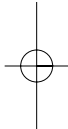
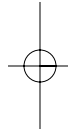


PRINTING INDUSTRIES ASSOCIATION
OF AUSTRALIA AND AUSTRALIAN
PUBLISHERS ASSOCIATION

Book Production In Australia
A Joint Industry Study



December 2001



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Contents

- 1 Executive Summary
- 2 Foreword 2001
 - Part A: Book Publishing Analysis
- 3 Imprint 2001
 - Book Printing Analysis
- 4 Appendixes
 - Foreword 2001
 - Part B: Book Manufacturing Analysis
 - Imprint 2001
 - Growth Trends
 - Origin of Paper
 - Technical Audit Graphs
 - Book Cost 2001

INTRODUCTION

1.1

1.1.1 This study of the book production industry (JIS) was driven by a Steering Committee of publishers and printers representing the Printing Industries Association of Australia (PIAA) and the Australian Publishers Association (APA) and funded by the Commonwealth Government through the Department of Industry, Tourism and Resources, and the Infrastructure and Industry Growth Fund. The purpose of the study was threefold:

- to establish industry best practices
- to identify the opportunities the industry has for future growth
- to make recommendations as to how opportunities for future growth can be realised.

The study was undertaken by two consultants. Bill Mackarell of WJM Consulting Pty Ltd was principally responsible for the Book Publishing Analysis. Bryan Price was principally responsible for the Book Printing Analysis.

1.1.2 Three questionnaires were designed to form the basis of the study:

Foreword 2001 was aimed at publishers and was divided into two parts: Part A was a questionnaire directed to publishers to analyse the key financial and operating issues facing the publishing industry; Part B was a questionnaire also directed at publishers and focusing on book production and printing.

Imprint 2001 was a questionnaire directed at printers to determine the specifications, volume and value of Australian books produced and to examine issues affecting the printing industry.

The questionnaires requested data relating primarily to fiscal year 2000 and were followed by in-depth interviews with the Chief Executive in the case of Part A of **Foreword 2001** and in the case of **Imprint 2001** and with the Production Manager in the case of Part B of **Foreword 2001**. The data collected from the questionnaires and interviews was supplemented by individual case studies that examined the operations of companies that had achieved above average performance and/or had achieved significant growth. Because of the need to maintain confidentiality in respect of the detailed strategies employed by individual companies and of the sensitive financial information they have to measure their growth and value added initiatives, the case studies of these companies had to focus primarily on broad strategies and management practices.

1.1.3 The analysis of the data collected, the conclusions drawn and recommendations put forward are outlined in considerable detail in the two main sections of this report. In any examination of the future strength and potential for ongoing growth of the Australian book production industry the strategies of publishers and printers are inextricably linked and the fundamental premise of the JIS was that an increasingly profitable and growing publishing industry would obviously provide increased opportunities for Australian printers, particularly if they could bring back to Australia some of the considerable volume of print contracts placed offshore. This Overview seeks to summarise from the reports the issues facing the industry and how they can be overcome to provide the ongoing growth that publishers and printers require. This Overview also looks at how the JIS is linked with **Ad Rem**, a study of the value chain in the Australian book , and funded by the same source.

1.1.4 A second fundamental premise of the JIS was that the publishing industry could not be examined as if it were a single entity because it operated across four quite distinct market segments where there were significant differences in terms of financial performance and the issues affecting future growth. Accordingly, publishers were grouped in the following four market segments:

- Trade/Consumer
- Schools
- Tertiary/Academic
- Professional/Reference

2.1 PRINCIPAL ISSUES FACING THE INDUSTRY

2.1.1 The profit performance of publishers in the Trade/Consumer market segment was a major concern identified by the JIS. In the three years prior to the 2000 fiscal year, six of twelve respondents in this segment reported sales growth in excess of 20%, while a further five reported sales growth between 5% and 10%. Unfortunately, growth in sales was not accompanied by improved profit performance because an operating margin equivalent to only 6.6% of sales was reported for 2000 by the fourteen respondents to this part of the questionnaire, a result which was inflated by the superior performance of two respondents and which contrasted with the operating margin of 16.7% of sales reported by ten respondents in the Schools segment. If the results of the two superior performers in the Trade/Consumer segment were eliminated the operating margin of the remainder dropped to 3.5% of sales. With the majority of respondents optimistic about the sales outlook through 2003 the issue of profitability clearly needs to be addressed. The main factors affecting the profitability of publishers in the Trade/Consumer segment were:

- gross margin performance, particularly the effect on margin of inventory write-off which, in 2000, amounted to \$26.3m or 4.9% of the sales of the fourteen respondents;
- operating costs which, at 37% of sales, were 2% higher than the level of costs in the other market segments;
- the effects of foreign exchange exposure which was expressed either as a direct loss or in reduced gross margin on the sales of imported books which accounted for 46% of the total sales reported by the sample.

2.1.2 The management of working capital across the whole industry was shown to be an issue of concern, particularly in the Trade/Consumer segment where the twelve respondents had a ratio of PBIT to working capital of only 13.1% compared with a minimum target of 20%. In the Schools segment, while the overall ratio of PBIT to working capital was 33.9%, above the target of 30%, two of the eight respondents had a ratio considerably below 20% and a third had a ratio a little above 20%. In the Tertiary/Academic segment the overall ratio achieved by the seven respondents was 16% but only two had a result above 20%, the target for this segment.

The key factors responsible for this performance were:

1. **Management of Inventory.** Considerable excess inventory was being carried in all market segments despite the high level of write-off in the Trade/Consumer area. The twelve respondents in this segment had an inventory turn a little less than 2X, significantly below the desirable target of 3X. While inventory turn with Schools publishers would be expected to be lower than with Trade publishers, the sample reported an overall turn a little less than 2X. The Tertiary/Academic sample reported an inventory turn a little higher than 2X but well short of a desirable 3X.
2. **Debtor Management.** By far the majority of respondents across all segments reported a DSO figure well above 80 days, a level that should be unacceptable.

2.1.3 In many cases distribution costs were revealed to be a problem with eleven of the thirty-three respondents to all segments reporting distribution costs above 12% of sales. The smaller publishers clearly have distribution costs as a major issue.

2.1.4 The volume of returns in the Trade/Consumer segment still presented a problem in that returns were 15%–20% of sales as reported by twelve respondents, with four of these carrying returns of 20% or more of sales.

2.1.5 It was very disappointing to see an extremely low level of expenditure on the training and development of people by publishers in the Trade/Consumer segment allocating only 0.1% of sales to training and Schools publishers only 0.3% of sales. Given the critical role of people in an industry like publishing such a low level of expenditure would seem totally inadequate.

2.1.6 The JIS focused primarily on larger publishers but it became clear that smaller publishers would be experiencing significant problems in financial performance given the trends revealed by the study. In the Trade/Consumer segment four respondents reported sales of less than \$10m and all four had losses, while the two losses reported in the Schools segment were from companies with less than \$10m in sales. Of further significance in this respect is the comparison with the results of the ABS Survey of Book Publishers 1999–2000 that indicated that there were eighty-three Trade publishers that between them produced sales of \$277m and PBIT of only \$15.7m and seventy-one Schools publishers that produced no profit at all from sales of \$102.6m.

2.1.7 The ABS Survey indicated that a little more than half the book printing carried out for Australian publishers was placed offshore and the respondents to Foreword 2001 confirmed this in general terms, placing 45% offshore.

The key factors responsible were:

- currently Asian printers have a price advantage over Australian printers of between 12% and 27% with the largest discrepancy in the prices for four-colour casebound books;
- Asian printers have access to cheaper coated papers and are prepared to hold large stocks of paper to service anticipated demand;

- in many cases Asian printers have focused on value added initiatives for their customers to supplement their price advantage;
- the absence of state-of-the-art hard case binding equipment is a serious impediment to the global competitiveness of Australian printers with the position difficult to remedy given the current unsatisfactory levels of utilisation.

2.1.8 The JIS pointed out an absence of interaction between publishers and printers at a strategic level so that both parties could understand each other's needs, issues, priorities and processes. It also highlighted a lack of strategic alliances between printers to overcome common problems such as the buying of paper. The result has been the erection of a mindset that has proliferated inefficiencies and ongoing cost barriers. Awareness of some of the real advantages offered by sections of the Australian printing industry has not always been communicated. For example, Imprint 2001 identified at least one major printer not significantly involved in book printing but with the capability of providing highly competitive four colour printing.

2.2 THE WAY AHEAD

2.2.1 Significant improvement in profitability is well within the reach of at least medium size and larger publishers in the Trade Consumer segment. The case studies carried out in this segment and the individual company interviews certainly confirmed that there was abundant creative talent among publishers in these companies to take advantage of publishing opportunities as they arose. The achievement of ongoing sales growth is not a major issue, therefore, but ensuring a stronger bottom line from this growth is the task at hand. The JIS put forward a financial model for the Trade/Consumer segment that would result in an operating margin of 10% of sales and that was based on achieving a trading gross profit of 53% of sales, a net gross margin of 45% of sales and operating costs of 35% of sales. The successful implementation of this model in 2000 would have resulted in an additional \$18.3m in PBIT for the fourteen respondents to the segment.

The following assumptions underpinned this model:

- the achievement of improved trading gross profit would be the result of better pricing and reductions in production costs;
- the improved net gross margin would be dependent on the implementation of more effective inventory management to result in a reduced inventory write-off to 4% of sales.

Similar models were constructed for the Schools and Academic/Tertiary segments. It is worth noting that the six publisher case studies identified a number of common management practices adopted by these companies to achieve growth and sound financial results. These included clearly defined goals, focus on strategies to achieve those goals, accountability of key staff to ensure their achievement and the provision of vital management information to measure performance.

2.2.2 Improved inventory management is an opportunity for publishers in all market segments, particularly in the Trade/Consumer area. In order to maintain more effective control of inventory, publishers should focus on:

- their publishing policies;
- market dominance of specific categories;
- tighter management to ensure a higher success rate in achieving first year sales targets for new titles;
- the use of industry data and increased cooperation with retail partners to assist in reprint decisions.

The achievement of a 3X inventory turn by publishers in the Trade/Consumer segment would have resulted in the twelve respondents reducing their inventory holding in 2000 by \$50m. A further \$8.5m would have been saved in inventory costs if the respondents to the Schools segment had achieved an inventory turn of 2X and those in the Tertiary/Academic segment had achieved an inventory turn of 3X.

2.2.3 Highly relevant to the objective of reducing production costs would be the extent to which publishers could be encouraged to form strategic alliances with third party production specialists. In this respect it is interesting to note that the top performing trade publisher in the survey with a trading gross profit above 70% of sales has made extensive use of such specialists who organise virtually all production and printing for that company. While that particular specialist deals exclusively with offshore printers, Imprint identified at least one company that specialises in colour books and operates within the Australian printing industry. It offers specialist resources in production and design and ensures that correct printing resources are allocated to each title. It works with a number of Australian printers and has developed an interactive quotation system that has sped up this process to the advantage of the publisher and that has provided cost benefits to the printers concerned. If such alliances can be maintained and widened the obvious advantage to publishers, apart from faster turnaround times, is that the costs of in-house production and design can be reduced and, in some cases, outsourced. There is clear potential benefit here for smaller publishers. For printers there is the opportunity to begin to bridge the gap between the costs of printing in Australia and the costs of printing offshore.

2.2.4 One distinct opportunity for sales growth is from increased export sales. School publishers have demonstrated clearly the advantages that can flow from a strong export business component in that the three publishers with an operating margin above 20% of sales all had substantial export business. The most attractive export sales are being achieved by primary school publishers with successful literacy programmes and this trend is expected to continue and strengthen. Publishers in the Trade/Consumer segment have been less enthusiastic about developing export business and it is recommended that they review their strategies in this respect and begin to develop an export culture. A target for trade publishers of 10% of sales of Australian books would seem to be an achievable initial milestone.

2.2.5 Even in a sample of predominantly larger publishers the JIS identified distribution costs as an area for improvement while, for smaller publishers, they must be a problem of considerable proportion. The survey outlined three possible solutions to consider:

- establish joint ventures between publishers to carry out their distribution functions;
- outsource distribution to one of the larger publishing companies that have geared up to provide this service to third parties;
- outsource distribution to a contract warehouse.

2.2.6 Debtor management should be improved across all market segments as part of a strategy to improve the effectiveness of balance sheet management. A DSO figure of less than 70 days should be set. If this performance had been achieved in 2000 across all three segments there would have been an improvement of \$13.5m in cashflow for the twenty-seven respondents concerned.

2.2.7 The JIS focused a great deal on securing increased profitability and more effective balance sheet management to capitalise on an expected continuation of sales growth and to provide a better working capital base. It is interesting to re-examine the analysis of the Trade/Consumer segment in the light of the improvements that have been identified as being possible to achieve:

- PBIT of 10% of sales or \$53.6m in terms of the 2000 results;
- an inventory turn of 3X with a consequent reduction of \$50m in inventory;
- a DSO of 70 days.

A performance like this would have produced a working capital ratio of 25.9% in 2000 instead of the 13.1% actually achieved by the twelve respondents.

2.2.8 Unless they operate in a distinct niche, smaller publishers must face acute problems and the small publishers (less than \$10m in sales) studied in the JIS confirmed this. Some excellent publishing was carried out but a large costs base made profitability difficult to secure. Unfortunately, the samples in the JIS did not include many smaller publishers and conclusions are hard to draw and recommendations difficult to make. It may be that a separate study of the problems of smaller publishers would be necessary but, for now, there are some obvious recommendations to make:

- a significant part of production and design work should be outsourced and, in the case of at least one of the smaller publishers studied, this is already being done;
- marketing and sales should be outsourced and there are options available — specialist distributors or large publishers geared to provide this service;
- distribution should be outsourced and 2.2.5 outlines the options available here.

2.2.9 An attempt must be made to reverse the trend of increased amounts of printing being placed offshore. Offshore printers currently hold a price advantage between 12% and 27% with the largest discrepancy in four colour casebound books. Costs are spread approximately one-third for each of printing, paper and binding. Imprint established that it would be possible for Australian printers to reduce a significant part of the price discrepancy to the point where it was only 10%, an amount that could be

tolerated in many circumstances provided there were some real value-added benefits by way of compensation. Currently, third party production specialists have shown what can be achieved working with Australian printers, while Imprint identified the keys for further reversal of the trend offshore to be the acquisition of state of the art binding equipment and better buying of paper. There are clear advantages for publishers if a significant amount of printing currently placed offshore could be brought back to Australia:

- turnaround times could be improved;
- there would be less exposure to currency fluctuations;
- there would be less exposure to disruptions brought about by external influences;
- the increased critical mass that would follow would allow Australian printers to focus more on value-added benefits for their clients.

2.2.10 Any reversal of the trend to print offshore, however, will not occur until there is a change to the mindset that currently exists between printers and publishers and among printers themselves. There is no tradition of cooperation or strategic alliances, both of which will be necessary for it is unlikely that any one firm alone can do a great deal to turn current trends. Nowhere is this better illustrated than the need to install modern case binding equipment, an expense that could not be justified by a single firm at present. Currently, interaction between printers and publishers is at a low level on both sides and it needs to be lifted so that strategic and operational plans can be shared. It is hoped that increased interaction would lead to:

- aggregating of paper demand to lead to better purchasing;
- agreement on three sizes of paper;
- a reduction in the number of book sizes to a more workable quantity;
- the likely availability of short run printing with the advance of digital printing.

2.2.11 In order to advance the idea of increased cooperation and strategic alliances Imprint put forward the concept of a joint venture company that would comprise a number of printers and production specialists in the setting of specifications, estimates and delivery schedules, and that would own a dedicated case bindery. While the idea requires further exploration, it represents the kind of thinking and action necessary to break current mindsets and to bring back a great deal of the printing that is now done offshore.

It would also enable the introduction of other value-added benefits for publisher clients if required:

- price rationalisation to take some of the risk out of the initial print run;
- availability of design expertise;
- delivery services where appropriate.

2.2.12 No study of the book production industry would be complete without reference to the impact of technology. The role of short run printing has been mentioned and, while it is possible at present, its use will increase

providing new opportunities for publishers and helping cement the partnership with printers. In terms of publishing it was a little surprising to find that electronic delivery had made virtually no impact on publishers in the Trade/Consumer segment and only minimal impact in the educational segments. Publishers of professional information have embraced new technology to a large extent with 20% of their sales coming from electronic products and this proportion is expected to increase to 50% in three years. Publishers here are developing stand-alone electronic products as well as electronic versions of print products and, in some cases, the print product has been phased out in favour of the electronic. Electronic product sales may not advance to the same extent in educational publishing but it is difficult to accept that they will not have a much stronger role, a trend that seems to be shared by most of the larger school publishers at least. They are investing significant sums of money to keep abreast of developments and are actively developing material in the following areas:

- CD-ROM products as ancillary material to be included in core textbooks;
- stand-alone electronic products;
- selected portions of text material to be transmitted online;
- text material supplementary to textbooks.

Any publisher in the education markets should not ignore these developments because it is not a question of whether there will be some degree of migration to electronic delivery but when.

2.2.13 Clearly, if publishers are serious about achieving sustainable growth they need to ensure that they make adequate investment in their people. The current levels of expenditure on training and development were identified as miniscule and practices here need to be reviewed. A target of 1% of sales to be set aside for training and development would seem to be an appropriate initial target.

2.2.14 Further, if printers are serious about achieving sustainable growth they need to act on the data provided in the following reports. Having regard to their cost disabilities it is recommended that a further study be undertaken to examine ways in which printers may add value to their offering to each of their customers along the lines suggested in PRINT21.

2.3 JIS AND AD REM

2.3.1 Ad Rem, in analysing the value chain in the book industry, addressed the industry as a whole, authors, publishers, printers and booksellers. By contrast, the JIS analysed the book production industry, publishers and printers. In examining the publishing industry Ad Rem treated that industry as a single entity whereas one of the fundamental premises of the JIS was that there were four segments in the publishing industry, with different levels of financial performance and different issues.

2.3.2 Ad Rem made the point that the Australian book industry has experienced steady sales increases over recent years but total profitability has declined across all industry sectors. The JIS made this same point in respect of publishers but stressed that the low levels of profitability were more marked in the Trade/Consumer market segment with some good results being achieved by some of the larger publishers in the Schools

segment and some excellent results being recorded by publishers of professional information. Ad Rem concluded that the best way to reverse the trend towards declining value in the book industry was through:

- collaboration between publishers and booksellers to reduce returns and to reduce inventory levels both areas of which impact unfavourably on financial performance;
- consolidation of distribution within the publishing sector;
- consolidation of the processes involved in the procurement of paper by printers;
- consolidation within the printing sector.

The JIS complements Ad Rem in that its study of publishers and printers has confirmed the general conclusions of Ad Rem but has concentrated much more on the financial and operational details of the factors at work in the publishing and printing industries. It has shown that the decline in profitability in the publishing industry has not been consistent across all segments for school publishers and publishers of professional information have performed well against almost any standards it has identified. It has examined the inefficient practices that have led to a decline of profitability in the Trade/Consumer segment and has concluded that this trend can be reversed. It has provided financial models that will lead to increased profitability and better working capital utilisation, the achievement of which will certainly be possible for medium size and larger publishers in all segments. It has also confirmed the need for greater collaboration between printers and publishers to remove inefficiencies in the supply chain to lead to reduced costs and to lay the basis for a concentrated effort to bring back to Australia a significant portion of book printing currently placed offshore.

