooperation remains and demand for reading content increases. This would also enhance the prospect of retaining a strong domestic industry, and avoid entering a Land of the Giants world, where highly diversified global companies from outside the traditional media industries sweep into the Australian market, buying up companies and skills along the value chain.

Of course, the industry cannot absolutely control the propensity of consumers to demand books, but it could still be of considerable influence. That is, for example, if each sector in the book industry became absolutely focused on servicing the next link in the chain.

### CUSTOMER FOCUS

For Australian book printers, customer focus means being absolutely determined to maximise the service they offer publishers. By providing Just-In-Time delivery, Australian printers could strengthen their competitiveness relative to overseas printers by offering greater lead-time advantage to Australian publishers. At a company-specific level, Australian printers could seek to leverage sophisticated workforces and processes to develop competitive advantages in providing value-added services to publishers. This might include specialising in asset management, offering digital printing capabilities and assisting in product development and delivery logistics.

For Australian publishers, customer focus means being resolute in the search, acquisition and publication of good content. By being absolutely focused on nurturing author talent, segmenting customers and understanding reading patterns, publishers could create competitive advantages by developing new and differentiated value propositions. In this way, publishers could work with booksellers in supplying, not only books, but solutions that more broadly support people's reading and/or learning experiences. One example of a potential value proposition is for educational publishers to work closely with universities, by developing course management solutions with electronic content that is integrated with administrative processes (registration, grading etc).

For Australian booksellers, customer focus means taking an approach to the consumer that goes far beyond that of simply offering books on a shelf for sale. By using knowledge about, and relations with, consumers, booksellers could maximise the value that they offer. Booksellers could develop competitive advantages on innovative consumer-oriented services, such as loyalty schemes, discussion groups, in-store live entertainment and complimentary products bundled as 'entertainment'. For example, an incumbent book chain in Australia has recently launched a loyalty program allowing participating customers to accrue points every time they purchase a book. Meanwhile, a new book chain entrant in the Australian market is bundling books together with music, videos and DVDs.

"It is now up to the industry."

"The starting point must be a shared approach and it is hoped that this report will be the very catalyst the industry needs."

## Seize the moment

Many of the challenges currently faced by the Australian book industry could be addressed via an industry-wide approach. Strategies that rely on *collaboration* and *consolidation* transcend the four walls of individual companies to create an industry-wide solution. On the surface, such strategies might appear to be 'levellers', intending to create a more level playing field between players. Nothing could be further from the truth. By adopting the strategies recommended in this report, the industry could move to a world of Shoulder to Shoulder and free itself of supply chain inefficiencies which, in turn, could allow players to compete on those things that matter most to the customers they serve. Then, as customers become the ultimate focus of each sector in the industry, the likely consequence would be increased demand and subsequent movement towards a world of Paradise Found.

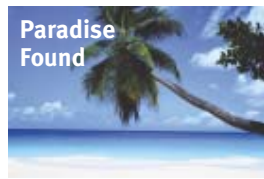
The starting point must be a shared approach. The industry has long recognised this, but cooperation at a macro level has not materialised. It is hoped, therefore, that this report will be the very catalyst the industry needs.

The industry has already taken an important step. It has initiated an industry-wide study in which it has worked with Accenture on identifying potential improvements worth \$155 million and a strategic approach directed towards a preferred future. The industry now needs to foster and further extend this spirit of cooperation so that it can realise the shared benefits that will arise through adopting strategies based on *collaboration* and *consolidation*. There are no easy solutions. Feasibility studies must be commissioned; business cases drawn; and projects instigated. Through the Ad Rem project, the broad foundations have been laid, the numbers have been run and the opportunities have been identified.

It is now up to the industry. The industry must focus on that which unites it, rather than on that which divides it. It must seize the moment and unite to forge a stronger book industry for the benefit of all Australians.

# Appendix: Futuristic Scenario Narratives

## PARADISE FOUND



*"Look at Australia. It has become one of the world's hubs of creativity. We need to develop a similar model which combines extreme efficiency and maximum creativity in responding to the content appetites of the new economy."*

Prime Minister, Malaysia, 2010

The fear that the electronic age would kill books has proved unfounded. In fact, the emergence of eBooks and electronic content has actually increased demand for paper books. Customers love this new era – buying lots of books and book content from multiple outlets. The Australian book industry's high responsiveness to customer fads and fashions is enabling a better fit between supply and demand than ever before.