2.4 The consultants involved in the JIS wish to record their appreciation of the time given by publishers and printers in the completion of the questionnaires that formed the basis for the study and for the time given in the subsequent interviews. Particular thanks go to those companies that were willing to allow themselves to be used as case studies. Much of the data collected has not been available before and it is hoped that it will be found to be useful in planning future development.

Foreword 2001

Book Publishing Analysis

Book Publishing Analysis

Contents

1.0	Overview	17
1.1	The Project	17
1.2	Results	18
2.0	Trade/Consumer Publishing	19
2.1	Introduction	19
2.2	P&L Summary 2000 (Trade/Consumer Publishing)	22
2.3	PBIT	23
2.4	Sales	24
2.5	Gross Margin	25
2.6	Operating Costs	25
2.7	Electronic Sales	26
2.8	Export Sales	26
2.9	Returns	26
2.10	Working Capital	26
2.11	Print Source	27
2.12	Government Regulation	28
2.13	Training and Development	28
3.0	Schools Publishing	28
3.1	Introduction	28
3.2	P&L Summary 2000 (Schools)	29
3.3	PBIT	31
3.4	Sales	32
3.5	Gross Margin	32
3.6	Operating Costs	33
3.7	Electronic Sales	33
3.8	Export Sales	33
3.9	Returns	34
3.10	Working Capital	34
3.11	Print Source	34
3.12	Government Regulation	35
3.13	Training and Development	35
4.0	Academic/Professional Publishing	35
4.1	Introduction	35
4.2	P&L Summary 2000 (Tertiary/Academic)	36
4.3	PBIT	38
4.4	Sales	38
4.5	Gross Margin	39
4.6	Operating Costs	40
4.7	Electronic Sales	40
4.8	Export Sales	41

4.9	Returns	41
4.10	Working Capital	41
4.11	Print Source	42
4.12	Government Regulation	42
4.13	Training and Development	42
5.0	Case Studies	42
5.1	Rationale	42
5.2	Allen & Unwin	43
5.3	Hodder Headline Australia Pty Ltd	46
5.4	Penguin Books Australia	50
5.5	John Wiley & Sons Australia Ltd	54
5.6	Nelson Thomson Learning	58
5.7	Reed Education	62
5.8	Conclusions – Case Studies	68
6.0	Conclusions And Recommendations	68
6.1	Trade/Consumer Segment	68
6.2	Education Segments	72

1.0 OVERVIEW

1.1 THE PROJECT

1.1.1 The purpose of this study was threefold:

- to establish industry best practices
- to identify the opportunities the industry has for future growth
- to make recommendations as to how opportunities for future growth can be realised.

From the outset it was decided that this quantitative and qualitative survey of selected publishers in the Australian publishing industry should be conducted across four market segments:

- Trade/Consumer
- Schools
- Tertiary/Academic
- Professional/Reference

It was thought that there would be significant differences among the four segments in terms of both financial performance and the issues affecting future growth. Both these assumptions have certainly proved to be correct.

1.1.2 A questionnaire was devised in two parts:

- Part A – Publishers Questionnaire
- Part B – Manufacturing Analysis

and forwarded to selected companies across the four segments defined above. The questionnaire requested data relating primarily to fiscal year 2000. The questionnaire was followed by an in-depth interview with the Chief Executive in the case of Part A and the Production Manager in the case of Part B. The purpose of the interview was to validate the data provided in the questionnaire and to seek additional data to that provided in the questionnaire.

1.1.3 The data from the questionnaire was to be supplemented by case studies that examined the operations of companies that had achieved above average performance and/or had achieved significant growth. Six companies, three from the Trade/Consumer segment and three from the Schools segment, were invited to participate in this part of the project. The purpose of the studies was to outline the strategies and practices employed by these companies to secure their performance levels.

1.1.4 Those companies that responded to the questionnaire and subsequent interview were:

Trade/Consumer	Schools	Academic/Professional
Allen & Unwin	Era Publications	Allen & Unwin
Currency Press	Horwitz Martin	Butterworths
Era Publications	John Wiley & Sons	CCH
Hardie Grant	Macmillan Education	CSIRO
Harlequin	McGraw Hill	John Wiley & Sons
Harper Collins	Mimosa	Macmillan Education
Hodder Headline	Nelson Thomson	McGraw Hill
Lonely Planet	Pearson Education	Nelson Thomson
Pan Macmillan		Pearson
Pearson		Reed Education
Penguin		
Random House		
Scholastic		
UNSW Press		

1.2 RESULTS

1.2.1 The thirty-three responses across all segments revealed combined sales of \$956.2m compared with sales of \$1290m in the ABS Survey that examined two hundred and seven companies in the same period. Responses to the Trade/Consumer segment in the questionnaire reported sales of \$536.1m, the Schools segment reported sales of \$162.6m, while the Academic/Professional segment reported sales of \$257.5m. Because the performance of the Academic/Professional segment was distorted by the results of two large publishers of professional information, it was decided to divide this segment into a Tertiary/Academic group and a Professional Information group.

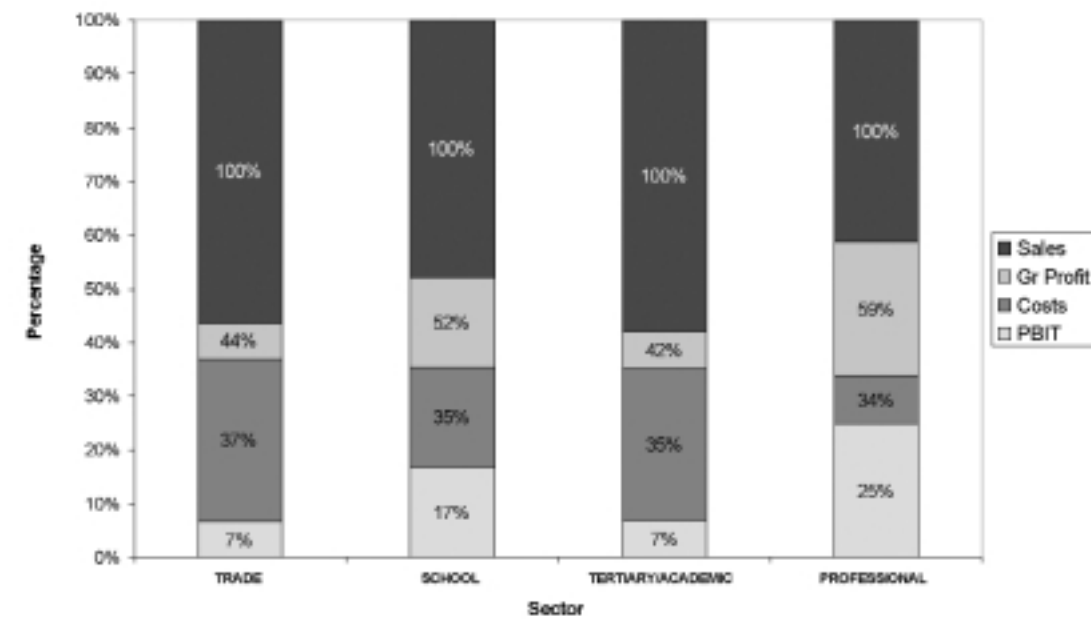
1.2.2 There were marked variations in margin and profit performance across the four segments as Figure 1 following indicates, particularly in terms of Profit Before Interest and Tax (PBIT). The Schools segment produced an operating margin equivalent to 17% of sales as a result, primarily, of a gross margin of 52% of sales. This compared with an operating margin of 7% of sales for each of the Trade/Consumer and Tertiary/Academic segments, where the gross margin was 44% and 42% of sales respectively. The Professional Information segment recorded an impressive operating margin equivalent to 25% of sales, and a gross margin of 59% of sales.

Operating costs in all segments were similar: 34–35% of sales in the case of Schools and Academic/Professional; and slightly higher, 37% of sales, in the case of Trade/Consumer.

1.2.3 Working capital return was not adequate in the Trade/Consumer segment, with an overall result well below 20%. While some School companies surveyed produced an attractive working capital return, others were not as successful. Unfortunately, management of working capital was not a high priority for certain companies across all segments.

1.2.4 The study has shown that a realistic financial model could be applied to each of the segments to produce improved financial performance. It has also set out a series of benchmarks for companies to evaluate in planning

Figure 1 - Profit Margins By Sector



their own programs of continuous improvement. Basically, these relate to:

- margin improvement;
- improved working capital management;
- increased focus on marketing and sales;
- improved distribution costs;
- more effective inventory management;
- improved debtor management;
- reduced returns.

2.0 TRADE/CONSUMER PUBLISHING

2.1 INTRODUCTION

2.1.1 There were fourteen responses to the Trade/Consumer segment of the project questionnaire and, of these, twelve could be said to be from purely trade publishers while two were from companies with a minor trade publishing component. Of the fourteen, five responses were from Australian owned companies. With only fourteen responses it could be said that this study was not truly representative of the industry, as the latest ABS Survey, also of the 2000 fiscal year, listed ninety-seven trade publishing companies. However, these fourteen responses accounted for aggregate sales of \$536m, 66% of the trade sales reported in the ABS figures. In terms of PBIT, the total of these fourteen responses accounted for 69% of the total profit before tax of trade publishers reported by the ABS. Therefore, it could be claimed that the trends depicted in this study are indicative of many of the trends operating in this segment of the publishing industry. While four responses were from companies with

trade sales of less than \$10m, inevitably there is an emphasis on the larger operators.

- 2.1.2 Reported sales growth in the three years leading up to the 2000 fiscal year was mixed; of the twelve responses received to this part of the questionnaire, six reported sales growth in excess of 20% in this period, five reported growth but at a rate between 5% and 10% and one reported a sales decline. In respect of profit, six responses reported profit increases in the period and six reported profit reductions, a position which was confirmed by the analysis of performance in the 2000 fiscal period, reinforcing that while trade publishers are achieving some modest sales gains, profitability does not necessarily follow.
- 2.1.3 Year on year comparisons are difficult in the Trade/Consumer segment given its volatility and the effect that one or two major titles can have on the performance of an individual company. In the case of one of the respondents, the 2000 performance was disappointing and below that of previous years, however, if the 2001 fiscal year had been used as the base, an entirely different picture of that company would have emerged. Conversely, one of the superior performers in 2000 would have been a poor performer in 2001.

2.2 P&L SUMMARY 2000 (TRADE/CONSUMER)

2.2.1 The P&L results of the fourteen respondents for the 2000 fiscal year were:

SALES	\$'000's
Fiction	87190
Non-fiction	130564
Children's	81131
Imported	184546
Co-publications	12412
Electronic	25150
Other Income:	
CAL	412
PLR	443
Overseas Rights	4462
Serial Rights	429
Distribution Income	9372
Total Sales	536111
PRODUCT COST OF SALES	
Print	98865
Origination	12008
Imported Books	111668
Electronic	70
Royalties/Fees	32691
Total Product Cost of Sales	255302

%Sales	47.7%
Other Cost of Sales	
Editorial	20433
Exchange Gain/Loss	444
Inventory Write Down	26332
Total Other Cost of Sales	47209
Gross Margin	33600
% Sales	43.6
OPERATING COSTS	
Publishing	15186
Marketing	38623
Sales	29417
Distribution	60307
Other	54765
Total Operating Costs	198298
% Sales	37%
PBIT	35302
Operating Margin	6.6%

It is interesting to note the following:

- Sales of Australian published titles, including co-editions, accounted for 45.8% of total sales;
- Sales of electronic products reported above were almost all from one company;
- Trading gross profit was 52.4% of sales, significantly lower than the figure reported by School publishers in 3.2.1;
- Trading gross profit was eroded to 43.8% of sales by costs equivalent to 8.8% of sales, the most significant being inventory write-off of \$26.3m or 4.9% of sales, a disturbing result;
- Royalties/fees were 13.3% of sales of Australian books;
- The gross margin on imported books was 39.5% of sales;
- Operating costs were 37.0% of sales;
- Marketing and sales costs, including salaries, were 12.7% of total sales;
- Distribution costs were 11.2% of total sales but the result depended on the extent to which costs reported included costs of processing orders, inventory control, customer service, IT and collection;
- PBIT equivalent to 6.6% of sales was disappointing in itself but the result was worse than this because it was boosted by the superior performance of two companies.

2.2.2 Individual respondent P&L performance is indicated in Figures 2 and 3.

Figure 2 - Trade/Consumer P&L Y2000 (Pt I)

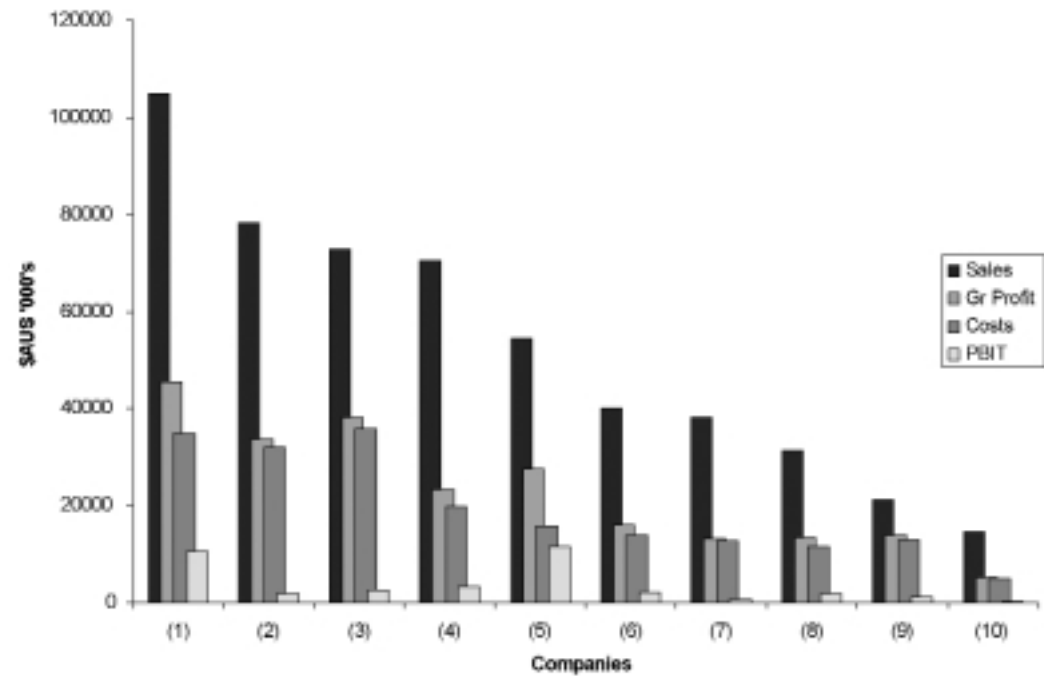
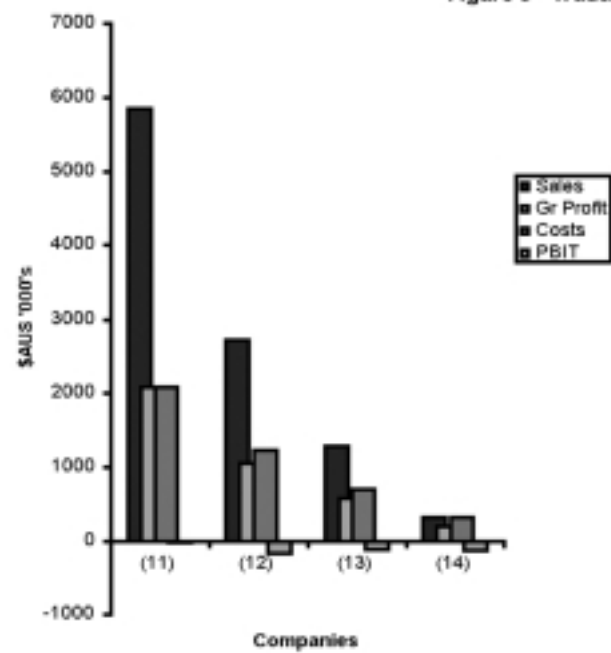


Figure 3 - Trade/Consumer P&L Y2000 (Pt II)



2.3 PBIT

2.3.1 Total PBIT for the fourteen respondents was \$35.3m or 6.6% of sales but, as Figures 2 and 3 indicate, this result was distorted by the performance of two of the respondents who accounted for over 60% of the total PBIT of the group and were the only responses reporting an operating margin in double digits. If these responses are excluded from the overall result the combined operating margin of the remainder was only 3.5% of the

combined sales of those companies, not a good result and one that should be of considerable concern to the industry. If the two top performers are excluded, four of the remainder reported a loss for the 2000 year, five reported an operating margin less than 5% of sales and only three reported an operating margin between 5% and 10%. To reinforce the concern over the profitability of publishers in this segment it should be noted that, using the ABS figures, it would appear that eighty-three companies outside this study only produced \$15.7m in PBIT between them.

2.4 SALES

2.4.1 See Figures 4 and 5 for a complete Trade/Consumer sales breakdown by product and category. In the cases where sales included revenue from distribution this revenue represented the commission earned on sales rather than third-party sales themselves.

Figure 4 - Trade/Consumer Sales Breakdown Y2000 (by Product)

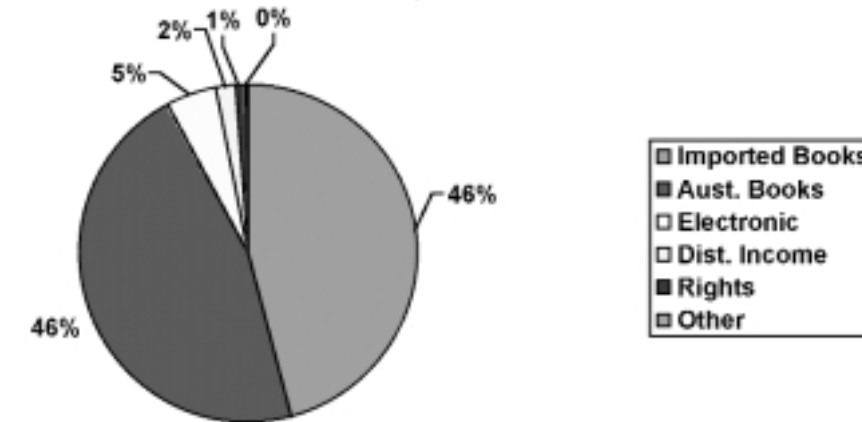
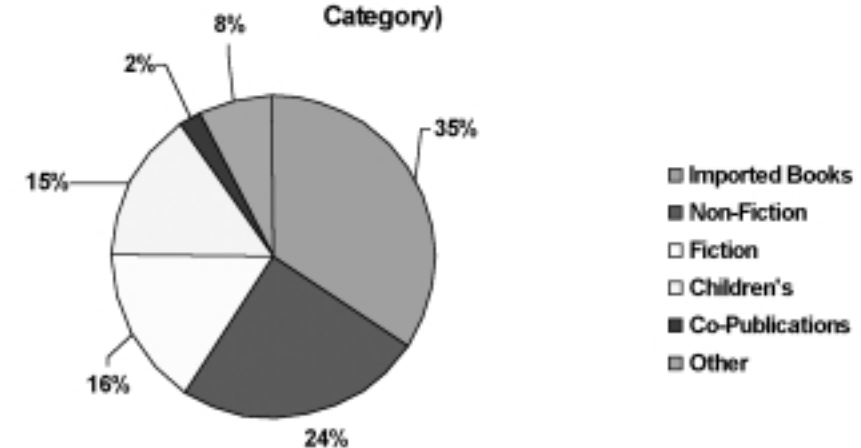


Figure 5 - Trade/Consumer Sales Breakdown Y2000 (by Category)



- 2.4.2 The respondents were mostly optimistic about the sales outlook through 2003, with three projecting an annual sales increase in excess of 20% in this period, four in the range 10%-20% and four in the range 5%-10%.
- 2.4.3 When examining the potential avenues for sales growth respondents identified improved sales and marketing as the main key, with seven responses in the High or Very High rating, and three cases identifying a need for better market research. New local markets and improved delivery were other items identified as being critical for increased sales growth.
- 2.4.4 The main obstacles to sales growth were identified as government regulation (nine responses), price point barriers (five), foreign exchange difficulties (six) and returns practices (five). The first three of these items are not unrelated for, while there was minimal criticism of the GST itself, there was certainly the perception that the resulting price increases broke traditional price point barriers, therefore hampering sales growth. This position was exacerbated when the effects of a disastrously falling Australian dollar were factored into the pricing equation.

2.5 GROSS MARGIN

The effective management of margin is a key factor determining the financial success of a publishing company and there were considerable differences among the different market segments in gross margin performance. The analysis of the responses to the questionnaire examined, first, Trading Gross Profit (sales less product cost of sales and royalties) and, second, net Gross Margin which took into account the reduction of Trading Gross Profit by the allocation of editorial costs and the costs of write-offs.

1. **Trading Gross Profit.** Trading Gross Profit of the fourteen respondents amounted to \$280.8m or 52.4% of sales. This result, was affected significantly by the performance of a single respondent who achieved a Trading Gross Profit equivalent to 77.4% of sales. When the result of this company was eliminated the overall Trading Gross Profit of the remainder was 49.6% of sales. Of the remaining thirteen respondents, seven recorded a trading gross profit lower than this, a major factor in their overall profit performance. Improved performance in this area could have very positive effects on overall profitability.
2. **Trading Gross Profit — Imported titles.** Trading gross profit on imported titles, which accounted for 46% of total sales reported by the respondents to this segment, was 39.5% of sales and, therefore, had a significant role in determining overall Trading Gross Profit for the segment. Individual variations behind this total were considerable and were affected by the terms under which imported titles were purchased and the effects of foreign exchange fluctuations on product costs. The highest Trading Gross Profit reported on imported titles was 83.4% of sales (possibly an error), while the lowest was 33.8%.
3. **Royalties.** Royalties/fees reported were 13.3% of sales.
4. **Gross Margin.** The most significant factor in the relatively low PBIT reported by this segment was the erosion of Trading Gross Profit, by an amount equivalent to 8.8% of sales, to an overall Gross Margin of 43.6%

of sales. The reduced margin was due to editorial costs and to charges relating to foreign exchange losses and inventory write-off. Most of these factors are, therefore, significant to take into account in any strategy to improve gross margin.

5. **Editorial Costs.** Practices in allocating editorial costs varied from company to company with some companies allocating the costs of freelance editors only to cost of sales, others allocating all editorial costs and others allocating none.
6. **Exchange Losses.** The \$0.4m in exchange losses reported in the questionnaire did not account for all the adverse effects of fluctuations in foreign exchange rates on publishers with a strong component of imported titles for, in many cases, the effects of foreign exchange movements were absorbed in product cost of sales.
7. **Inventory write-off.** The costs of inventory write-off were very damaging to the profitability of the respondents to this segment for they were \$26.3m or 4.9% of sales. Even a modest reduction of 1% of sales in inventory write-off would have resulted in an additional \$5.4m in PBIT in 2000 and, if that had occurred, the operating margin for this group would have increased to 7.6% of sales.
8. **Bookseller discounts.** Most sales of Trade books are made to bookshops, large retail outlets and supermarkets and the discount structures operating with these customer groups are much higher than those that operate in the Schools segment.

2.6 OPERATING COSTS

Operating costs of the fourteen respondents amounted to 37% of sales but with considerable variation among the individual companies; five recorded a costs to sales ratio above 37%, while the lowest ratio was 28.3%. Interestingly, for the most part the better profit performers in the group had the most favourable operating costs ratio, well below 37%.

1. **Marketing and sales costs.** These were 12.2% of sales, not a particularly large proportion given the emphasis placed by most of the respondents on marketing and sales as a means of securing sales growth; five respondents reported marketing and sales costs above 14% of sales, two in the 12%–14% range, one in the 10%–12% range, five in the 5%–10% range and one below 8%.
2. **Distribution costs.** Identified as an area of concern in any future growth plans, distribution costs were 11.2% of sales and in many cases included the costs of order processing, customer service, inventory control, IT and collection. The differing practices in allocating costs in this area made comparisons difficult. However, six respondents reported distribution costs well above 12% of sales, a result that indicated that distribution was a cost area to be reviewed in any strategic examination.

2.7 ELECTRONIC SALES

- 2.7.1 Of the sales of electronic products reported in 2.2.1, over 90% were sold by only one of the respondents, with the remainder reporting little or no current activity and all but one seeing no potential for growth from this

area in the near future. One respondent who projected a growth in sales of electronic products above 20% obviously had a clear strategy in mind.

2.8 EXPORT SALES

2.8.1 The summary below indicates export sales equivalent to 24.5% of total sales of Australian books in 2000 but more than 75% of total export sales reported were from one respondent. When the results from this respondent were removed the ratio of export sales to sales of Australian books fell to 7.2%. During the interviews, only modest enthusiasm was shown for the potential for export sales, although two companies were attempting to instil a more developed export strategy into their teams. However, export sales do appear to be an area for potential growth.

TRADE EXPORT SALES SUMMARY 2000

Respondents	Export sales	Rights	Total Exports	%Sales Aust.Books
10	\$56.1m	\$4.2m	\$60.3m	24.5%

2.8.2 The largest export territory was Europe including the UK with more than \$30m in sales, followed by the USA with sales around \$20m.

2.9 RETURNS

There were twelve responses indicating the volume of returns in the 2000 year and, of these, three had return rates between 0 and 10% of sales, seven between 15% and 20%, one between 20% and 25% and one above 25%. Most publishers in the Trade/Consumer segment have introduced a firm sale policy on backlist sales that has led to a reduction in return rates. Given that many of the respondents have stated that booksellers are ordering lesser quantities of individual titles more often, perhaps it is time to seek further variations to returns policies.

2.10 WORKING CAPITAL

2.10.1 The table below summarises working capital for the Trade/Consumer segment in 2000:

WORKING CAPITAL SUMMARY 2000

Respondents	12
PBIT	\$35.2m
Author Advances	\$16.2m
WIP	\$17.2m
Inventory	\$120.6m
Debtors	\$114.0m
Total Working Capital	\$267.9m
Ratio	13.1%

2.10.2 Not unexpectedly, given the poor operating margins recorded by the respondents, the working capital position is equally disturbing. As far as this study is concerned, working capital has been taken to include author advances, work in progress, inventory and debtors and an expectation that a minimum ratio of PBIT to working capital would need to be more than 20%. The table above reveals a working capital ratio of only 13.1%

from the respondents to the study. Of the entire group, one had a working capital ratio of more than 100% reflecting the fact that the company carried virtually no inventory and a large proportion of its sales was on a subscription basis. Two other companies had a ratio between 20% and 30%. Not unexpectedly the companies with the best working capital ratio had more effective inventory management and more effective management of receivables.

2.10.3 One deficiency in the questionnaire was the lack of a question eliciting the extent of unearned author advances written off. Subsequent interviews with the larger publishers indicated that the amount would consistently be between \$200K and \$400K and, in some cases, even higher.

2.10.4 Management of inventory has already been identified in this report as a major issue facing Trade/Consumer publishers, with the extent of inventory write-off highlighted, however, the problem goes even further. Most respondents were realistic in the formulas they used to value their inventory and this practice is to be encouraged. The focus should be on controlling and managing the volume of inventory from the start.

The table below summarises the inventory position of the fourteen respondents.

Of the group, only four companies would appear to be achieving an inventory turn of 3X or better, a target that should be adopted by all.

One of the questions asked respondents to state the number of weeks considered acceptable for a first print run to sell out. Of eleven responses, the range was from 6–156 weeks, with four responses nominating twelve weeks as the ideal. Regardless of the optimal timeframe, six of the respondents indicated that fewer than 40% of their titles met the criterion.

INVENTORY SUMMARY 2000

Respondents	12
Inventory	\$120.6m
% Sales	22.5%
Weeks in Stock	27

2.10.5 There would appear to be considerable room for improvement to working capital in the area of debtor management, for trading terms would appear to be generous, with a number of customers receiving 60 days credit, and collection policies generally a little loose. Of eight respondents, the stated DSO figure ranged from 60 to 96 days. In the case of a company with \$20m in sales, an improvement of 10 days in the DSO would result in more than \$0.5m in additional cash flow.

2.11 PRINT SOURCE

There were 11 responses to the question relating to print buying patterns and these showed that \$36.5m in printing contracts was placed with Australian printers but \$26.4m was lost to printers offshore.

2.12 GOVERNMENT REGULATION

Most respondents expressed concern over two areas of government regulation:

1. **GST.** The concern expressed was not so much about the GST itself but the effect it had on price points, particularly in respect of some categories of trade paperbacks. The fact that the GST was imposed at a time when the depreciation of the Australian dollar was also having a very adverse effect on the margins associated with book imports, created a double problem for publishers.
2. **Open market.** While the threat of an open market is not as immediate as it was earlier in 2001, there was considerable concern over the damage that such a policy could bring. The likely adverse effect on the protection of territorial rights of Australian authors, the effects on the trading position of Australian companies in the wake of the inevitable dumping of inventory from foreign publishers, and the general devaluation of the book in retail markets were the most common objections raised.

2.13 TRAINING AND DEVELOPMENT

Given the dependence the industry has on intelligent and creative people, it was disappointing to find such small amounts of money spent on staff training and development in 2000. There were twelve responses to the question relating to training and these companies spent \$634K in the year of the study, only 0.1% of the combined sales of those companies. The question did not include the costs of internal training programs or sending staff overseas to international meetings in which many of the respondents engaged but, nevertheless, 0.1% of sales is not very significant.

3.0 SCHOOLS PUBLISHING

3.1 INTRODUCTION

- 3.1.1 There were ten responses to the Schools segment of the project questionnaire of which three were from Australian owned companies. Again, with only ten responses the study could be said to be unrepresentative given that the ABS Survey included eighty-one publishers categorised as publishing for primary and/or secondary schools. However, the combined sales revenue of the ten respondents in this study in the 2000 fiscal year was \$162.6m, 61% of the \$265.2m reported in the ABS figures. The profit comparison does reveal a discrepancy in that the combined PBIT reported by the ten respondents to this study was \$27.2m compared with \$24.4m reported in the ABS figures. Given that the ten respondents here include most of the larger companies operating in the Schools segment any trends shown would be indicative of trends in this segment as a whole.
- 3.1.2 The financial performance of the respondents to the Schools segment is clearly superior to that reported in the Trade/Consumer segment in terms of gross margin, operating margin and return on working capital. Gross margin was 52.1% of sales compared with 43.6% reported in the Trade sample; operating margin was 16.7% of sales compared with 6.6%; and the ratio of PBIT to working capital was 33.9% compared with 13.1%. However, whether this level of performance is being achieved by all

publishers in the Schools segment is questionable, given that the ABS figures indicate a further 71 companies operating in this sector without any additional profit.

- 3.1.3 The three years leading up to the 2000 fiscal year were a period of growth for most respondents with six reporting sales growth in real terms each year and three reporting sales growth in excess of 20% per year. Profit growth in the period 1997–2000 was also strong, with six respondents reporting growth in excess of 20% per year. Most of the ten were also expecting growth to continue through the 2000–2003 period, albeit at a slightly slower rate. It would be interesting to know whether the smaller companies operating in this market segment had experienced similar growth patterns through this period.

3.2 P&L SUMMARY 2000 (SCHOOLS)

3.2.1 The P&L results of the ten respondents for the 2000 fiscal year were:

SALES	\$'000's
Primary Maths	9196
Primary Literacy	49050
Primary Other	20607
Reference (inc. dictionaries, atlases)	4199
Secondary Texts	68079
Imported Books	7096
Electronic	1572
Other Income:	
CAL	1298
Other	1473
Total Sales	162570
PRODUCT COST OF SALES	
Print	31430
Origination	14482
Imported Books	4609
Electronic	1124
Royalties/Fees	15793
Total Product Cost of Sales	67438
% Sales	41.5%
OTHER COST OF SALES	
Editorial	7120
Exchange Gains/Losses	231
Inventory Write Downs/Write Off	3037
Total Other Cost of Sales	10388
Gross Margin	84744
%Sales	52.1%

OPERATING COSTS

Publishing	11089
Marketing	5316
Sales	15709
Distribution	12655
Other	12766

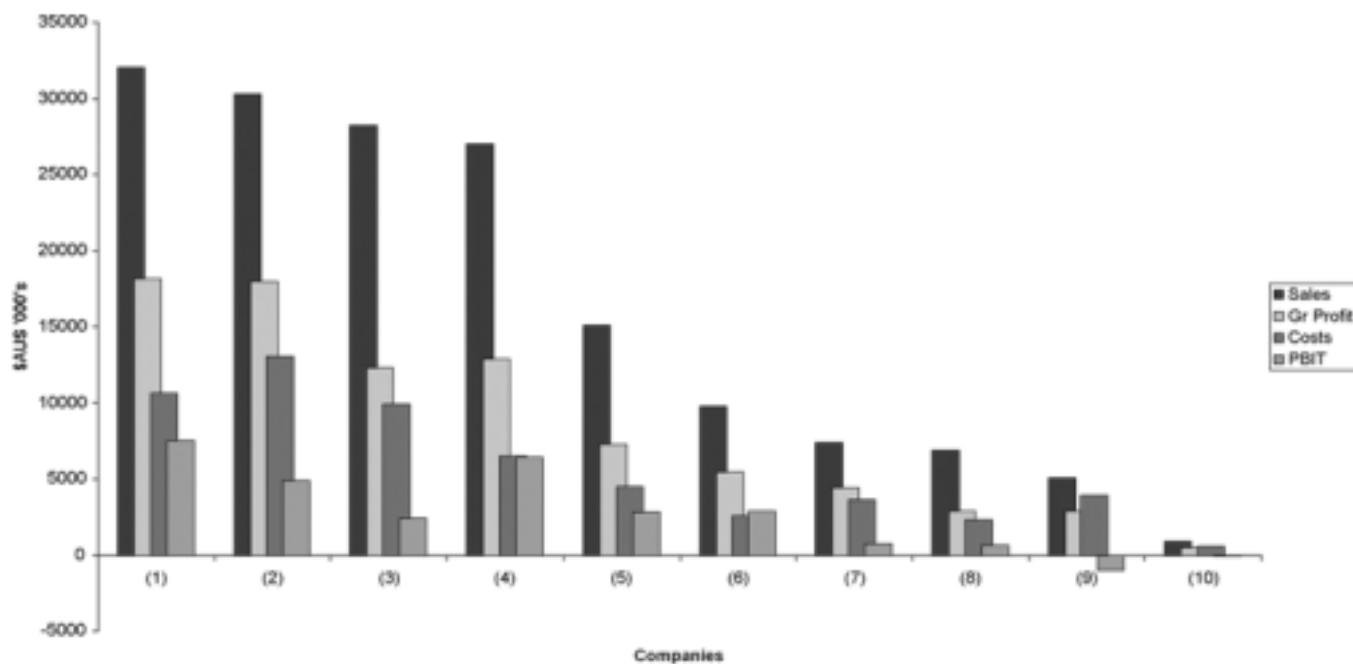
Total Operating Costs	57535
% Sales	35.4%

PBIT	27209
Operating Margin	16.7%

It is interesting to note the following:

- Not unexpectedly, Australian titles dominate the output of publishers in the Schools market with almost 93% of the sales reported by the ten respondents coming from this source.
- Sales of electronic products were not significant in the Schools segment, accounting for less than 1% of total sales reported although the output of digital products is much higher than these figures would indicate, as their sales are not accounted for separately in most cases;
- Trading Gross Profit was 58.5% of sales, much stronger than the 52.4% reported by the Trade/Consumer sample.
- Again, unlike the position in the Trade sample, trading gross profit was eroded by only 6.4% of sales as a result of the allocation of editorial costs and the cost of write-offs to give a gross margin of 52.1% of sales, compared with 43.6% in the Trade sample.
- Royalties/fees were 10.5% of sales of Australian books.
- Inventory write-off was \$3m, a considerably lower figure than that of the Trade sample.

Figure 6 - School P&L Y2000



- Operating costs were 35.4% of sales.
- Marketing and sales costs, including salaries, were 12.9% of sales.
- Distribution costs were 7.8% of sales.
- PBIT of the ten respondents was \$27.2m or 16.7% of sales.

3.2.2 Individual respondent P & L performance is indicated in Figure 6.

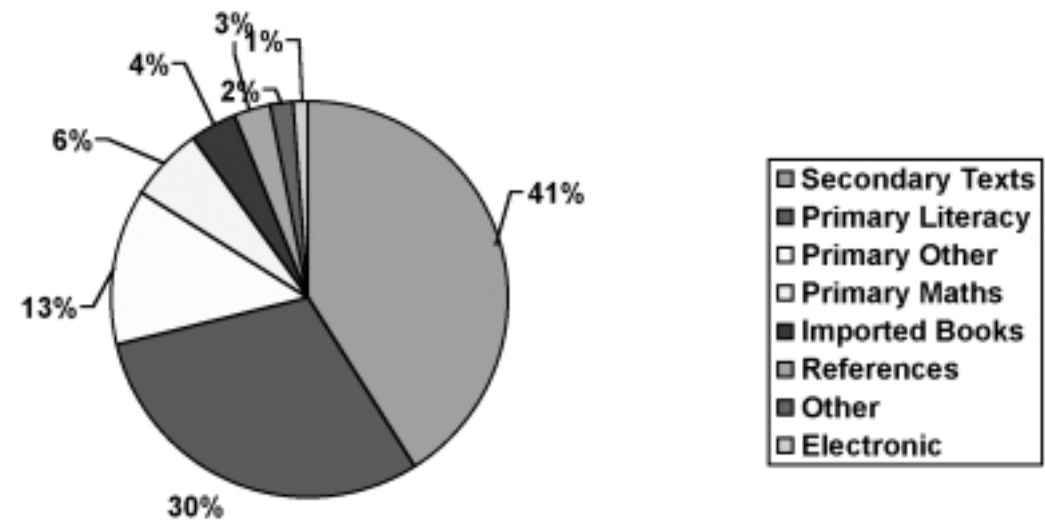
3.3 PBIT

PBIT for the ten respondents was \$27.2m or 16.7% of sales with six of the ten reporting an operating margin in double digits and three of these an excellent operating margin above 20% of sales. Two respondents, both with sales below \$5m, reported losses. It would again be interesting to know how smaller companies across the Schools segment in total fared in this period in terms of profitability.

3.4 SALES

3.4.1 See Figure 7 for a complete Schools sales breakdown by product. Of the reported sales of \$162.6m, 93% came from Australian titles and only 4.4% from imported books. Books for primary schools accounted for 48.6% of total sales and reference and textbooks for secondary schools accounted for 44.5%. In the primary schools market sales of literacy products accounted for 30% of total sales in the sample.