The Australian book industry has transformed. Today it's an integrated network of specialist companies each one focusing on its core skills within printing, publishing or book selling, but using the industry network benefits to extract maximum efficiency and to respond better to customer demands. It's a profitable industry operating in a dynamic and growing market.

### Working together

The industry knew it had arrived when a Government-schools initiative to create exciting learning tools for Australian children turned into a world-wide publishing phenomenon in 2005. Creator James Shu says "Eco-Warrior 3 just took off! But we were pretty confident – we had a great team of expert companies backing us – they really knew what they were doing." The integrated Eco-Warrior books, video games and e-learning software – building on existing but previously fragmented skills – put Australia on the global publishing map, and proved that it wasn't only the mega-media companies that could create multi-format products with global appeal. In fact, the Eco-Warrior 3 hardcover outsold the final Harry Potter volume.

This now legendary industry success story was really enabled by the high degree of networking between all players. In early 2002, the book industry found a new will to collaborate, agreeing on sophisticated industry wide measuring tools, followed a couple of

years later by the world's first national e-publishing standards to enable cost-effective multiple format publishing. Taking a positive view of demand, the industry invested in online and digital skills and equipment to be at the forefront of the online and broadband revolution. And the industry worked very hard to push comprehensive copyright and digital rights management legislation.

The new industry dynamics lead to some rapid results. By investing in the new technologies, the industry found it was able to influence community uptake and usage. Real time knowledge of customer behaviour, combined with an efficient distribution system, dramatically increased productivity across the industry and reduced book return rates substantially.

When the industry took the lead in developing technical standards, the Australian government stepped in with its support, and Australia became the first country installing eBooks across all libraries based on an industry standard. The approach was soon picked up by other countries

### Same players, better performance

Today, the industry superficially looks much the same as it did ten years ago. You still see the specialist companies – printers, publishers and booksellers – and they are still focused on what they do best, but there are some differences too.

Take printers. Ten years ago printing businesses were fearful of the future. Now they are booming. Using the industry's standard supply chain software, all printers have access to real time knowledge of customer demand and are capable of managing a highly flexible printing program. They combine traditional offset with digital printing and have become powerhouses of printing innovation. The printers still provide efficient long run facilities but increasingly serve the market through more frequent, but shorter production runs produced using digital printing technologies. The changes have allowed printers to improve internal processes and take out costs. Printing has become one of the more profitable manufacturing industries in Australia.

While most printers are very high tech, some have gone the other way. Cunard Prints, for example, has several rare 17th century printing presses for the production of fine books, which have become extremely fashionable among the techno-disenchanted glitterati of the Gen Y market. Many printers have relationships with bookshops for the printing and direct distribution of short-run specialist books.

Australian publishing is also doing well. It's a very sophisticated industry, renowned for its close relationship with customers and rapid response to new customer trends. When Australian 15 year olds developed a net-initiated passion for satellites, three Australian publishers produced web-based and hard copy products within two months to meet the short-lived passion for "Satellite Fiction". Where it was once too expensive, niche publishing of this kind is now possible because customers are

willing to pay premiums for specialist format versions of their favourite books. Another feature is the collaborative content development with other Australian institutions and groups such as museums, sporting clubs and comedy venues. These sorts of relationships provide a steady stream of low volume content that publishers make available through multiple media.

E-book sales are still going up. The number of titles keeps increasing and interest groups around the world are actively promoting their latest preferred title. Within Australia there's been a surge in demand for colourful online Australian histories. One publisher is developing a history of the villages of Sydney, featuring virtual walks through the Rocks area in 1790 and Kings Cross in 1930.

Self publishing has never really taken off, because most authors prefer to use the widely popular market testing service offered by Edwin & Irwin. Authors issue their first chapters and outlines on the web-site, newlit.com.au, and global and national votes on the merits of the book are taken after three weeks. That's how hit author Jane Dolittle was discovered, but of course, for every best selling romance writer, many others have quietly languished in cyberspace. Many hobbyists still like to self-publish in paper but few genuine talents are left undiscovered by one of the publishing houses. Publishers have also become more creative in offering their content to consumers with the emergence of pay-per-page, pay-per-chapter and even pay-per-minute arrangements.

And what about the smaller bookstores? Well, the cycle swung back in their favour. The most successful bookstores have adopted a niche position in the marketplace. Max's Sports Books is full every year before Father's Day, while the Beating Heart Romance Chain continues to do well. Each one relies on intimate customer relationships, including extras such as theme weekends, memorabilia and book club picnics.

The chain stores have had to work harder for their customers – offering a range of leisure experiences to draw customers in. And, while they still have the big front of store general fiction section, there are also more sub-areas to cater for niche interests. Many of them have on-line links to printers who can rapidly print and post specialist books or content to the customers. Older readers like the big print versions. Some of the big international booksellers have found a place in the Australian market, but Australian retailers are not unduly threatened. Their superior customer insights and service as well as the cost efficiency of the existing network all work in their favour. And they rapidly adopt the best international ideas in their own businesses.

Australian education publishing is thriving. Cooperation on standards and programs between State Governments, Australian education institutions and the education publishing sector has resulted in first-rate products. Primary school teaching and learning kits are particularly popular, with their combination of creativity and ease-of-use. In tertiary education, Australian

educational publishers are a major source of product for the education-hungry Chinese universities and are about to launch course management solutions including testing and grading on-line. And a number of business schools are developing mixed format e-learning courses for global corporates. In all these areas, online learning and reference materials work together with printed materials to create optimal education outcomes

### Skills shortages?

Looking ahead, the Australian book industry is planning to expand further, particularly in the areas of education, information and entertainment. Australia's biggest problem is keeping up with the industry's insatiable demand for IT savvy, creative and innovative people.

## LAND OF THE GIANTS



*"We are delighted to be the major sponsors of Australia's Olympic team in Paris in 2012."*

Bill Gatesby, Chairman, Macroware, 2010

Today, the giants walk the earth. Over the past ten years the book industry has seen a surge in consumer demand allied to dramatic technological change. But it was the big global players who really captured the advantage, sweeping through and buying up companies and skills along the Australian book industry value chain. With their global brands, bundled products and services, and superior price points, the big players quickly positioned themselves as the undisputed titans of the new era.

But it's not just about the giants. Demand for books in Australia is very high and diverse in terms of content, format, and delivery mechanisms. Many Australian businesses have found they can service the total needs of profitable niche segments by diversifying along the value chain.

### The onslaught

"A lot of people won't admit it" says Fanny Arquette, the canny head of Protest! Publishing Inc, "but there was a time when Australia really could have developed at least one home-grown book industry giant. I think there just wasn't enough willingness to collaborate and innovate using the new technologies". Others

vigorously dispute this assessment, saying that the dominance of global media and software companies in Australia was inevitable, as proved by their similar dominance everywhere else from Denmark to China.

The two giants came from vastly different perspectives, but the catalyst was e-book version 5.0. Launched by Macroware, one of the companies emerging from the Microsoft break-up, it was a gorgeous object that had all the ease and beauty of a book at half the weight. In those days it had the capacity to load 10 books and cost the same as a desktop computer. Now of course, it's just known as the M-book, and it's half its original weight, carries interactive facilities including video-phones, personal organisers and access to the web and it is distributed free. Newly formed Views, arising from a consolidation of News Ltd. and Channel Ten, was quick to come out with its own e-book, and the N-book is now nearly as ubiquitous as the M-book, with some significant variations.

E-book 5.0 finally proved that e-books were not just an idea, but a practical solution. Naturally, many people were worried that e-books would simply blitz paper books out of business altogether. Instead, as we now know, e-books followed the same trajectory as video machines. They complement the thriving paper book industry just as videos, DVDs and pay-on-demand movies have proven to be compatible with packed movie houses.

In the battle for dominance, Views drew on its content strengths, including its publishing businesses, newspapers, magazines, sporting teams and movies and then expanded and transformed this content into a variety of products. Views bought one of the major Australian publishing houses and a large book chain. Its stores were completely redesigned around customised marketing campaigns. You'll have seen the latest re-theming in the 120 stores across Australia – Empire-line dresses and golden bee brooches to coincide with Baz Luhrmann's latest production, Napoleon and Josephine. And if you look carefully, you'll notice that the set-up in each shop is quite different, reflecting each shop's demographic profile. Views has proved brilliant at cross media selling – enticing consumers to buy the hard copy or e-book, movie ticket, and relevant web-site password in a single transaction.