Figure 7 - Schools Sales Breakdown Y2000 (by Product)



3.4.2 Most of the respondents were optimistic about the sales outlook through 2003 with five of eight responses forecasting sales growth around 10% per year and the remainder at a rate slightly lower than this.

3.4.3 In terms of identifying the highest potential avenues for sales growth, respondents rated as High or Very High new export markets (six responses), improved sales and marketing (three) and improved delivery (three). Only two responses indicated a high level of potential for electronic products.

3.4.4 The main obstacles to sales growth were identified as inadequate school

funding (six responses), different state curricula (five) and publisher competition (four).

3.5 GROSS MARGIN

The respondent publishers in the Schools segment had a higher gross margin than their Trade counterparts in 2000, with six of the ten recording a gross margin above the 52.1% of sales recorded for the group.

- Trading Gross Profit.** The ten respondents produced a Trading Gross Profit of \$95.1m or 58.5% of sales, a very good result. Four respondents achieved a Trading Gross Profit above 60% of sales while the lowest trading margin reported was 51% of sales. With only a small proportion of total sales coming from imported titles it was not surprising to find Trading Gross Profit higher in this segment than in the Trade/Consumer area.
- Gross Margin.** Trading Gross Profit was eroded by 6.4% of sales after the allocation of editorial costs and the cost of write-offs for exchange and for inventory. The amount of inventory write-off was \$3m or 1.9% of sales and was a key factor in the higher gross margin achieved in this segment.
- Royalties.** Royalties/fees for the group were equivalent to 10.5% of sales, a significantly lower rate than in the Trade/Consumer segment. The interview process confirmed that several of the larger operators, particularly in the primary schools market, were moving strongly towards paying flat fees to authors rather than royalties. The lower royalty rates here clearly have a marked effect on margin.
- Direct sales to schools.** A significant proportion of sales of primary school books, particularly in the literacy area, are sold direct to schools. Although companies that pursue this strategy incur higher selling costs the net contribution to gross margin is favourable.
- Bookseller discounts.** A further contributing factor to gross margin performance among school publishers is the lower discounts given to booksellers than those given in the Trade/Consumer market segment.

3.6 OPERATING COSTS

Operating costs of the ten respondents was 35.4% of sales with five achieving a significantly lower ratio than this and four with a costs ratio higher than 40% of sales. Not surprisingly, the companies with the highest costs ratios were those with relatively low sales.

- Marketing and sales costs.** Marketing and sales costs were 12.9% of sales, with a wide variation among individual companies from a low of 1.7% of sales to a high of 23.3%. Primary school publishers tended to have higher costs in this area because of their greater involvement in direct sales to schools.
- Distribution costs.** Overall, distribution costs were 7.8% of sales but, again, comparison of individual performance is difficult depending on whether such costs have the costs of order processing, customer service, IT and collection included. The lowest costs for warehousing and distribution only would appear to have been 5%–6% of sales. Reported

distribution costs varied from a low of 5.4% of sales to a high of 26.5% of sales, with five responses indicating distribution costs less than 10% of sales.

3.7 ELECTRONIC SALES

At \$1.6m, sales of electronic products were less than 1% of the total sales of the group but this figure is a little misleading. Certainly the major publishers in the study are spending significant sums of money developing digital material but, in most cases, sales from this material are not brought to account, but used as ancillary material for books or on the company website as part of the overall marketing strategy. Developments in the electronic area include:

- CD-ROM products included in core textbooks to provide ancillary material for teachers and students;
- stand-alone electronic products for sale;
- portions of text material from textbooks used for marketing purposes or for providing access to textbooks in the case of a publishing delay;
- text material supplementary to textbooks that is sometimes sold on a subscription basis.

While there are few school publishers who see strong potential for growth from the electronic area, the larger companies at least are keeping abreast of developments and are actively developing electronic material, both in terms of products and marketing and professional development support.

3.8 EXPORT SALES

- 3.8.1** Export sales have been an integral part of the success of school publishers in recent years. The table below shows export sales of \$47m, equivalent to 33.4% of sales. One respondent whose sales were virtually all export and a second whose export sales were 51.5% of its total sales boosted this number considerably. Export sales were strongest for publishers with a large primary school literacy list, whereas secondary school publishers had limited opportunities. It is interesting to note that the three companies with an operating margin above 20% of sales all had substantial export business.

SCHOOLS EXPORT SALES SUMMARY 2000

Respondents	Export Sales	Rights	Total Exports	%Sales Aust. Books
9	\$46.8m	\$200K	\$47m	33.4%

- 3.8.2** The largest export territory was the USA to which export sales of \$25.7m or 54.6% of total export sales were made, followed by Papua New Guinea with 34.4% of total export sales, the UK with 6.1% and New Zealand with 3.9%.

3.9 RETURNS

Returns are not as big an issue for school publishers. In 2000, returns were well below 10% of sales for primary school publishers and around 10% of sales for secondary school publishers.

3.10 WORKING CAPITAL

3.10.1 The table below summarises the working capital ratio for the Schools segment in 2000:

WORKING CAPITAL SUMMARY 2000	
Respondents	8
PBIT	\$21903
Author Advances	\$1147
WIP	\$7535
Inventory	\$22967
Debtors	\$32880
Total Working Capital	\$64529
Ratio	33.9%

3.10.2 The working capital ratio of the eight respondents was a creditable 33.9% although individual performance was mixed, with five respondents recording a return above 20% and two below. The overall figure was inflated by one response with an excellent combination of relatively high profitability, and low inventory and debtors.

3.10.3 Inventory management was not as problematic as with the Trade/Consumer segment, however improvements could still be made to this operational area. Nine respondents reported total inventory of \$26.8m (17.1% of sales), but four had a ratio above 20% of sales. Not surprisingly, inventory turn was between 1X and 2X, but inventory write-off was relatively low at \$4.4m despite some rigorous formulas used to write off obsolete stock.

In terms of the ideal number of weeks for a first print run to sell out, the majority of respondents answered with 52, four respondents adding that more than 70% of their titles met this criterion.

The table below summarises the inventory position of the nine respondents:

INVENTORY SUMMARY 2000	
Respondents	9
Inventory	\$26.8m
% Sales	17.1%
Weeks in Stock	28

3.10.4 The response to the question on debtor management was poor, with one response indicating a DSO figure below 75 days. A measurement problem here is that those school publishing companies with a December balance date will have an inflated DSO, given the likelihood of a large volume of sales made on a charge forward basis.

3.11 PRINT SOURCE

There were only five responses to the question directed at print buying patterns and these indicated that a considerably large volume of the printing of school books went offshore. These respondents placed \$3.6m of print in Australia in 2000 and \$18.1m offshore.

3.12 GOVERNMENT REGULATION

There was concern expressed by all respondents to the future threat to growth imposed by possible government interference. In terms of current threats, the two issues raised were the GST and copyright.

In the case of GST the concern was not so much the tax itself but the effect it was having on debtor management and cash flow, while the copyright issue continued to concentrate on the increased volume of multiple photocopying and the continued proliferation of photocopied course packs in the tertiary education markets.

3.13 TRAINING AND DEVELOPMENT

While the amount of money spent on the training and development of staff was a little higher with school publishers (0.3% of sales) than it was with Trade/Consumer publishers, it was still an insignificant and disappointing number. Again, as was the case with the Trade/Consumer sample, it was raised that the question did not include the costs of sending staff to international conferences and meetings, a practice common with those respondents who are part of an international group.

4.0 ACADEMIC/PROFESSIONAL PUBLISHING

4.1 INTRODUCTION

4.1.1 There were ten responses to the Academic/Professional segment of the questionnaire of which only two were from Australian companies. However, there was considerable variation in the focus of the ten participating companies:

- Five were major players in the university textbook market.
- For the most part, these respondents also published and/or distributed non-textbook professional books more suited for bookshop distribution.
- Three were smaller players in the overall tertiary education market.
- One was predominantly a publisher of scientific and technical journals.
- Two were large publishers of professional information for lawyers, accountants and other business professionals.

The aggregate sales of the ten respondents for fiscal 2000 were \$257m, while the PBIT reported was \$43.6m or 16.9% of sales. Comparisons with the ABS Survey become difficult here because it listed 28 businesses in this sector with aggregate sales of \$211.6m and profit of \$27.3m. However, the ABS figures probably did not include sales from the professional information companies or only included sales from book related companies.

4.1.2 Because the data from the two publishers of professional information distorted the overall data from the sample, the analysis has been segregated to make comparisons a little more meaningful. The remaining eight respondents, classified as Tertiary/Academic, had aggregate sales of

\$115.3m in 2000 and PBIT of \$8.1m or 7% of sales. The two publishers of professional information had aggregate sales of \$142.2m and PBIT of \$35.5m in the same year, an operating margin of 24.9% of sales.

- 4.1.3 The majority of the eight respondents in the Tertiary/Academic segment reported significant sales growth in the three years leading to 2000 with three reporting sales growth above 20% in this period and two reporting growth between 10% and 20%. In this same period, the two publishers in the Professional Information segment reported substantial growth in sales and profit by more than 20%.

4.2 P&L SUMMARY 2000 (TERTIARY/ACADEMIC ONLY)

4.2.1 The P&L results of the eight respondents for the 2000 fiscal year were:

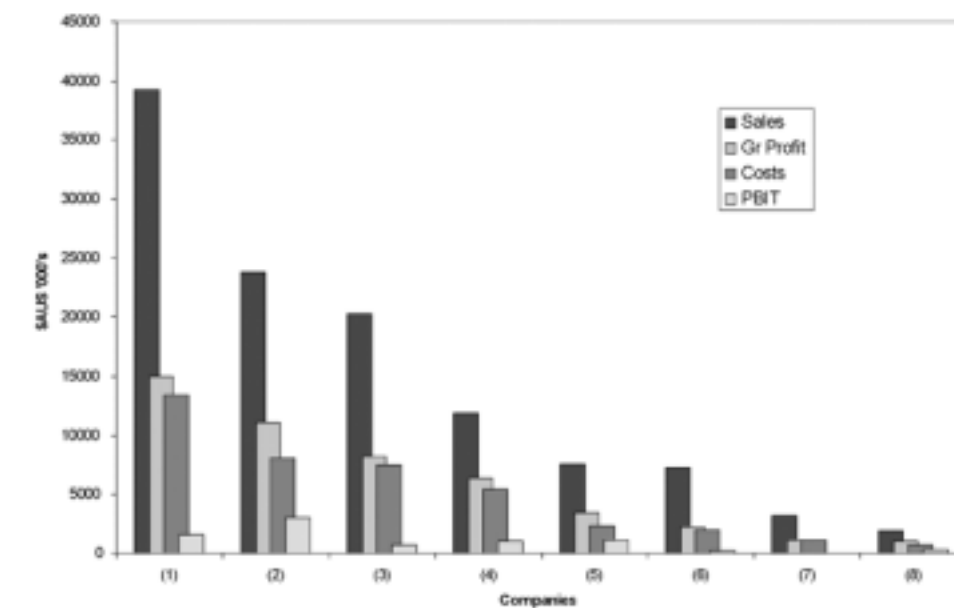
SALES	\$'000's
Australian Published Textbooks	27217
Australian Reference Books	2930
Adaptations	6913
Imported Books	70682
Customised Books	
Electronic	2153
Looseleaf Information	0
Other Non-Book	2922
Other Income	2454
Total Sales	115271
PRODUCT COST OF SALES	
Print	23113
Origination	2156
Imported Books	22941
Electronic	130
Looseleaf	0
Other Non-Book	1456
Royalties/Fees	8692
Total Product Cost of Sales	58488
% Sales	50.7%
OTHER COST OF SALES	
Editorial	5186
Exchange Gains/Losses	1068
Inventory Write Down/Write Off	1974
Total Other Cost of Sales	8228
GROSS MARGIN	48555
%Sales	42.1%
OPERATING COSTS	
Publishing	1644
Marketing	6432
Sales	13132
Distribution	11972
Other	7265
Total Operating Costs	40445
% Sales	35.1%
PBIT	8110
OPERATING MARGIN	7.0%

It is interesting to note the following:

- Sales of Australian published books, including adaptations were 32.5% of total sales.
- Imported books accounted for 61.3% of total sales.
- Sales of electronic products were again insignificant, 1.9% of total sales.
- Trading gross profit was 49.3% of sales, not insignificant given the volume of sales from imported books.
- Trading gross profit was eroded to 42.1% of sales by editorial charges and write-offs as a result of exchange losses and inventory, the write-off being equivalent to 2.2% of sales.
- Royalties/fees were 20.8% of sales but the figure probably included royalties paid to overseas suppliers for the purchase of some imported titles.
- The gross profit on imported titles was a surprising 67.5% of sales but a favourable trading deal between one of the respondents and its parent company distorted this result.
- Operating costs were 35.1% of sales.
- Marketing and sales costs were a high 17.0% of sales.
- Distribution costs were 10.4% of sales but the result again depended on the extent to which costs other than warehousing and delivery were included.
- PBIT was 8.1m or 7.0% of sales.

4.2.2 Individual respondent P & L performance for Tertiary/Academic is indicated in Figure 8.

Figure 8 - Tertiary/Academic P&L Y2000



4.2.3 The two Professional Information publishers were extremely successful in 2000 as the table below indicates:

PROFESSIONAL P&L Y2000

Sales	\$142212
Gross Margin	\$83547 58.7% sales
Operating Costs	\$48073 33.8% sales
PBIT	\$35474 24.9% sales

Publishers in this segment deal directly with their ultimate customer, enjoy high margins, have the advantages of scale, operate largely on a subscription basis and carry little inventory. The following points emerge from the analysis:

- Only 3.8% of combined sales came from imported titles.
- It is interesting to note, in this segment, that sales of electronic products played an important role, being 19.9% of total sales.
- Trading gross profit was 66.5% of sales and reduced to a gross margin of 58.7% of sales after the allocation of editorial costs and inventory write-off.
- PBIT was 24.9% of sales, an excellent result by any industry standards.

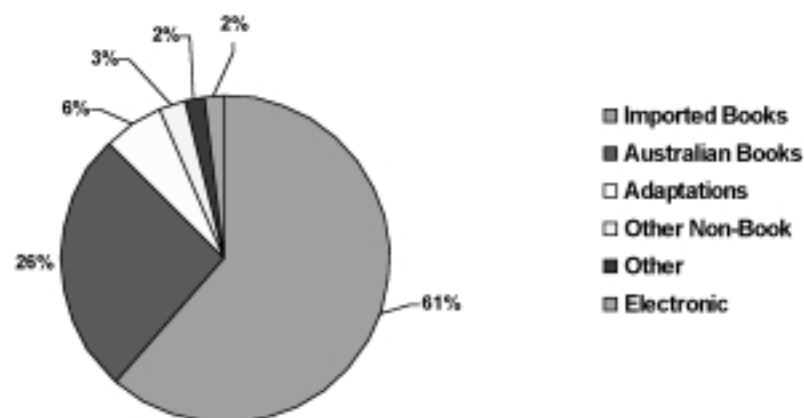
4.3 PBIT

The eight respondents to the academic segment produced PBIT of \$8.1m or 7.0% of sales, not a disappointing result given the relatively low component of Australian publishing in total sales. Individual company performance was more varied with three respondents achieving an operating margin well above 10% of sales, one in the range 5%–10% of sales and four below 5%. The trading terms under which respondents purchased imported titles had a significant effect on their PBIT result.

4.4.1 SALES

4.4.1 Figure 9 depicts the sales breakdown by product within the *Tertiary/Academic* segment.

Figure 9 - Tertiary/Academic Sales Breakdown Y2000 (by Product)



4.4.2 In the case of the Professional Information publishers, virtually all sales were from Australian products. Looseleaf products were a major component and accounted for 64.8% of total sales, while sales of electronic products were 20% of sales.

4.4.3 In asking respondents to outline their expectations regarding sales growth through to 2003 the questionnaire did not seek separate answers for each market segment and, because a high proportion of responses were from publishers operating in both the Schools and Tertiary/Academic segments, there was insufficient detail relating to the latter segment.

4.4.4 The Professional Information publishers were modest in terms of sales expectations through to 2003 and indicated an annual growth rate between 2.5% and 5%. They did see significant sales growth potential in electronic products as did the publisher of journals in the Academic/Tertiary segment.

4.5 GROSS MARGIN

The Tertiary/Academic segment was a relatively low margin segment because of the high component of sales of imported books and the subsequent exposure to foreign exchange fluctuations and the eight respondents reported a gross margin of 42.1% of sales. Of the eight respondents, two reported a gross margin above 50% of sales and three reported a gross margin significantly below 40% of sales. The Professional Information publishers reported a gross margin equivalent to a healthy 58.7% of sales. It should be noted here that virtually all sales of professional information are made direct to the ultimate consumer, rather than via a campus or other bookshop.

1. **Trading Gross Profit.** For the academic segment Trading Gross Profit was \$56.8m or 49.3% of sales. Three respondents reported Trading Gross Profit above 50.0% of sales, while two reported Trading gross Profit below 45.0% of sales. The professional information publishers, on the other hand, had a Trading Gross Profit of 66.5% of sales.
2. **Gross Margin.** Trading Gross Profit was reduced by 7.2% of sales as a result of editorial costs (4.5% of sales), foreign exchange loss (0.9%) and inventory write-off (1.7%). The highest inventory write-off was 5.5% of sales and the lowest was nil. The professional information publishers had only miniscule inventory write-off and the 66.5% of sales achieved in trading gross profit was reduced to 58.7% as the result, largely, of editorial costs.
3. **Margin on imported titles.** Trading Gross Profit on sales of imported books was 67.5% of sales but it would appear that this result was distorted by the result from one company that purchased its intercompany titles from its parent company on a basis different from that used by similar companies in the group. Other companies in the sample had a Trading Gross Profit in the range 56% of sales to 36.6% of sales according to the particular trading terms granted.
4. **Royalties.** At 20.8% of sales, the royalty costs for the academic group were high, however the result was affected significantly by one company whose royalties included royalties paid to intercompany suppliers for the

purchase of imported titles. It would appear that some of the other respondents had similar, if not as marked, arrangements, for royalties ranged from 3.2% of sales to 27.2% of sales.

5. **Bookseller Discounts.** Most sales from the Tertiary/Academic segment were through bookshops although at discounts lower than those operating in the Trade/Consumer segment except in the case of the non-text professional lists.

4.6 OPERATING COSTS

Operating costs for the Tertiary/Academic publishers amounted to 35.1% of sales with most respondents near this result. One had costs below 30% of sales and one had costs above 40%. The Professional Information publishers had operating costs equivalent to 33.8% of sales.

1. **Marketing and sales costs.** At \$19.6m or 17% of sales, marketing and sales costs represented a higher spend among academic publishers than in the other two market segments, reflecting the relatively high selling costs involved in the university textbook business. The larger operators in this segment had marketing and sales costs close to the group ratio. Marketing and sales costs of the professional information publishers were \$8.8m or 6.2% of sales.
2. **Distribution costs.** With the usual caveat regarding the composition of these costs, distribution costs of the academic respondents were 10.4% of sales. The better performers would appear to have had costs for only warehousing and delivery equivalent to 7% of sales. The range for broader distribution costs was between 7.1% of sales and 17.6%. The distribution costs for the professional information publishers were, not unexpectedly, 4% of sales, given that much of the distribution is direct from the printer.