Starting from the technology side, Macroware invested heavily in superior ease of use and self-publishing tools. Drawing on its massive holdings, Macroware also set out to purchase content, famously paying the largest book advance in Australian publishing history for a science fiction/fantasy series. Macroware also wooed several of the major cash-strapped Australian institutions – including an art gallery and two universities who provided the foundation content for its premium Ozware label.

Today, Views and Macroware represent the world's major authors and are the engines of mass content creation in Australia. They are locked in a constant struggle for market dominance.

Each of the titans has its own distribution and elaborate IT systems. Each is jealously protective of sales information so it's hard to get solid industry numbers.

But the two competitors will occasionally collaborate when they perceive a common threat. When "Bookster" technology allowed people to swap books freely on line, the two giants stepped in to quash the service. Nevertheless authors and content creators feel vulnerable. In the absence of broad rights management legislation they have to rely on the integrity of the larger players. With such power, the giants are inevitably under the constant and watchful scrutiny of the Australian Competition and Consumer Commission.

### Room for many

But it's not all about the giants. In fact, the size and scale of the big companies have created a real opportunity for nimble and highly focused Australian firms to service niche markets. The strength of the smaller companies lies in their superior content knowledge. These players know their customers and can provide highly specialised services or content in different formats. Some are operating within their traditional sectors while others have integrated parts of the value chain within their businesses.

One publishing house, for example, has capitalised on the growth of niche markets by creating five new labels – each one targeting specific high value segments. By adding on-line features, it has been able to produce content in a mix of formats. The Ageing Disgracefully label is doing extremely well. Some traditionalists say the publisher shouldn't charge reading fees for submissions. And purists don't like the health insurance and tropical holiday advertisements sprinkled through the books. But Ageing Disgracefully customers don't mind: they get a great range of content and feel that they are part of a reading community.

South Australia's Protest! Publishing Inc has taken a different path, and targeted a global sliver of business. It produces specialised protest-related books in multiple formats. It commissions, prints, and distributes its books direct to customers. The online magazine is a major networking opportunity for the myriad of groups organising global protest programs. With a customer base which is closely knit by values and interests, Protest! does little or no marketing and doesn't need to.

Then there's a range of passionate self-publishers, who are in it for fun, not profit. Central Sydney Leagues Club is one, as is the Progressive Outlying Church of Geelong and the Large Bird Watchers of North Queensland. Relying largely on older audiences, these groups use digital publishing to produce small print runs which barely cover their costs. Every now and then an unlikely bestseller emerges – footy failure Joe Spike's raunchy memoirs started as a 500 print run for his local club. But, as the cynics predicted, he quickly got snapped up. Now he's one of Macroware's biggest Australian authors.

### Creative printing

Printers are handling this environment well, surpassing their own expectations. Even though most large publishers and universities have digital printing equipment in-house, they lack the expertise or inclination to manage and service the machines. Specialist printing companies are contracted to manage and service the digital printers. They also support the large organisations by providing the odd large scale printing run on efficient offset printing technology.

As for digital printing, the boom in formats and content has created some surprising opportunities. With the seemingly endless baby-boomer self-publishing fad, some printers have found that they can do very well by offering "production packages" including cut-rate editing and design plus a marketing advice package. Others are offering print/distribute packages to some of the smaller publishers.

And printers can thank interior-designer Johnny John for Gen-Q's latest passion– same size, same colour digital editions of all their books. (All white is very popular with the minimalists). "No-one needs to live with an unsightly mish-mash of books any more." declares Johnny. "With digital printing, you can ensure your books blend smoothly into your design scheme. Nowadays, domestic elegance is an affordable luxury."

At first, the books sellers were perplexed by the development of the e-book and high customer acceptance of electronic content. But when they realised that traditional books weren't running out of favour, most players refocused and surged ahead. Discounters have concentrated on 'mass market' paper books. Specialist and niche bookshops are doing very well; some have cheekily opened near the Views mega-stores, successfully creating book/cafe hubs in several cities.

The chain stores now operate as vibrant multimedia outlets offering paper books, e-book download and digital printing. While some consumers download content directly from the web, most don't want to print off large amounts of information on a home printer. One chain store has re-designed its floors away from mass products to create highly differentiated boutique spaces devoted to niche interests. But another has abandoned this model. Each shop is separately branded and carefully themed to match the local demographic. This chain has dumped its big name and is trying to present itself as a local community "insider" to compete against the giants.

Education and training is a huge global industry. Research has shown that students have vastly different learning styles and needs– so the best courses offer multiple formats. All reference material of course, is online, where it can be easily searched and updated.

Australia is now a net exporter of global education material. The Macroware University in Canberra, for example, is a world

leader in agriculture and Asian studies and has an extensive publishing program across many formats. The university was able to draw on Macroware's unlimited resources to lever itself to the forefront globally. Other universities are simply bundling globally and locally produced education materials for their students.

In this world, the giants inevitably dominate the landscape. But there's plenty of opportunity for smaller players who can work closely with customers. While some sigh at the apparent swamping of Australian culture, others point to the global benefits offered by the big companies

### Looking ahead

Views Corp is planning ways to crowd out Macroware's Olympic advertising blitz in 2012.

### DOG EAT DOG



*"We recommend a study into the book industry in order to determine how the performance of the industry can be enhanced."*

Government report on the state of Australian manufacturing, 2010

The pessimists were right. Demand for reading material has progressively eroded. People have too many other attractive options in their leisure time. They watch their nostalgia episodes of Sex and the City on pay-on-demand TV, browse their magazines, or play interactive reality games.

And when people do read, it seems they are less interested in pursuing their special interests than in sharing global communal experiences. Everyone wants to have read the latest self help guide, just as everyone wants to see the latest movie blockbuster or watch Big Brother 400 when it airs next week. In the lonely world of 2010, people want to be clued-up for the Monday morning water-cooler conversation. So while there are still niche buyers with special interests, the demand is overwhelmingly for mass-experience reading in hard copy.

This is a tough market for the Australian book industry, made worse by the fact that the industry itself has become progressively less cooperative. No one clear business model has prevailed, the

industry has blurred boundaries between its key sectors and competition has become less about growing the total market than about cannibalising other parts of the value chain.

### Industry paralysis

"How did we get here?" muses one book industry insider. "Well, I think we just became paralysed. Everyone was waiting for someone else to take the lead on deciding the future shape of the industry. But instead of combining to grow, we somehow progressively fragmented to take parts of each other's business instead".

Another commentator is less surprised by the trend. "After all, several of the major publishing houses each had their own distribution system – in a market the size of Australia!" he said. "Unclear copyright control and cheap digital printing equipment meant that a few bookshops installed digital printing equipment, then a publisher opened a shopfront for its romance label – and suddenly it was dog eat dog".

In fact, the past ten years of the book industry is possibly better explained by what didn't happen. An industry wide book sales tracking system failed due to lack of trust and cooperation so there was no improvement in purchasing transparency across the industry. Failure to agree on distribution efficiencies meant that cost structures remained high and industry-wide technical standards were never developed. Comprehensive rights management protocols were never negotiated or legislated. All these things combined to add costs to the process without creating benefits to consumers.

Today there are many different business models as companies experiment to succeed. But it is hard to say if anyone is winning. With low margins and fierce competition, few feel like winners. Even the ever resilient discount stores have found that the ridiculously low margins on selling books made them insufficiently profitable. So the discount chain, Everything Cheaper, for example, no longer stocks books, but instead has a new section devoted to third age magazines for ageing babyboomers which are much more profitable.

Some publishers are pushing their brands very hard and even establishing shop fronts. Others are taking a low cost option and trying to cut out other supply chain members by printing and selling directly to customers.

### Blockbuster mentality

Everyone is looking for the next bestseller, issuing fewer titles but with a heavier marketing push behind each one. The top five authors are living like kings and are household names, while most other authors are living in benign neglect. In fact, one suburb of LA is now known as Aussieville because of the Australian authors-turned-sitcom writers living there.

The spurt in self publishing died out fairly quickly when it became clear that it was too expensive for individuals to market and distribute their books.

The mass of Australian consumers has become fairly passive, and those few Australians looking for a high level of richness and diversity in their reading have turned to global online new and second hand booksellers.

Even though everyone agrees that it's inefficient, the four largest publishers still each have their own distribution network and smaller publishers outsource their distribution to one of the large houses. Competition is so tough that at least one of the major houses is expected to collapse. But then again, they've been saying that for years.