4.7 ELECTRONIC SALES

The contribution of electronic products varies considerably between academic and professional information publishers:

1. **Tertiary/Academic.** Sales of electronic products were 1.9% of total sales but came from virtually one company and involved the dissemination of scientific and technical material.
2. **Professional Information.** With 20% of sales from electronic products and a ratio that was expected to increase substantially, the situation was vastly different for this segment compared with all others. One of the companies expected sales of electronic products to be more than 50% of total sales in three years as data is increasingly transmitted and updated online. Publishers in this market segment are developing stand-alone electronic products as well as electronic versions of print products and, in some cases, the print product has been phased out in favour of the electronic. These publishers have also invested heavily in converting legacy data to enable them to satisfy a clear market need for information in digital form and information that is updated continuously.

4.8 EXPORT SALES

Export sales did not play a large part in the overall performance of publishers in this market segment and, while they were 14.6% of sales of Australian books, more than half the export sales from the group came from one respondent, the publisher of scientific and technical journals for an international market. Export sales in the case of the publishers of professional information were negligible.

4.9 RETURNS

For this segment returns were an insignificant issue, ranging from 1.5% to 10% of academic sales.

4.10 WORKING CAPITAL

- 4.10.1 The table below summarises the working capital ratio for the Tertiary/Academic segment in 2000:

WORKING CAPITAL SUMMARY 2000

Respondents	7
PBIT	\$17782
Author Advances	\$366
WIP	\$1987
Inventory	\$15829
Debtors	\$22670
Total Working Capital	\$40852
Ratio	16.0%

- 4.10.2 Given the relatively low operating margin in the academic segment it was not surprising to find a working capital ratio of 16%. Two respondents achieved a working capital ratio above 20% and two came in below 15%.

- 4.10.3 The position with the Professional Information publishers was entirely different because a combination of high operating margin, virtually no inventory and very low debtors resulted in a working capital ratio above 300%.

- 4.10.4 As with other segments there is room for improvement in inventory management in the Tertiary/Academic segment. Although the eight respondents had an inventory turn of around 2X in the 2000 year, four respondents actually achieved an inventory turn 3X or better. The table that follows summarises the inventory position of the eight academic respondents.

INVENTORY SUMMARY 2000

Respondents	8
Inventory	\$22607
% Sales	19.6%
Weeks in Stock	24

- 4.10.5 There were only five responses from the academic sample to the question regarding debtor management, and with one exception they were 80 days or above. Similar to the Schools segment, those companies with a December balance date will have an inflated DSO figure if there are significant sales made on a charge forward basis.

4.11 PRINT SOURCE

There were only four responses to this question, therefore conclusions are difficult to draw. It was, however, surprising to find a significant proportion of the printing contracted by these companies going offshore. The four respondents placed printing worth \$3.6m in Australia and \$10.0m offshore.

4.12 GOVERNMENT REGULATION

In dealing with responses regarding any effects of government regulation the questionnaire did not call for separate responses from School and Academic/Tertiary companies and a high proportion of respondents were in both categories. In the case of publishers in the Academic/Tertiary segment there was considerable concern still about the continued proliferation of photocopied course packs in the tertiary education markets.

4.13 TRAINING AND DEVELOPMENT

There is nothing specific to report regarding this subject in respect of this market segment.

5.0 CASE STUDIES

5.1 RATIONALE

There are many publishers in Australia who are performing well in financial terms – a significant achievement given the current economic conditions and the constraints of a market where the population is comparatively small but widespread. It was thought that, if selected companies were prepared to reveal particular management policies and practices, the information gained could provide useful models and benchmarks for the industry as a whole to use in planning growth and improved performance. Clearly, sensitive financial information and strategies cannot be revealed in a public study; nevertheless, there are some interesting practices and trends to emerge from this analysis.

It was decided to include six case studies, three from the Trade/Consumer segment and three from the Schools segment. The three Trade companies selected were Allen & Unwin, Hodder Headline and Penguin, with John Wiley & Sons, Nelson Thomson Learning and Reed Education selected from the School segment. These companies were chosen because they have achieved solid financial results and/or significant growth, and have used varying methods and practices to reach their goals. They were not necessarily the best managed or led. Their cooperation and willingness to share information as part of this study is very much appreciated.

Each study involved interviewing the chief executive and each of the senior management team, and attempted to analyse the following:

- company goals and aspirations;
- strategies employed to achieve those goals;
- policies and practices that distinguishes the company from its competitors;

- company financial model;
- measurement of performance;
- operation of the senior management team;
- operational focus — consisting of publishing strategies, sales and marketing management, margin management, balance sheet management, export sales.

No attempt has been made to evaluate one management practice over another or to make any judgement as to an individual company's management policies and practices but, rather, to reflect policies and practices as stated in the interview process.

5.2 ALLEN & UNWIN

5.2.1 Overview

Of the six companies that are the subjects of the case studies, Allen & Unwin is the only company that is Australian owned. Its three principal shareholders also form the senior management team and have built an excellent company reputation as a publisher of books for the Trade/Consumer market. Its Australian publishing and Australian agency lists accounted for 43% of its total sales in the year ended June 2000, the remainder originating from some attractive agency lists. The 2000 year is an appropriate year to examine, given the subsequent huge impact on sales from the Harry Potter books that have significantly increased the company's position in the market. In 2000, the company had sales in excess of \$40m, including textbook and academic sales, and an operating margin above 5% of sales.

Allen & Unwin is highly competitive in the marketplace, has a high profile with its customers, and as indicated above, strong financial results. Uniquely, it is much more product driven than some of its competitors, with a strong emphasis on the quality both of its publishing and its agency lists. Two distinct features of the company are:

- Its senior management team, being shareholders, are able to implement goals directly and quickly.
- The chief executive has a publishing background, unlike the sales or financial background found in the chief executives of other publishing companies.

5.2.2 Company Goals

While it does not have specific targets in respect of sales and profit growth, the company clearly understands the need to achieve ongoing growth and is very much committed to this objective. The company focuses very much on continuous improvement in the financial performance of its titles, particularly in terms of margin, to achieve overall company growth and sets the following definite goals:

- Titles should achieve a minimum gross profit ratio to sales.
- Each editor has an annual target to achieve in terms of aggregate gross profit from his/her list.
- Generally, titles are only approved if they satisfy a minimum gross profit test.

5.2.3 Strategies

The company sees its competitive advantage stemming first from the considerable experience of its senior managers and secondly from the strength of its imported lists which supply more than half its sales and add significantly to its impact on bookshops.

The key strategies that have been implemented are:

1. **Publishing strategy.** The company's publishing is broad in its scope; from aiming at the literary niche of the Australian market and at trade titles with academic content, to popular and mass market titles.
2. **Market focus.** Aware of the mix of customers it has, Allen & Unwin tailors its sales and marketing activities across the breadth of its lists to satisfy the needs of its individual customers. This market focus certainly extends into the decision making process regarding product selection, both in the company's Australian publishing and its agency titles.
3. **Agency selection.** The company has invested considerable effort in selecting the agencies it represents so as to secure balance and compatibility with its Australian lists.
4. **Gross profit measurement.** Gross profit is the focus for editors when they sign new books and, as mentioned previously, measurement is both in dollars and ratio to sales. The internal computer system provides such performance measurement by title and by editor.
5. **Backlist.** Like most trade publishers Allen & Unwin has suffered a decline in backlist sales from 40% of total sales to 28%–30% and the company has focused its sales efforts strongly on trying to lift this proportion. The Allen & Unwin Sales and Marketing team work closely with booksellers to develop backlist promotions.
6. **Incentive.** Building a team culture is very much part of overall strategy, and a profit share arrangement has been introduced for all staff. A pool is set aside for distribution to the staff once the company's profit goal has been met and the size of the pool increases as the profit above budget increases. It is worth noting in this respect that almost 50% of staff members own shares in the company, a strong incentive in itself.
7. **Distribution.** Distribution costs have been recognised as an inhibiting factor in the company's objective of securing growth –a problem common to many other companies operating in the segment. Accordingly, the company searched for a partner with whom to share distribution facilities, thereby providing cost benefits to both. It formed an alliance with Hodder Headline to establish Alliance Distribution Services (ADS). The joint venture, which has its own management and reports to a board comprising representatives from both partners, has been very successful and has delivered significant cost savings. Its facilities include order processing, customer service and collection as well as warehousing and delivery.

5.2.4 Planning tools

The company prepares a detailed budget that it uses for both performance and planning purposes throughout the year.

5.2.5 Organisation structure

As indicated earlier, the organisation structure is simple with each of the major shareholders responsible for the management of separate aspects of the business. The Managing Director is responsible for the publishers, editorial and production, the Sales and Marketing Director for sales and marketing and the Finance Director for accounting, distribution, IT and human resources.



5.2.6 Operational focus

1. **Publishing.** The publishing function is under the direction of the Managing Director who acquires a portion of the list himself along with seven full-time and some part-time acquisition editors, with each full-time editor expected to produce a minimum \$300K in gross margin each year.

Other features of the publishing operation are:

- a team of seven production editors with freelance editors used to handle any overflow;
 - an in-house design team which handles around 30% of the total design output;
 - a production department, responsible for printing contracts and for shipping.
2. **Sales.** A National Sales Manager, reporting to the Sales/Marketing Director, leads the sales effort assisted by a National Accounts manager, who sells into the major chains, and a team of nine full-time sales representatives plus four commission representatives. Interestingly, the company looks to hire sales representatives who have had prior bookselling experience and twelve of the thirteen representatives fall into this category. Remuneration is on the basis of salary only and, instead of defined territory targets, representatives are given copy sales targets book by book. There are five internal sales support staff.
 3. **Agency management.** Allen & Unwin has a strong list of agency titles, the sales of which accounted for more than half of total sales in 2000. A separate team of people in the Marketing division is responsible for ordering the imported books and for controlling inventory. Imported titles

are purchased on the basis of a discount off the Australian price, allowing the company more control over its margins in this area of its business.

4. **Inventory management.** In 2000, the company achieved an inventory turn of 3X, however still incurred a high level of inventory write-off. After the first twelve months of publication, inventory is written down to almost nil value if it exceeds a year's sales.

5.2.7 Summary

Allen & Unwin has been able to grow its business significantly in recent years, and in 2000 was one of the better profit performers in the Trade/Consumer segment. The key elements in its strategies to secure improved performance and growth would appear to have been:

- The shareholders form the senior management team enabling decisions to be made quickly and more directly.
- The company has a strong product driven culture.
- The company has a focused and well developed publishing strategy.
- The company has high profile agency lists, which form a major and successful component of its business.
- The company has introduced an innovative and effective solution to distribution problems and difficulties.
- The company has built a positive team culture.

5.3 HODDER HEADLINE AUSTRALIA PTY LTD

5.3.1 Overview

Hodder Headline Australia Pty Ltd (Hodder) is a subsidiary of the Hodder Headline group and a prominent mid-size player in the Trade/Consumer market segment with 52 full-time equivalent staff. In the year ended August 2000 it had sales above \$30m and an operating margin more than 5% of sales. In recent years it has achieved significant growth, lifting its sales by almost 16% between 1998 and 2000 and its PBIT from a loss to a little below \$2m in the same period. In the 2000 year 27% of its sales came from its Australian publishing and the remainder from agency sales, both intercompany and third party.

Hodder provides an interesting study of a medium sized company that has been able to grow both its top and bottom lines significantly in recent years. Its current level of profitability ranks it as one of the better performers in the Trade/Consumer segment.

5.3.2 Company goals

The company's principal goals are to increase its market share through the development of its Australian lists in conjunction with its successful agency arrangements, and to continue to grow its profit line. It believes these goals will be best achieved by building an increasingly professional staff working together in a team environment.

Using the APA statistics as a benchmark, Hodder claims to have increased its share of the Trade/Consumer market from 7% to 9% over the past few years. Additionally, during this period, senior managers have described its culture as having moved from a more patriarchal

management style to one that is more open and team oriented. To enable it to concentrate more closely on its overall goals, the company divested itself of a small school publishing unit a few years ago while, more recently, it has taken the innovative step of forming a joint venture with Allen & Unwin to establish a modern, efficient distribution centre to bring the benefits of economies of scale to both organisations.

5.3.3 Strategies

1. **Sales and marketing driven.** Hodder is very much a sales and marketing driven company but, unlike other companies with a similar philosophy, has few sales targets in overall dollar terms, preferring instead to drive sales on a book by book basis. Commitments are made to securing specific quantities in sales of key titles and regular tracking procedures are installed to measure and drive the process and to lift performance. There is clearly a strong sales and marketing contribution to the decision making process in respect of Australian publishing and to the agreed commitment to the final sales projection. It is interesting to note that sales and marketing costs (including salaries) are relatively high compared with many other Trade/Consumer companies.
2. **Backlist.** Given the high profile of many of its authors, Hodder places considerable emphasis on ensuring its backlist remains strong but, like other players in the industry, has suffered some erosion of sales in this area. Nevertheless, backlist sales have been maintained at around 30% of total sales.
3. **Author advances.** Hodder's publishing focus in the adult market is on fewer, higher volume, higher margin titles. Given this focus on the 'big' book, the company has been prepared to back its judgement by paying substantial author advances if needed.
4. **Distribution.** As mentioned above, the company decided to form a joint venture with Allen & Unwin in 1998 to establish Alliance Distribution Services (ADS), securing more cost effective and efficient distribution for both companies. ADS is a separate company, has its own management and reports to a board comprising representatives from both publishing companies. ADS has produced consistently high service levels, and its cost savings have been significant.
5. **Accountability.** There is a fair degree of accountability for performance through all areas of the company. The Publishing Director is responsible for the contribution to profit from the publishing division while the Sales and Marketing Director is responsible for the sales, margins and inventory levels of the agency lists along with clear commitment to the sales targets for Australian titles. The principle of accountability extends to the service areas of the company and to ADS.
6. **Incentive.** Individual performance incentives have not been adopted as part of current remuneration strategy but there is an overall company bonus arrangement that applies to all levels of staff and is dependent on the company achieving its overall profit target. One of the objectives here is to foster a stronger sense of teamwork and company spirit.

7. **Management information.** Comprehensive management information data has been developed and collected across all areas of publishing and sales, including information on the performance of specific categories of books. There is also abundant financial and service data available. This information is used positively to improve performance and increase the effectiveness of future decision-making.

5.3.4 Planning tools

Hodder compiles an annual Business Plan that is effectively a budget with two formal reforecasts each year. Hodder also prepares a rolling three-year Strategic Plan to form the basis of its overall strategy.

5.3.5 Organisation structure

The Publishing Director, Finance Director and Sales and Marketing Director, together with the Managing Director, form a management board to drive the company forward. These three senior managers report to the Managing Director along with the distribution and IT functions as the table below indicates. A major contributing factor to the company's success is the fact that each of the senior managers has had between six and eight years with Hodder.



5.3.6 Operational focus

1. **Publishing** A major component of the publishing strategy has been to focus on the adult market and, while children's books continue to occupy a prominent position in the company's lists, they currently occupy about 20% of sales of Australian published books. The Australian lists are supplemented by a number of successful co-editions from the USA.

A second strategy in recent years has been to reduce the number of titles published annually by eliminating the smaller contributors to profit in favour of the 'big' books. Two years ago Hodder published more than one hundred titles per year, however the output has now dropped to around fifty titles, each with a larger contribution to profit overall.

There are three publishers responsible for building the adult lists and two developing the children's market, while an in-house editorial team comprising two editors, two production controllers and a designer, is supplemented by freelancers.

2. **Sales and marketing.** Marketing activities principally encompass publicity and promotion although some market research does take place.

Hodder organises its sales team differently from many other companies with two National Accounts Managers who sell new titles into the major

mass-market accounts and bookseller chains. A National Sales Manager with a team of eleven territory managers, sell new titles into the general bookshop market. A team of fourteen part-time merchandisers is responsible for selling the backlist and for vendor refilling. There is also one salesperson responsible for special sales to non-bookshop outlets, with such sales accounting for around 4% of total sales.

Remuneration for the sales team is by salary only, with territory targets established on the basis of copy sales by title.

3. **Margin management.** The Publishing Director is responsible for the cost of sales for Australian books and works with a costing template to assist in the compilation of projections and to maintain desired margins. Concerning its imported agency titles, Hodder does not have the favourable trading terms of some of its competitors, and buys at a discount off the overseas list price thereby exposing itself to pricing difficulties and to currency fluctuation. Nevertheless, in 2000 the company was able to record strong margins on sales of its agency titles.

4. **Inventory management.** Hodder has worked consistently to manage its inventory more effectively and has made significant progress in this respect:

- The company has attempted to achieve an inventory turn of 4X, with its performance in 2000 suggesting that this target has been fulfilled.
- The company claims to fill 80% of orders received and further states that a fulfilment rate above this would result in excess inventory being carried.
- Like most publishers with overseas agency lists, Hodder operates an only-to-order arrangement for titles that do not warrant being carried locally.
- Product managers in the Sales and Marketing department are responsible for inventory control and ordering, and utilize substantial management information data to assist them.
- The aim has been to sell out a new title in six months and the company claims that over 60% of titles now perform to this standard.
- Inventory write-off is by computer driven formula that progressively writes down month by month the value of titles after the first four months of sales until remainder value is reached, usually within twelve months.

5.3.7 Summary

Over the past few years Hodder has had significant success in growing its business and in achieving improved financial performance. The key elements in its strategies to secure improved performance and ongoing growth appear to have been:

- a successful blending of commercial measurements and controls without overly constricting the publishing output;
- a focused and well defined publishing strategy;
- high profile agency lists;
- a willingness to pursue major book signings;
- a distinct sales and marketing emphasis throughout the company;
- an innovative and effective solution to distribution problems and difficulties;

- a high degree of accountability of its senior managers;
- an experienced senior management team;
- comprehensive management information data to strengthen decision making;
- emphasis on securing improved margins;
- effective control of inventory levels.

5.4 PENGUIN BOOKS AUSTRALIA

5.4.1 Overview

Penguin Books Australia (Penguin), part of the worldwide Penguin Group and one of the true brands in publishing, is probably the largest book publishing company in Australia with sales in excess of \$100m in 2000, and a staff of three hundred and twenty full-time equivalent people. Very much a growth oriented company with a strong focus on bottom line performance, Penguin grew its sales in the period 1997–2000 by well over 30% at a Cumulative Annual Growth Rate (CAGR) of 10.1%, while it recorded a double digit operating margin in each of those years. In the year ended December 2000, almost 43% of its sales came from its Australian lists, 53% came from its agency lists and the remainder from commission it earned from representing third party Australian publishers. If Penguin had measured the sales made on behalf of those third parties as sales rather than commission/fees earned, its overall sales position would have been greatly enhanced.

Penguin provides an appealing case, as it occupies a dominant position in the Trade/Consumer segment of the market, is a consistently strong financial performer, and has been growing significantly. It is also an excellent example of a company that has successfully blended its emphasis on sound commercial performance with its commitment to high quality creative publishing.

5.4.2 Company goals

One of Penguin's principal goals is to achieve, year on year, double digit growth on both the top and bottom lines and through the period 1997–2000 this goal was achieved for the most part. However, the company is reporting difficulties in achieving its growth goals in 2001.

A second goal is to position the company as a balanced, 'one-stop shop', in the sense that it focuses on the following:

- adult and children's markets;
- paperback and hardback formats;
- frontlist and backlist;
- independent bookshops and chains;
- trade bookshop and the education markets;
- providing a full range of services to its internal customers and to its third party publisher clients, including sales, distribution, credit control and IT.