Traditional printers serve the demand for large run offset printing. But even though they have consolidated and rationalised, they still face fierce overseas competition. In a market focused on price, Australian printers are finding it hard to thrive. In addition, printers are facing competition from publishers and booksellers who are doing their own short run digital printing. Printers complain that they could produce most books a lot more cost effectively on offset printing equipment, but there is little sympathy for their views.

### Lifestyle bookshops

Book shops have had to embrace "lifestyle" as a way to survive. With 50% of urban households housing only one lonely adult, some bookstores are making themselves community magnets for people wanting to share communal experiences like movies or books. The big chains and department stores no longer think of themselves as booksellers, but rather as leisure centres. Some have wine licences and jazz music; others have interactive games and youth pop appearances to entice their customers. One former bookstore is now so trendy it has re-badged itself The Final Chapter Club and after 10pm customers pay a door fee. Customers can cruise the very fast broadband Internet (so much better than the slower lines at home) in the sunken bar or watch an interview with Helen Fielding or John Grisham in the video booths. For some books, customers can order and have the book printed on-site, to their design specifications.

Niche book stores find it harder to compete. The market is just not growing sufficiently, and the competition for discretionary expenditure is fierce. Worse still, lots of specialist books are now being sold through new channels. Men's wear shops sell men's health books, petrol stations offer car books. Still, the cooking centre is doing well with its range of books and courses, as is the gardening centre. But to survive, niche businesses have to be closer to their customers than ever. And the fact that there is no transparency across the industry means that any business trying to understand customer trends must do so on the basis of very limited information.

All in all, Australian education publishing never really took off. The States continued to develop their own curriculums, which didn't allow the educational publishers to develop first rate, globally competitive primary or secondary school materials. The universities floundered, hampered by a lack of standards and a tendency to duplicate has led to a lot of wasted and futile effort. Some universities and educational publishers produce a mix of books and on-line content for student needs, but, without a national system for rights management, quite a few academics have found themselves on the wrong side of the legal system. Some universities have installed their own digital printers to produce course packs for students. And some education publishers have resorted to self-help book publishing to lift their margins.

But now a number of Australian students are considering doing distance courses with US universities because of their strong brand power and high quality standards. This would be inconvenient because of the high cost (even for distance learning) and the lack of face-to-face contact, but better than the dispiriting experience they have at home.

### Crisis time

More and more people perceive this crisis as going to the heart of Australia's future prosperity. The Government is expected to announce a major new investment push in the book industry as part of next year's budget.

## SHOULDER TO SHOULDER



*"The performance of the book industry show how much can be achieved through collaboration."*  
Chairman, Australian Book Industry Association, 2010

The Australian book industry today is held up as a national model of supply chain efficiency. It took a lot of work and a serious investment of management time as well as money, but the pay-offs came through quickly. Intense collaboration across the chain has resulted in lower costs and higher profits for all industry sectors.

And it's just as well. All this effort has enabled the industry to weather the lack-lustre demand for books and content. Much to some in the industry's relief, e-books never really took off as a mass market proposition. E-books are still expensive and are mainly offered by airlines for in-flight entertainment.

Nor has there been a big burst of enthusiasm for paper books. People still want the same, or even a slightly declining, supply of books. Blockbusters continue to earn the big returns but there's a reasonable amount of niche publishing as well. Through intense collaboration, the book industry has found an effective way to deal with uninspired demand levels and create an industry which is both profitable and fun.

### Change driver

Fear was the driver, as everyone now laughingly admits. "Are you kidding?" says one prominent publisher. "We would never have considered cooperation until the risks of non-cooperation became just too great. And once we started, there was no turning back."

The catalyst for change proved to be the establishment of the Australian Book Industry Association (ABIA), which brought together printers, publishers and booksellers in Australia for the first time. The ABIA's first decision was to review costs along the entire industry supply chain.

That review led swiftly to the decision to form a jointly owned distribution company, BOOKMOVE Pty. Ltd. servicing all the publishing houses. At the same time, all players signed on to book tracking technology to ensure they knew exactly what, when, and where their customers were buying. The ABIA also took the lead in developing rights management protocols, much to everyone's relief.

From these beginnings a range of new cooperative measures began to flow. Booksellers and publishers today share the risk on book sales – a risk which has been dramatically reduced by real time insights by publishers, distributors and booksellers into customer buying preferences. The window into customer buying habits also enables optimum capability to position and shift stock to meet demand. Publishers and retailers are also undertaking very sophisticated joint marketing exercises, carefully tailored to the right customer segments and markets.

Publishers today are buoyant. They know exactly what, when and where their customers are buying and can rapidly move stock to meet demand. With far fewer over-runs and stock-outs, publishers feel more in control of their businesses than ever before.

In addition, the cost and risk associated with market-testing new authors is now minimised. With shorter print runs, the cost of failure is reduced, and successes can be rapidly augmented by a second print.

Most publishers still throw huge marketing weight behind their best-selling authors, a small group who continue to generate the

major returns. But they are also better positioned to try new options in search of the next blockbuster author or publishing phenomenon. One publisher has revived the weekly serial with a romantic story targeted at teens. Another has commissioned collections of short stories and poetry. They will know almost immediately whether or not these experiments are successful, and can either close them down or ramp them up accordingly. While the bigger publishers will always have deeper pockets, the high level of industry efficiency allows a few smaller publishing houses as well.

In the new collaborative environment, printers are also well connected to publishers and booksellers. While a significant portion of books continue to be produced overseas, a cluster of printers has developed close to the distribution centres of BOOKMOVE, making reduced time-to-market a strong competitive advantage. Printers appreciate the greater clarity in scheduling and they have real time information on when they need to reprint. Efficient long production runs are enabled by technologically enhanced offset printing equipment and an industry wide agreement on reduced number of paper formats. Printers manage digital printing equipment to service the small, but steady demand for short run books.

Three years ago, the ABIA encouraged three publishers to tender collectively for a \$22 million program of colour printing in the Australian market. This provided the incentive for the formation of an Australian printer consortium, PrintAz. While it lost the tender, PrintAz has led to increased printer cooperation in terms of sourcing, cross learning and benchmarking. PrintAz is now confidently approaching the next tender round and, interestingly, other publishers are now expressing interest in the tender concept.

Chain booksellers have benefited hugely from the increased collaboration. Gone are the days of massive book stock in the shops and floor space is used much more efficiently. With a very clear idea of real costs across the supply chain, discounts to booksellers are now strictly on a cost-to-serve basis. Discount stores and book chains benefit from this, while independent stores face higher premiums.

For independent bookshops, life is much harder. The benefits of collaboration inevitably accrued largely scale businesses. For the independents, success depends more than ever on relating intimately to customers. Most of the survivors were already good at this – but they have had to be more creative than ever at forming a community around their shops.

Self-publishing never turned into a viable threat. Stephen King abandoned the idea years ago. Some young entrepreneurs will still self-publish, but the motive is to attract a publishing house, not to avoid one.

Prices for books came down slightly when the extent of the supply chain efficiencies became clear, but all in the chain have preferred

to keep their higher margins, rather than engage in a price war. The result has been fairly constant retail prices for printed books.

#### Customer focus

The education publishing industry has strongly benefited from the new collaborative model in Australia. It has become intensely customer focused, obsessed with providing the best content in the right mix of formats to all its customers from 7 year olds to academics. Governments agreed on national standards at school level across Australia. The universities undertook a global benchmarking study 5 years ago which re-set the standards in terms of teaching style and content. This has led to carefully targeted material being created, including paper/electronic/on-line products and services in various configurations. Schools and tertiary institutions, encouraged by government funding, now have significant on-line content in their curriculums, most, but not all, produced in Australia. Schools still operate mostly on a paper basis as a result of the breakthrough Monash Report which proved the damage caused to eyes and backs if children under ten used computers excessively. In collaboration with education publishers, tertiary institutions are now producing easy-to-use, affordable education packages.

The spirit of collaboration has also resulted in new business arrangements. The largest universities now have arrangements with PrintAz, which installs, runs and services digital print equipment on campuses. With network links to departments, PrintAz typically downloads and prints high quality course packs and short run academic research papers, for both students and academics. As a result, these universities have significantly lowered their total expenditure on printing and photocopying.

#### An exciting future

With greater efficiency and optimism, the Australian book industry is looking for further ways to experiment for success. Consideration is being given to a major joint international marketing exercise.

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