Penguin is currently in the process of building a new state of the art computer driven distribution centre to lift its distribution standards to a new and more cost effective level. Distribution will then sit alongside Penguin's sales and marketing strength, to provide third party publisher

clients with a viable option when examining their own non-core business activities.

The company's financial goals are to achieve an operating margin equivalent to 15% of sales and an operating cash flow equivalent to 85% of PBIT. The objective relating to cash flow is one not always found in publishing companies but is a critical performance indicator that should be more widely utilized.

5.4.3 Strategies

Apart from its balanced operations, the company has a clear competitive advantage in terms of its size, which enables it to secure a favourable market and trade position in terms of both authors and customers, and to enjoy economies of scale in its provision of services. Penguin then becomes an attractive and cost effective option for smaller publishers to consider in respect of sales and distribution.

Another clear competitive advantage Penguin enjoys is the accumulated years of company experience of most of the senior management team: the Managing Director, Publishing Director, Sales Director, Trade Services Director, and Information Services Director have all been with the company for some years.

Key strategies that have been adopted have been:

1. **Sales and marketing emphasis.** While the commitment to the quality and output of the company's Australian publishing lists is high, it is fair to say that the company is sales and marketing rather than editorially driven.
2. **In-house publishing functions.** Unlike most publishers, Penguin makes minimal use of freelancers in its publishing operation and employs a large team of editors, designers and production people. The company believes this is the most effective way of ensuring an efficient and effective publishing output.
3. **Backlist.** Like most publishers operating in the Trade/Consumer market, Penguin has suffered an erosion of its backlist sales ratio but it remains committed to strengthening and enhancing its backlist component. Backlist sales currently account for about 40% of total sales, and the company has concentrated heavily on enhancing its range of annual publications, as well as aggressively marketing bestselling repeat authors.
4. **Accountability.** Divisional Key Performance Indicators (KPIs) are used throughout the company and a formal performance review system is undertaken annually. Goals are clearly understood and communicated across all levels of the company.
5. **Management information.** The provision of extensive and meaningful management information across all operational areas has been a central factor in the company's success. Performance has been planned and measured to a high degree, and management information has empowered managers to make better decisions. Interestingly, the director leading this area of the company has changed his title from IT to Information Services Director, a change that perfectly reflects the strategy.

6. **Service quality.** The company is committed to providing the highest level of service to its customers in terms of order fulfilment. It prides itself on being able to supply 91% of titles that are ordered immediately, and claims it can maintain this standard without carrying excess stock. It has always had an excellent reputation for delivery, its cornerstone being one of absolute reliability. Clearly, the new distribution centre will be the key to ongoing improvements to this strategy.

5.4.4 Planning tools

The company prepares an annual Business Plan which is essentially a budget, and a rolling three years Strategic Plan with explanatory notes to explain significant shifts or differences from one period to the next.

Within Penguin the weekly Program Meeting is the core of the company's planning processes. It is here that publishing and sales people come together to make decisions as to quantities to be printed or imported, price, marketing and sales targets and to update progress in respect of previous decisions made. Central to the effectiveness of the Program Meeting is the sales history and performance information contained in the company database.

5.4.5 Organisation Structure

The company is structured conventionally with six directors reporting to the Managing Director as the diagram below shows.



5.4.6 Operational Focus

1. **Publishing.** As mentioned above, sales of the Australian list accounted for around 43% of total sales in the year ended December 2000, making the company one of the larger publishers of Australian books. There are five publishers plus the Publishing Director involved in the commissioning process across the adult, children's, cartography and special sales market segments, with each unit having its own editorial team. In addition, there are three managers in charge of Production, Design and Rights/Permissions, each with its own support staff. The company publishes more than two hundred books per year, although this number is dropping as the focus shifts towards fewer titles with relatively higher volume; and towards more co-editions.

The Publishing Director is expected to produce a contribution to profit equivalent to 35% of sales from his division, that is, sales, gross profit after write-off and direct publishing costs. As is typical of Penguin, there is ample information about the performance of the Australian lists for at

least the past fifteen years. Interestingly, the contribution to profit has increased through that period, with the 35% target achieved for the past seven years. Again, accumulated historical data is very much part of the decision making process.

The company does not have a strong export focus, earning more than \$1m per year in rights income, which represents the company's 20% share of such income.

2. **Marketing.** The marketing department is responsible for publicity, promotion and management of the web site. It has a staff of eighteen, including two publicity managers, six publicists and a specialist Education Sales and Marketing Manager, to inform curriculum and key teacher decision makers of relevant Penguin school titles. The web site is used primarily for price and availability enquiries, as well as product and author information, with data updated every twenty-four hours.
3. **Sales.** Penguin has a strong sales focus and employs twenty-nine sales representatives, fourteen serving the mass-market segment and fifteen serving the trade segment, with each area having its own sales manager. Large customers are the responsibility of a Trade Key Account Manager, while a General Manager Business Development is responsible for special sales including repackaging deals, add-ons, book club sales and party plans. Representatives are remunerated by salary only, but all staff can earn a performance bonus based on achieving targets. A sales territory is expected to yield \$2m in sales annually.
4. **Returns.** In the year ended December 2000, returns were 15.2% of sales, one of the lower rates in the industry and no doubt reflecting the strength of the Penguin backlist and its policy of firm sale for backlist sales.
5. **Inventory management.** Currently the company has a stock turn of 2X, but is determined to lift this important performance indicator quite significantly without reducing its service standards. It will be interesting to observe the effect of lifting stock turn on the company's overall inventory level, which is on the high side compared with some of the other companies in the study. The current target is to sell out a first print run in twelve weeks but only about 35% of titles achieve this performance. Once a new title is ordered, its performance is monitored by an inventory management team that reorders imported titles and advises on reprints of Australian titles. Inventory write-off policy is tight with a formula applied to write off half the remaining inventory six months after publication, and the balance within thirteen months.
6. **Margin management.** To achieve its ultimate operating margin goal the company needs to increase its gross profit by 4–5%, an objective that is being achieved using the following tactics:
- Lowering distribution costs;
 - A three year agreement with its main printer as a means of holding its print costs;
 - Purchasing imported agency titles on the basis of a discount off the agreed Australian price, thereby removing the exposure to foreign

exchange losses as well as enabling a competitive Australian price to be set.

7. **Training.** In 2000, Penguin spent \$100K on staff training and development. This amount did not include the costs of internal training and the costs of sending key people to Penguin international sales meetings.

5.4.7 Summary

Penguin has been a consistently strong financial performer for a number of years and has achieved a sustained period of growth in both sales and profit. The key elements in its strategies to secure its performance and ongoing growth would appear to be:

- clearly defined company goals;
- clearly articulated financial targets;
- well defined publishing strategies;
- considerable experience with the company on the part of the senior management team;
- accountability of the senior managers for the achievement of targets set for their areas of responsibility;
- the company is sales and marketing driven;
- emphasis on margin management;
- considerable attention to management of the key balance sheet items;
- strong emphasis on backlist sales and on enhancing the backlist;
- strong planning culture and planning tools;
- extensive and very meaningful management information data as a basis for decision making;
- total commitment to service and to its continuous improvement;
- generation of strong cash flows which have enabled the company to enhance its service capabilities.

5.5 JOHN WILEY & SONS AUSTRALIA LTD

5.5.1 Overview

John Wiley & Sons Australia Ltd (Wiley) is a subsidiary of an international group, and publishes books and other educational materials for the secondary schools, tertiary and professional markets in Australia. In the year ended April 2000 it had a staff of one hundred and twenty six full-time equivalent people, total sales in excess of \$35m and a double-digit operating margin for the company as a whole. Its school division, however, produced an operating margin well over 15% of sales. Of its total sales, 43% came from its secondary schools lists, 34% from its tertiary textbooks and 23% from its professional titles. From 1999 to 2000 overall sales grew by more than 20% and PBIT more than doubled. The year 2001 also showed further significant growth in both sales and profit.

Wiley is interesting to examine because of its strong position in the schools, tertiary and professional markets; its attractive profit rate; and its successful management of working capital. Wiley is clearly in a significant growth phase.

5.5.2 Company goals

Wiley aims to be a dominant player in each market segment in which it operates, and strives to achieve the highest quality possible in respect of its products and services. Its principal financial goal is to achieve an operating margin equivalent to at least 15% of sales, a goal it exceeds in its secondary schools division but which it finds difficult to achieve in its tertiary and professional divisions given their relatively high proportion of imported books. Wiley is also very growth oriented, searching for growth both from organic development and from acquisition.

5.5.3 Strategies

1. **Publishing** — Schools. One of the company's key operational areas is its publishing of textbooks and atlases for secondary schools, where it claims it has moved from Number 4 to Number 1 in market share (excluding foreign languages where it has no presence) in the past five years. It focuses only on the secondary schools market and aims for dominance in each of its core subject fields of Science, Mathematics and Studies of Society and Environment. Where possible it seeks to leverage off a successful textbook in one state by re-versioning it for other states.
2. **Publishing** — Tertiary. Because a large proportion of its sales of tertiary textbooks are from imported titles, gross margin is not as high as it is from Australian books and, accordingly, the company has a clear strategy of increasing the output of local publishing from its current level of 40% of sales to 50%. Its Australian lists include both Australian originated books and adaptations of successful US textbooks.
3. **Pricing.** Wiley regards itself as a price leader and is aggressive in its pursuit of this strategy, relying on the quality and relevance of its books to secure an increased share of the market at favourable margins.
4. **Financial model.** Securing an operating margin equivalent to at least 15% of sales entails achieving a gross profit around 55% of sales after write-offs, and containing direct costs to around 38% of sales. The company has little difficulty in achieving its costs objective and concentrates heavily on improving its margins with the senior management team fully committed to the goal. A further financial objective is cash flow, in that new publishing projects are required to demonstrate they can produce a 30% discounted cash flow return before tax.
5. **Accountability.** The general managers of each of the school, tertiary and professional divisions are fully accountable for achieving their divisional contribution to profit target (sales, gross profit and direct costs). Targets are set for the non-revenue divisions of the company — Editorial/Production, Distribution, Finance/Administration and Information Technology — and the managers of those divisions are fully accountable for performance in this respect. Management meetings are held monthly with full reports to measure performance and to plan any corrective action that might be necessary.
6. **Incentive.** The company has constructed an attractive bonus scheme to reinforce the performance of the general managers and senior support managers. The scheme is based on the achievement of targets related to the divisional contribution to profit and other key performance targets,

and attractive bonuses can be earned. Sales representatives also participate in attractive bonus arrangements related to the degree to which they achieve or surpass their sales targets.

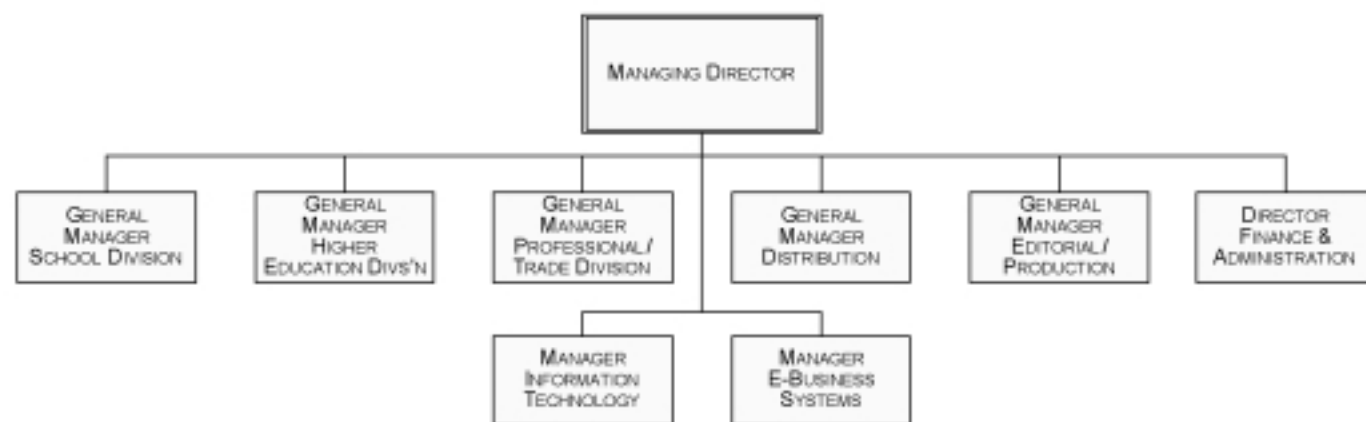
7. **Management information.** To guide the planning process, the company has collected an impressive and comprehensive set of management information relating to overall and divisional financial performance, and to publishing and sales history (including adoption history). One of the more impressive pieces of management information is its Project Proposal Evaluation, a detailed costing template which is available on the intranet and which is used to plan, schedule and measure publishing projects.
8. **E-Business systems.** The company believes that has a clear competitive advantage from the development of its web site, which has the following benefits:
 - price and availability information — customer service staff have been considerably reduced;
 - customisation of Australian subject material currently produces more than \$1m in revenue;
 - extensive textbook adoption data;
 - provision of student and teacher ancillary resources;
 - access to the Wiley US site.

5.5.4 Planning tools

The company prepares an annual Business Plan, and a Strategic Plan which looks forward three years and contains both quantitative and qualitative information.

5.5.5 Organisation structure

The key managers in the organisation are the General Managers responsible for the school division, the higher education division, the professional/trade division, distribution, editorial/production, the Director of Finance/Administration, and the managers responsible for information technology and e-business systems. All report to the Managing Director. The diagram below illustrates the reporting structure.



5.5.6 Operational focus

1. **School Division.** As mentioned earlier, there are specific financial goals to achieve from the Australian lists in respect of margin and cash flow, but there remains a high degree of emphasis on the quality of the publishing output. Main features of the school division are:

- There is a National Publishing Manager and five publishers, along with the General Manager, to build the list.
- Each publisher is expected to handle ten titles.
- Focus is on the core subject areas of Science, Mathematics and Studies of Society and Environment.
- Titles are tested extensively in the classroom and, often, teachers are taken out of the classroom to write texts in-house.
- Considerable attention is paid to pending syllabus changes, leading to significant sales growth in core subject areas.
- Sales are driven by a National Sales Manager and five sales representatives all of whom are remunerated on the basis of salary plus an attractive bonus plan.
- CD-ROM ancillary material is developed to support key textbooks.

2. **Higher Education Division.** A little less than 40% of sales from this division come from its Australian lists and the remainder from attractive intercompany and third party agency books. Key features of the division are:

- Development of the publishing output of ten to twenty local titles per year plus adaptations of successful imported books is the responsibility of two acquisitions editors and two publishing assistants.
- As has been already stated, the aim is to increase the proportion of sales of Australian books to 50% of the division's sales, to increase divisional gross profit.
- Intercompany imported titles are purchased at a substantial discount off the overseas price and are on a consignment basis.
- The division has recently restructured its sales team to make it more cost effective and to give greater market coverage. First, it has reduced the number of field sales representatives who concentrate on larger volume key titles and larger tertiary institutions. Second, it has increased the number of in-house sales support staff.

3. **Professional/Trade Division.** The company has a substantial list of Australian and imported professional and non-fiction trade titles suitable for bookshops, and a separate division has been established up to market and distribute these lists. This division deploys the following tactics:

- Acquisition has been primarily responsible for the building of the Australian lists and this strategy continues.
- There is a strong backlist component — said to be 60% of sales.
- Sales are driven by regular direct marketing campaigns and a small team of sales representatives augmented by agents in the smaller states.
- Because a large component of sales is from imported titles there is ongoing pressure on margin.

4. **Editorial/Production Division.** Once manuscripts are received from the trading divisions they are passed to the Editorial/Production Division, which has a substantial team of editors, designers and production staff to oversee the production process. This process, in large part, is driven by the Project Proposal Evaluation referred to earlier.
5. **Distribution Division.** The company prides itself on its level of service which is the responsibility of this division which comprises warehousing, delivery, customer service, inventory control, shipping. Costs of actual distribution run at around 6.4% of sales but, not surprisingly, are more cost effective for school books than for professional books.
6. **Amortisation.** Origination costs are amortised over three years but not evenly with 67% of these costs written off in the first year, 22% in the second year and 11% in the third year
7. **Inventory management.** In the year ended April 2000 inventory levels were reported at a little over \$2m but this figure did not include consignment inventory worth almost a further \$2m. Even if the consignment inventory is taken into account, inventory levels are very satisfactory. Inventory write-off is aggressive and automatic though reversible. The computer calculates monthly based on the previous twelve months sales. Excess inventory is fully written off on trade titles after the first year and on education titles after three years.

5.5.7 Summary

Wiley is a strong financial performer and occupies a lead position in its chosen markets, with a business growing significantly on its top and bottom lines. The key elements in its strategies to secure its performance levels would appear to be:

- well-articulated company goals that are communicated effectively;
- well-defined and focused publishing strategies;
- strong sales and marketing emphasis;
- a concerted drive to achieve financial goals, particularly margins and cash;
- strong management of working capital;
- effective senior management team which is experienced and fully accountable for performance;
- attractive incentive arrangements to reward performance;
- quality management information data to guide decision making;
- high degree of service culture in the non-trading divisions of the company;
- a committed e-business strategy.

5.6 NELSON THOMSON LEARNING

5.6.1 Overview

Nelson Thomson Learning (Nelson), part of the international Thomson Corporation, is a major player in both the schools and tertiary education market segments in Australia. In the year ended December 2000, Nelson had total company sales of more than \$40m and an operating margin of just under 20% of sales. Its schools division operates in both the primary

and secondary markets; sales from the division in 2000 accounted for more than half of total company sales and produced an operating margin above 20% of sales. Of its tertiary education sales, more than half came from imported titles, most of which were sourced from Thomson companies. The company has been growing very strongly, increasing sales by 35% in the period 1998–2000 at a CAGR of 16%, while PBIT almost doubled in the same period.

Nelson provides a unique case study due to its considerable growth, export orientation, and excellent financial performance — one of the best in the industry.

5.6.2 Company goals

The principal goal of the company is to be the number one player in terms of sales and profit in each of the markets in which it operates. Second, it seeks to increase the market share of its secondary books in order to be one of the top three secondary publishers in five years. Third, it aims to achieve long-term profitability from its digital products. From Nelson's perspective, the keys to ongoing growth are the ongoing development of its school products and increasingly effective sales and marketing in its tertiary education division.

5.6.3 Strategies

1. **Schools publishing.** *PM Readers (PM)* dominate the company's publishing for primary schools and have accounted for most of the sales growth in this area, the number of titles having increased from 200 to 800 over the past six years, providing a one stop literacy shop. The clear strategy here has been to build and promote the PM program as a brand, and digital products have also supplemented the range. To prevent itself from becoming too exposed because of the reliance on the PM range, Nelson has been developing other products in the literacy area and in Mathematics. In the secondary schools area the company suffered in the past from trying to be 'all things to all people,' but its current strategy is to focus its publishing on the core subject fields of Mathematics, Science and Languages.
2. **Export sales.** Nelson has had phenomenal success in growing its export sales that predominantly come from the PM range. Export sales accounted for almost half the sales of Australian books in the year ended December 2000. Given the relatively higher margins earned from export sales, which have been increasing at 20% per year for the past three years, this strategy has had a marked effect on overall financial performance. The company invests heavily in cultivating relationships with its export customers, of which 90% are in the USA. An export culture is now established in the company: new products being examined for their export potential, while service demands of overseas customers are handled with priority.
3. **Tertiary Education publishing.** Currently Australian published books and adaptations account for less than 25% of total sales from the Tertiary Education division, and there is considerable emphasis being placed on increasing this proportion significantly.
4. **Financial model.** The company aims to achieve an operating margin of at least 15% of sales. To achieve this, it expects to achieve a gross profit of

55% of sales after write-offs and direct costs of 40% of sales. Currently, its primary schools publishing program is considerably ahead of this target.

5. **Customer service.** Nelson views the provision of customer service as an important means of securing competitive advantage. When the company decided to outsource its distribution a few years ago, a cost effective decision in itself, it deliberately decided to retain customer service, inventory control and collection under its own management. Nelson claims that the results speak for themselves.
6. **Accountability.** The General Managers are fully accountable for the performance of their divisions and, along with the sales managers, form a powerful executive team that meets monthly. The General Managers form a management group that meets quarterly to review performance, and to undertake any corrective action that might be required.
7. **Incentive.** Incentive payments as part of remuneration are adopted widely in the company to encourage and reward performance. General Managers participate in a substantial bonus arrangement based on the achievement of targets aligned with divisional performance. Bonus arrangements flow through to the fourth level of management in the company, with attractive potential earnings depending on the achievement of financial goals and some non-financial KPIs. Sales representatives also participate in bonus arrangements which are uncapped, with average earnings of 10%–20% of salary.
8. **Electronic.** The company has developed a web site for price and availability enquiries, and to use as a tool in its professional development program for teachers, an integral part of its marketing strategy for its school books. Digital products are also developed both as ancillary material for key textbooks, and as stand alone products, particularly the PM Library. Nelson has identified the digital area as a key to potential growth and is moving to establish it on a firm base.

5.6.4 Planning tools

Nelson prepares an annual Business Plan for three years, which consists of qualitative and quantitative elements. There are also quarterly Strategic updates.

5.6.5 Organisation structure

The company is organised into operating divisions, each under a General Manager. In addition, two other General Managers are responsible for Finance and Operations & Customer Service. Media Services and Human Resources also have managers that report to the Managing Director, as the diagram below indicates.



5.6.6 Operational focus

1. **Schools Division.** The General Manager has been with the company ten years, moving through sales to general management. New Zealand is not treated as an export territory, instead it has its own staff operating in that country, given the origins and core nature of the PM program. Features of this division include:
 - Two publishers are responsible for building the Australian primary school list, while in the secondary school market there are three full-time and two part-time acquisitions editors.
 - A costing template is used as the basis for publishing decisions, with secondary projects presented monthly and primary projects a little less regularly. The General Manager and the Managing Director sign off publishing approval.
 - A National Sales Manager in Australia and New Zealand drive sales in the primary school market. Additionally, a promotions manager with eight sales representatives in New Zealand and a commission sales team of twenty-four in Australia are shared with another company. In Australia a high proportion of primary school sales is direct to schools.
 - A Sales and Marketing Manager and five sales representatives drive sales in the Australian secondary school market.
 - One dedicated staff member is responsible for the professional development and in-service programs for teachers, programs for which fees are charged sufficient to cover costs.
2. **Higher Education Division.** Since 2000, the year of this study, Nelson has expanded its Higher Education Division substantially via the addition of the Harcourt textbook list, and now claims to be number two in the tertiary textbook market. Features of this division include:
 - A National Sales Manager and fourteen sales representatives remunerated, on the basis of salary and bonus aggressively drive sales. Currently representatives are generalists, covering all subject areas. A future change in strategy will see more specialisation of representation introduced, to sharpen coverage and gain greater market penetration.
 - While most of the division's sales come from imported books, there is an Australian list of original titles and adaptations. There are three acquisitions editors responsible for new products and, as has been outlined already, the company aims to increase sales from this source.
 - Favourable terms for the purchase of imported intercompany titles, as Nelson buys on the basis of the overseas cost price plus freight plus royalty. This provides the company with the opportunity to price aggressively here and achieve a more favourable margin.
3. **Amortisation.** Origination costs are amortised over four years for school publications and three years for higher education books.
4. **Inventory management.** The General Managers are responsible for inventory levels and use airfreight consistently to keep customers satisfied and inventory levels down. Inventory is written off on the basis of a formula that identifies all inventory that is older than twelve months and in excess of two years sales.

5.6.7 Summary

The key elements in Nelson's strategies to secure its performance levels would appear to be:

- constant enhancement and strengthening of the highly successful core program in its primary school publishing;
- clearly defined publishing strategies;
- well articulated financial targets which are effectively communicated through the company;
- a divisional structure which allows the General Managers to take responsibility for publishing, sales and marketing functions;
- accountability of the senior management team for performance;
- attractive incentive arrangements to encourage and reward performance;
- a well developed and successful export strategy;
- effective management of working capital;
- strong margins on the sales of imported titles;
- well developed service culture.

5.7 REED EDUCATION

5.7.1 Overview

Reed Education Australia (Reed) is a subsidiary of the Reed Elsevier Group, and publishes books and other educational materials for Australian primary and secondary schools and academic institutions, 94% of its sales coming from the Schools segment. In the year ended December 2000, Reed had sales significantly in excess of \$30m and an operating margin well above 15% of sales. The company is one of the few school publishers who attempt to match revenue with the costs of publishing its electronic products. This is achieved by allocating a portion of sales received from books containing electronic ancillary material to an electronic sales line.

Reed provides a fascinating study, because after changing its chief executive three years ago, significant growth in profitability followed. In the period 1997–2000, despite sharp increases in sales as the result of curriculum changes in the company's core secondary schools market, sales overall across the three year period increased minimally, but profit increased substantially by over 100% at a CAGR of 39.2%. Operating margin increased from single digit performance to well above 15% of sales.

5.7.2 Company goals

The company's principal goals include remaining a dominant publisher in both the primary and secondary schools markets in Australia, and continuing to grow its sales and profit lines to produce an operating margin equivalent to 20% of sales. To focus on this financial goal the company uses a simple model. The model seeks to achieve a gross margin of 60% of sales after the effects of any foreign exchange losses and inventory write off, and operating costs equivalent to 40% of sales. This model is communicated throughout the management team and is the basis for publishing decisions.

Currently the achievement of the projected model is not far out of reach for, in the year ended December 2000, the company's school sales fell marginally short of the gross margin objective while its costs to sales ratio was a little above that of the model. The resulting operating margin represented a significant growth on the result recorded in 1997, where operating margin was in a single digit.

Sensibly, Reed understands that the size of the market in Australia is such that regardless of growth, the way it can increase its profile within the international corporation is to become geographically relevant in terms of the regional dominance of its publishing.

5.7.3 Strategies

The company sees its competitive advantages as the quality of both its products and its senior people, particularly the senior managers. To fulfil its growth goals it is willing to take calculated risks, investing substantially in products and programs seen as potential winners.

The key strategies that have been adopted are:

1. **Export.** Reed sees real opportunities for growth from developing its export markets. In 2000, Reed's export sales were relatively modest, at 10.9% of sales of Australian published books. Since 2000, export sales have increased substantially for Reed, in terms of both sales of finished books and of licensing rights, a trend that is expected to continue. The chief executive has been the principal driver but the company internationally has also been active in ensuring that, where appropriate, products are developed for international markets using key personnel from the various national subsidiaries.
2. **Electronic.** While its current sales from electronic products are minimal at present, Reed has invested significantly in this area. For example, Reed has developed its web site as a means of promoting its products and of supplying ancillary support for its key books, and sees a significant contribution to sales and profit from this source in the future.
3. **Accountability.** The company has communicated its goals and strategies clearly to its senior managers who are held accountable for the performance of their respective operations. For example, the publishers are accountable for the sales and contribution to profit for their divisions. A financial template, which encapsulates key performance areas, is used to provide a model and ensure consistency for publishing decisions.
4. **Incentive.** Reed has implemented various incentive arrangements based on the achievement of goals established at the beginning of each year. There are approximately twenty people who have performance pay as part of their total remuneration package, with the top management incentives equating to around 20% of salary. In addition, in 2000, the company introduced an incentive arrangement for all staff.
5. **Communication.** Management clearly sees the involvement of all staff as critical to the achievement of the company's goals, therefore a key strategy has been to effectively communicate throughout the company. 'Think Tanks' are held every two months, involving staff representation

from across the company, and where matters ranging from the ordinary to the crucial are raised and discussed.

'Staff Briefings' are held quarterly to outline results achieved, to reinforce goals and to present divisional reports.

6. **Values.** The Reed Elsevier group has adopted five corporate values it wishes to instil throughout its global organisation. Reed in Australia has included these values as part of its overall corporate strategy, and has surveyed staff as to the extent to which the Australian company reflects them. The values are:

- Customer focus
- Valuing our people
- Passion for winning
- Innovation
- Boundarylessness

The recent survey showed the staff believed Reed was performing well in terms of Innovation, Boundarylessness and Passion for Winning.

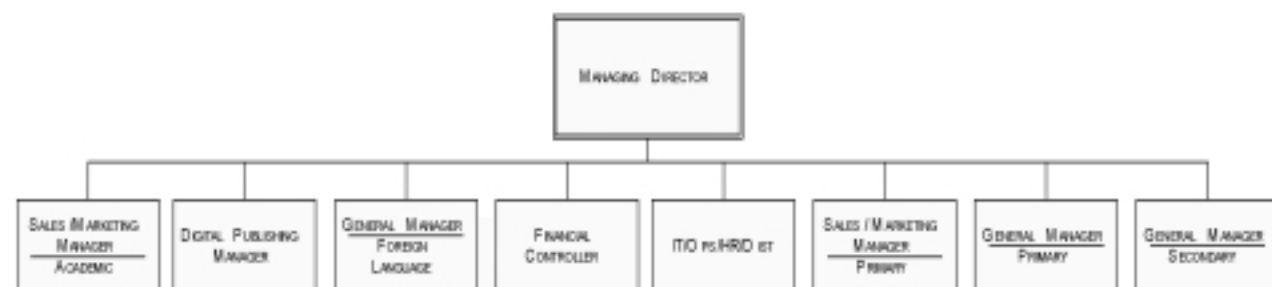
5.7.4 Planning tools

The company prepares both a Business Plan and a Strategic Plan. The Business Plan looks forward two years and includes P&L, Cash Flow and Cash Conversion projections and is accompanied by a commentary, while the Strategic Plan is quantitative in its focus, and spans five years. Each division provides and updates a 3–5 Year Publishing Plan that is fully costed and includes break even and risk analysis.

5.7.5 Organisation structure

The company employs approximately one hundred and eighty people although not all are full time.

The structure of the company is relatively conventional, with five operating divisions, including Digital Publishing, and the Service operations reporting to the Chief Executive. See the diagram following for the complete organisation structure.



5.7.6 Operational focus

1. **Primary School publishing.** In the early '1990s, Reed had a large share of the primary schools market but had few 'home-grown' publishing products, relying instead on marketing and distributing products owned by other companies. When these distribution arrangements were

changed, Reed lost much of its market share, therefore began to develop a new strategy — to move from a distribution focus to a publishing focus. The company invested heavily in origination and the key people to develop cutting edge products for core literacy, mathematics and, in conjunction with other Reed companies, international markets. From 2000 (the year of the study), to 2001, sales of the Primary Schools division increased a substantial 28.6%, much of the increase coming from export markets.

2. **Secondary School publishing.** In the early 1990s, Longman and Macmillan dominated the secondary schools market and Reed's share was small. By 1995, the company estimated that its share had grown to 12%, although profitability was low. By 2001 the company claimed to have over 20% of the secondary school market. Again, investment in the development of new products was the key, particularly for the core English, Mathematics and Science markets, influenced heavily by the curriculum changes that took place at this time. Reed was successful in having many of its new products accepted as texts for the new courses, and sales increased substantially through 1999 and 2000.
3. **Amortisation of origination costs.** Reed's policy in respect of amortising the costs of origination in developing new products is more conservative than that of some of its competitors. Origination costs are written off in twelve months from the date of the first sale, except in the case of atlases (eighteen months). This can lead to unevenness in reporting and in comparing gross profit performance year to year.
4. **Digital publishing.** As mentioned above, Reed is committed to developing digital publishing and has a staff of ten people in the division. Reed does not perceive any short-term financial gain from this investment, but sees a future role for electronic products, and seeks to be well placed when this development occurs. Similar to most School publishers, Reed produces ancillary digital products for its core books, but the company is also developing a proactive web site which will contain the following features:
- an online bookshop;
 - access to resource data from the Reed database, sold by subscription;
 - text material in the case of publishing delays;
 - email updates, brochures and other promotional material.
5. **Margin Management.** As mentioned above, the company has established targets for gross margin achievement, and the publishers are responsible for reaching these goals. As a means of increasing margin, management attention is focused on the following:

- constant review of all product costs;
- selling direct to schools in the Primary division (88% of sales are sold this way);
- lowering or providing tiered discounts to booksellers;
- shifting towards fixed author fees rather than royalties based on sales in the Primary division.

6. **Marketing and sales strategies — Primary Schools.** While gross margin is attractive in the Primary Schools division, selling costs are high. To reach the schools direct, Reed has a sales team of twenty-three, including regional sales managers, term time representatives and commission sales staff. Company representatives work on the basis of a salary plus commission, and \$350K is seen as the minimum sales requirement for a territory. Direct mail is also used for promotion and sales purposes, while another significant marketing strategy is to sell packages of books rather than single titles.
7. **Marketing and sales strategies — Secondary Schools.** Most of the company's secondary textbooks are sold through bookshops and the sales team is smaller than that operating in the Primary Schools market. The sales team consists of two regional managers and ten representatives, including both full time and term-time employees, all of whom are remunerated on the basis of salary plus commission.
8. **Inventory management.** In 2000, the company's inventory of School books amounted to 27% or forty-nine weeks sales, while inventory of Academic books amounted to 49% or fifty-five weeks sales. The company recognises these levels are high, and aims to hold around thirty nine weeks sales. A formula is used to calculate inventory obsolescence based on applying an automatic provision against all inventory in excess of 24 months sales.

5.7.7 Summary

In the period 1997 to the present, Reed has improved its financial performance markedly and grown the business significantly, to the point where it is one of the key players in the educational publishing industry.

The key elements in its strategies to secure this growth would appear to be:

- well defined publishing strategies;
- a willingness to back its judgement with significant investment in the development of new products;
- a clearly articulated set of financial goals and an overall financial model;
- concerted effort to involve all staff, and to ensure effective communication throughout the company;
- development of an export culture and achieving improved results in this area;
- accountability of its senior management for the achievement of company objectives;
- development and use of business planning tools;
- strong balance sheet management;
- significant commitment to marketing and sales;
- use of incentive payments to reward good performance;
- use of the web site to build customer loyalty;
- genuine encouragement of the staff to learn from mistakes and to have fun.

5.8. CONCLUSIONS — CASE STUDIES

- 5.8.1 The six case studies have examined companies that have achieved significant growth and sound financial results over at least the last three years. While their strategies have differed to some extent, as have some of their management practices, many of their management methods are similar.
- 5.8.2 The following practices seem to have been significant in determining the success of the companies studied:
 1. **Clearly defined company goals.** Most have clearly articulated financial goals in terms of the achievement of a minimum operating margin or in the setting of gross profit targets. It is interesting to note that Wiley and Penguin take their financial objectives further by setting goals related to cash flow targets. However, financial goals aside, five of the companies also established goals specifically related to increasing market share, with the school publishers a little more forceful in this respect.
 2. **Planning tools.** All companies have developed business planning tools with regular reforecasts as a result of prior shifts away from original targets.
 3. **Focused publishing strategies.** All those studied possess well defined publishing strategies and, in the case of the trade publishers, these include carefully selected and managed agency lists which contribute significantly to the success of those companies. There is a strong partnership between the marketing and sales managers and the publishers to maximize the success of the lists that are developed. All six companies have innovative publishers who are also very much aware of market needs and pressures.
 4. **Communication.** In most cases, goals have been effectively communicated throughout the companies and management is careful to ensure that their staff are informed of progress towards those goals. Penguin's weekly Program Meeting is a useful tool in this respect, as are the Reed Think Tanks. The divisional structure of the three school publishers, and the ownership/management model of Allen & Unwin make for more direct management and communication.
 5. **Accountability.** The management teams within all six companies are accountable to varying degrees for the achievement of the results directly related to their areas of responsibility. Some, like Penguin, set divisional KPIs and have implemented formal appraisal systems to reinforce accountability. Nelson is also particularly strong in this respect.
 6. **Incentive.** Practices vary in the implementation of incentive arrangements to reinforce and reward performance, but all six companies have introduced at least company wide bonus payments. The school publishers are more committed to performance bonuses and Wiley, Reed and Nelson use them to drive results, while the trade publishers use incentives to build teamwork.
 7. **Management information.** All six companies use well developed management information data providing sales histories, margin

performance, customer patterns, service statistics etc., to empower management to make more effective decisions. Penguin's data in this respect is impressive, as is Wiley's Project Proposal Evaluation.

8. **Balance sheet management.** Working capital performance varies from company to company, but all six companies direct a good deal of management attention to inventory control, with goals for inventory turn and sell-through time for new titles. The school publishers have achieved some good results in this respect.
9. **Service levels.** All six companies are committed to improving their levels of service in terms of distribution and customer support, listing this as a high priority. Penguin's investment in a new technologically driven distribution centre, the joint venture between Allen & Unwin and Hodder Headline, and Wiley's progress in providing improved levels of e-business are all good examples of this commitment.
10. **Experienced management.** In all six cases the top management teams have considerable experience within the company, and are well equipped to drive the achievement of the goals set. In most cases they have successfully combined sound financial management with the more creative side of publishing, a key factor in their ongoing success.

6.0 CONCLUSIONS AND RECOMMENDATIONS

6.1 TRADE/CONSUMER SEGMENT

6.1.1 Most respondents to this segment did not perform particularly well financially in the 2000 year and, therefore, the setting of benchmarks will be slanted more towards desirable goals than based on actual performance levels reported in the questionnaire.

1. **Financial model.** The best financial performer in this segment achieved an operating margin above 20% of sales and showed the following operational trends:

- Its publishing was niche oriented rather than across a range of categories.
- Its publishing was 100% Australian.
- It used staff writers to a large extent.
- It achieved a trading gross profit above 70% of sales.
- Its gross margin was over 50% of sales.
- Its operating costs were < 25% of sales.

However, a more typical financial model that could be used by most trade publishers desiring to improve their operating margin to between 7.5% and 10% of sales would be:

- a trading gross profit of 53% of sales;
- other cost of sales of 8%;

- operating costs equivalent to 35% of sales;
- PBIT equivalent to 10% of sales.

Given the results reported in the study of the 2000 year, this performance is within reach of a trade publisher of reasonable size, provided inventory could be managed so that the write-off factor was reduced to 4% of sales.

2. **Other benchmarks.** The analysis of the responses would suggest that the following benchmarks would also seem achievable and would serve as a starting point in any program of continuous improvement.

Sales of Aust. Books	46% total sales
Export Sales	7.2% sales Aust. Books
Imported Books Gross Profit	40% sales
Returns	< 20% sales
Marketing/Sales Costs	12% sales
Distribution Costs (warehousing and delivery)	7% - 11% sales
Working Capital Ratio	> 20%
DSO	< 70 days
Inventory	< 20% sales 3X inv turn
Selling Time First Print Run	12 weeks

6.1.2 The responses to the study revealed a number of operational areas that were hampering performance and ongoing growth and the following recommendations suggest some ways these problems could be addressed:

1. **Australian publishing.** Obviously, while Australian publishing requires significant investment and carries a higher degree of risk, it should produce higher margins with reduced exposure to foreign exchange problems and a better profit contribution than that given by imported lists. It would seem that publishers should examine ways to increase their Australian lists within the constraints of both their resources and defined margin parameters.
2. **Exports.** It is acknowledged that publishers in the Trade/Consumer market must focus primarily on domestic sales but it would still seem that many are missing the potential of export growth where the rewards can be attractive. Unlike, say, the UK, there does not seem to be an export culture in many Australian companies. A mechanism needs to be established to define the export potential of every new title at the time the publishing decision is taken. Selected companies surveyed are already attempting to put together publishing programs or titles where the main focus will be on export markets.
3. **Margin management.** Publishers in this segment must review all elements in the margin equation if PBIT levels are to be increased. The volume of inventory write-off has already been highlighted but, in many cases, Trading Gross Profit levels need to be lifted. Pricing is one area that could be examined, as could overall production costs. A 1% improvement in margin would have resulted in additional profit of more than \$53m for the respondents to this segment of the survey.

4. **Imported books.** The wide range of margins being achieved on the sales of imported books would suggest the need for companies involved in imports to review their trading terms with their suppliers and their inventory policy in respect of these lists. Many distributors now only take imported lists on consignment thereby reducing the exposure to inventory write-off and foreign exchange losses. The effects on overall margin from any gains in this area would obviously be significant given the proportion of sales of imported books in total sales.
5. **Returns.** It would seem that, for now in the Trade/Consumer market, returns are here to stay but must be managed more effectively. The survey showed that returns could be managed to a rate less than 20% of sales and significantly so in some cases. Selling backlist titles on a firm sale basis is already a widespread practice and has resulted in improved return rates. Other areas worth examining might be:
- In the interviews many respondents pointed out that current ordering trends among booksellers were to order lower quantities more frequently. This could suggest that one of the main reasons for granting return rights in the past is now less valid. Policies here should clearly be reviewed to find ways to limit return rights further.
 - Falling backlist sales are a problem for most trade publishers and, given their importance in the returns ratio, it was interesting to find a number of respondents focusing some of their publishing on the backlist in the form of annuals, series, niche categories, etc. Apart from improving margins, this strategy would have a positive effect on return rates.
6. **Marketing and sales costs.** Many respondents to this segment of the survey highlighted improved marketing and sales, as one of the keys to sales growth but this was not always matched by investment in this area. If the benchmark of a minimum of 12% of sales for marketing and sales costs is acceptable, some companies might need to review their costs in this respect and to reallocate other costs if necessary.
7. **Distribution.** Distribution costs are a high component of overall costs and form one area where economies of scale certainly come into play. Technology has provided considerable benefits to a distribution operation enabling it to be increasingly cost effective in its provision of improved levels of service but it does come with a high cost. It is difficult to understand how a publisher with sales under \$30m or even higher can provide the kind of distribution required at an acceptable cost. Ideally, the costs of warehousing and delivery only should be below 10% of sales. Hence, it has not been surprising to see an increase in the number of companies outsourcing this function. There are several possible solutions to consider:
- There is already an example of two companies in this market sector forming a joint venture to carry out their distribution functions with considerable cost savings and improved levels of service for both.
 - Some of the larger companies, Penguin, Pan Macmillan and Random House, to name three, have been upgrading their distribution

facilities, often with state of the art equipment and offer these services to third party companies, including, if required, customer service, invoicing and collection.

- There is at least one contract warehouse providing quality distribution to its publisher clients. This company provides distribution services, including receipt of goods, warehousing, picking and packing and delivery supported by a high degree of management information. It also does its own delivery to main centres.
8. **Debtor management.** Collection practices, as measured by DSO, could be improved considerably and would need to include a review of terms of trade and a more rigid enforcement of these once they are finalized. A DSO of below seventy days does not seem either unreasonable or unachievable. In the case of the sample used in this survey an improvement of ten days in DSO would lead to more than \$14m in improved cash flow for those companies or, to put it another way, a company of \$20m sales would improve its cash flow by more than \$0.5m if it lowered its DSO by ten days.
9. **Inventory management.** Inventory management is a major problem facing trade publishers and, in fact, even a reduction of \$0.5m in inventory write-off among the larger respondents to the survey would have lifted their PBIT significantly. It has to be stressed that the write-off policy practised by most companies is realistic and it is the overall management of inventory that requires attention. Some options to tackle this problem would include:
- Consider publishing fewer titles but concentrate on those with higher volume.
 - Where possible increase 'ownership' of a market category.
 - Drive inventory management hard to achieve a 3X inventory turn; the twelve respondents to the working capital segment in the questionnaire carried \$120.6m in inventory but if they had achieved a 3X inventory turn this amount would have reduced by \$50m.
 - Institute more rigorous management to have a much higher volume of new titles reach a desired first year sales print run target.
 - Investigate the feasibility of using a system like BookTrack to track book sales through retail outlets, in order to provide data relevant for print and reprint decisions. BookTrack has been launched in Australia, but has not yet won widespread acceptance by publishers due to problems related to the information it provides as well as its price. However, in principle, it could be a useful tool.
- Key performance indicators should be set to drive and monitor performance in this critical management area.
10. **Training and development.** The adage that people are a company's greatest asset is certainly true in the publishing industry, but the money

spent on training and development is very low and will not contribute fully to improved operational standards. It would be a significant step forward if training and development costs were at least 1% of sales.

11. **Scale.** This survey looked at the larger companies in the main and it has been pointed out that the figures collected would suggest that the ABS Survey indicated a further eighty-three companies sharing only \$15.7m profit. Many of these must have recorded losses or very minimal profits. It would appear that many of these smaller companies should review their operations to consider outsourcing all functions except publishing, to minimise risk and thereby secure a better operating margin.

6.2 EDUCATION SEGMENTS

- 6.2.1 As has been shown, school publishers performed well in the 2000 year with the respondents to this segment of the questionnaire achieving an operating margin of 16.7% of sales. Therefore, setting benchmarks is not as difficult as with the trade publishers.

1. **Schools financial model.** The two best performing companies in the Schools sample achieved a gross margin well above the 52.1% of sales for the group and had operating costs below the group figure of 35.4% of sales. A typical financial model to produce an operating margin of 17% of sales would be:

- a trading gross profit of 58% of sales;
- a gross margin of 52% of sales;
- operating costs equivalent to 35% of sales;
- PBIT equivalent to 17% of sales.

It must be remembered that five respondents to this segment achieved an operating margin above 17% of sales in 2000, confirming that the model is achievable.

2. **Tertiary/Academic financial model.** Tertiary/Academic publishers depend to a large extent on sales of imported books and therefore survive with a lower gross margin. Operating margin is influenced to a large extent by the terms under which imported titles are purchased and many of the subsidiaries of international companies have secured some favourable arrangements. The academic group reported an operating margin of 7% of sales, with the three companies performing better than this all part of international organisations. A typical financial model for an academic publisher to achieve an operating margin of 7% of sales would be:

- a trading gross profit of 49% of sales;
- a gross margin of 42% of sales;
- operating costs of 35% of sales;
- PBIT of 7% of sales.

3. **Other benchmarks.** The analysis of responses would suggest that the following benchmarks would seem achievable.

Sales of Aust. Academic Books	20% total sales
School Export Sales	> 30% sales Aust. Books
Imported Books Gross Profit	> 45% sales
Marketing/Sales Costs	17% sales
Distribution Costs (warehousing and delivery)	7% sales school 11% sales academic
Working Capital Ratio	> 30% school > 20% academic
DSO	< 70 days
Inventory	< 20% sales 2X turn school 3X turn academic
Selling Time First Print Run	52 weeks

- 6.2.2 Many of the **recommendations** already made in 6.1.2 will apply equally to publishers in the Schools and Tertiary/Academic market segments and need not be repeated here. Specifically these relate to Imported Books, Marketing and Sales Costs, Distribution Costs, Debtor Management, Training and Development, and Scale.

1. **Australian publishing.** Increasing the amount of Australian publishing clearly is a strategy for academic publishers to lift their margin performance. Those publishers with the higher gross margin performance, for the most part, have an Australian publishing component above 20% of Australian sales.
2. **School export sales.** Publishers with strong primary school lists, particularly in literacy, have strong potential to secure substantial export sales; therefore their strategies should include the means of raising exports to the levels stated above. Resources need to be allocated to keep abreast of trends overseas and to enable the necessary customer relationships.
3. **Margin management.** Those companies currently achieving trading margins significantly below 58% of sales should review their strategies, particularly their pricing and discount models. The better performers in the Schools segment appear to make more aggressive pricing decisions. Production costs and royalty policy would be other areas to review when margin improvement is examined.
4. **Inventory management.** While inventory management is not the same problem that it is with Trade publishers, there is nevertheless room for improved levels of performance. For example, one of the School respondents had an inventory turn close to 1X in 2000 but an improvement to 2X would have reduced inventory by \$3m with an obvious benefit to cash flow. Key performance indicators in respect of inventory management should be set, and more importantly, measured with appropriate action points initiated to correct significant divergence in performance.

Imprint 2001

Book Printing Analysis

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Publishers

Allen & Unwin
Butterworths
CCH Australia
CSIRO Publishing
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Hardie Grant Books
Harlequin Mills & Boon
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Horwitz Martin Education
John Wiley & Sons
Lonely Planet Publications
Macmillan Education
McGraw-Hill Book Co. Australia
Mimosa Publications
Nelson Thomson Learning
Pan Macmillan Australia
Pearson Education Australia
Penguin Books Australia
Random House
Reader's Digest Australia
Reed Education Australia
Scholastic Australia
University of New South Wales Press

Book Manufacturers

Advance Press
Brown Prior Anderson
Five Star Press
Gillingham Printers
Griffin Press
Lamb Printers
Ligare
M & M Binders
McPherson's Printing Group
Offset Alpine Printing
Open Book Publishers
Printgraphics
Rodenprint
Southwood Press
The Bindery

Other organisations:

Avimo Australia
Dalton Web Papers
The Australian Book Connection
The Bookmaker
The Document Company

Book Printing Analysis

Contents

1.0	Data Collection	81
1.1	Design of questionnaires	81
1.2	Special software	81
1.3	Australian book publishers	81
1.4	Interviews	82
1.5	Publishers invited to participate	82
1.6	Responses	82
1.7	Quality of the data Foreword 2001 Part A: Publishing Analysis	82
1.8	Strategic options	82
1.9	Australian Bureau of Statistics	83
1.10	Quality of the data Foreword 2001 Part B: Manufacturing Analysis	83
1.11	Responses	83
1.12	Australian book printers	84
1.13	Recipients	84
1.14	The finalists	84
2.0	The Size of the Book Printing Pie	85
3.0	Technical Audit	85
3.1	Pre-press equipment	86
3.2	Printing equipment	86
3.3	Bindery equipment	87
3.4	Capacity utilisation	87
3.5	Summary	88
4.0	Book Cost 2001	89
4.1	The questionnaire	89
4.2	Summary of Book Cost 2001	89
5.0	Case Studies	90
5.1	Market dynamics	90
5.2	The health of the industry	91
5.3	Customer acquisition and satisfaction	91
5.4	Customer contact	92
5.5	Estimating	93
5.6	Sales force and communications	94
5.7	A better way	94
5.8	Print brokers	95
5.9	Attracting business	96
5.10	Specialisation	96
5.11	Printers' reactions	96
5.12	Production control and scheduling	96
5.13	Performance measurement	97
5.14	Print management systems	97

5.15	Plant layout and housekeeping	97
5.16	Material handling	98
5.17	Raw materials	98
5.18	Paper procurement	98
5.19	The Printing Industry Competitiveness Scheme (PICS)	99
5.20	Uncoated papers	100
5.21	Options	100
5.22	Coated papers	100
5.23	What Australian merchants have to offer Australian book manufacturers	101
5.24	Opportunities for publishers printing offshore	101
5.25	Maximising opportunities from Australian sources	102
5.26	An impediment to Australian book printers	102
5.27	Financial performance	103
6.0	Australian Book Sizes	103
7.0	Books in the Digital Print Age	104
7.1	Range of formats	104
7.2	Digital print technology	104
7.3	What is digital printing?	105
7.4	Static printing	105
7.5	Dynamic printing	105
7.6	Print-on-demand	105
7.7	Short runs	106
7.8	Turnaround times	106
7.9	Distribute then Print	106
7.10	Custom printing and education	106
7.11	New business model	106
8.0	Obstacles to Growth	107
9.0	Characteristics of Successful Firms	108
10.0	Mono or Colour	108
10.1	In black and white	108
10.2	In glorious colour	109
10.3	The gathering of the clan	109
10.4	Opportunities for multi-colour book production in Australia	109
10.5	The main issues in Australia not printing more colour books	109
10.6	What's the difference?	110
10.7	Come on Aussie	110
10.8	What publishers require from their printers	111
11.0	The Australian Book Company	112
11.1	The advantages of this alliance	112
12.0	Value Added Features for Growth	113
12.1	Price rationalisation	113
12.2	Distribution	113
12.3	Strategic alliances	114
13.0	Appendixes	114

Data Collection

1.1 DESIGN OF QUESTIONNAIRES

Three questionnaires formed the basis of the Book Manufacturing Industry Study of publishing and printing firms in the Australian book production and printing industry. They were designed by the consultants engaged for the project, in conjunction with key publisher and printer members of the Joint Committee set up to oversee its completion. The main questionnaires, set out as a series of EXCEL spreadsheets, were labelled **Foreword 2001** and **Imprint 2001**, and included both quantitative and qualitative questions which were designed where possible to be answered simply by multiple-choice response.

The questionnaires were designed to be emailed to the selected companies and to be filled in on the various respondents' computers and returned by email to the consultants, checked, validated and with data analysed.

1.2 SPECIAL SOFTWARE

A computer analyst was retained to design special software to enable the collation and sorting of the data collected within the broad headings of the questionnaires and to provide individual company performance analysis that could be compared with the performance of other respondents within each segment.

The specially written software detected any anomalies present in the responses, enabling further contact to be made by email and any corrections to be made. The electronic nature of the exercise and the opportunity for rapid data analysis assisted in the timeliness of the information.

1.3 AUSTRALIAN BOOK PUBLISHERS

The publishing industry in Australia comprises four quite distinct elements — Trade/Consumer, Schools, Tertiary/Academic and Professional — each with different problems and issues and operating within different financial parameters. The questionnaire **Foreword 2001** was therefore structured to address the differences between these four markets segments as well as operational and financial issues. There were two main sections: Part A was a Publishers' Questionnaire focusing on financial performance and key operational areas; Part B was a Manufacturing Analysis focusing on book production and printing.

1.4 INTERVIEWS

The questionnaire was followed by interviews with respondents to clarify and to expand on responses, to identify the strategic options the industry has if it wishes to secure ongoing growth and development, and to formulate benchmarks for performance. The interview program involved both consultants, one for Part A, where the interview was with the Chief Executives while the other, relating to Part B, was with the Production Managers.

1.5 PUBLISHERS INVITED TO PARTICIPATE:

- twenty-two primarily involved in Trade/Consumer publishing;
- thirteen in the publishing of books for primary and secondary schools;
- five primarily operating in the publishing and marketing of books aimed at the Tertiary/Academic markets;
- seven companies that are primary providers of Professional Information.

Forty-seven publishing companies were selected to participate in the research and were sent questionnaires. While forty-seven companies is a relatively small sample from more than two hundred companies involved in book publishing, it was felt that those selected were of a size and strength to:

- provide a solid understanding of the factors at work and to show trends currently taking place in the industry;
- provide the necessary performance benchmarks;
- provide the data necessary from which to draw conclusions regarding options for the future growth and development of the publishing industry.

1.6 RESPONSES

Foreword 2001. Twenty-four publishers responded to this questionnaire and clearly this number of companies was disappointing. Considerable and detailed data was requested and some companies made only partial responses to this study. Smaller companies either did not have this detailed information or had difficulty in accessing it. In this respect it was not altogether surprising that respondents were, for the most part, the larger companies. While the number of respondents was disappointing, the size and influence in the industry of those who did respond was pleasing, and clearly allowed for meaningful conclusions to be drawn and recommendations to be made for taking the industry forward.

1.7 QUALITY OF THE DATA

Foreword 2001 — Part A: Publishing Analysis. The responses provided not only the kind of information necessary for the basis of the study but also additional information, especially detailed profit and loss analysis by segment, never before collected by the industry.

While the Australian Bureau of Statistics (ABS) survey provided sales and profit information in general, the data in this exercise concentrated on particular sales, margin and cost details. These allowed for a more effective analysis of profit performance and illustrated industry trends that impede growth and development. The information collected will therefore be a useful supplement to the statistical ABS survey.

1.8 STRATEGIC OPTIONS

The interview process successfully augmented the questionnaire and was valuable in not only providing clarification of the responses but also in providing additional qualitative information. The overall data gained

would make possible the formulation of conclusions regarding the strategic options facing the industry in overcoming the barriers to growth.

The data highlighted some marked differences in the profitability performance within the four market segments, the result of substantial differences in margins achieved and in the overall cost bases. Trade/Consumer companies, for example, had thin profit margins. The larger School companies had healthy profit margins while publishers of professional information had profit margins which would be envied by virtually any industry.

1.9 AUSTRALIAN BUREAU OF STATISTICS

Meetings with the ABS were held initially when the questionnaires were being designed and their collaboration and advice was appreciated.

At the conclusion of the data analysis, a further meeting with ABS was held. They were provided with copies of the reports with a view to determining whether the financial analysis obtained in this exercise should be continued in future years as a supplement to the more general survey of the ABS. An alternative would be to include some more detailed margin and costs questions in the ABS survey. This matter is yet to be finalised.

1.10 QUALITY OF THE DATA

Foreword 2001 — Part B: Manufacturing Analysis. This section of the publishers' questionnaire was designed to obtain specific data on books published by Australian publishers in standard and non-standard formats, printed both in Australia and offshore, using categories of books as defined in the ABS studies into Australian Book Publishing.

This data has not been available to the Book Manufacturing Industry in such form before. It is required by book manufacturers for examining the needs of Australian publishers in regard to both the specifications and volume required.

1.11 RESPONSES

The twenty-four publishers who responded to **Foreword 2001** were considered to be the major players in the industry. The greater proportion of these responded well, albeit in some cases over an extended period and with much follow-up on the part of the consultants.

This major proportion produced comprehensive data and obviously maintained detailed records of books produced for their companies. Cross-checks were built into the questionnaire to validate the total dollar values of books printed, both in Australia and offshore.

In several responses, this data did not always agree and follow-up was required to have this data authenticated.

A minority failed to respond to Part B at all, despite many requests, but it has been possible to obtain, from other areas of the questionnaire, total dollar values for books produced and the origin of their printing, but formats have not been identified.

Despite the protracted and somewhat convoluted exercise, the study has produced extensive detail about the products of the book industry with considerable implications uncovered.

1.12 AUSTRALIAN BOOK PRINTERS

The questionnaire **Imprint 2001** was designed to determine the specifications, volume and value of Australian books produced, and their relevance to the printers responding. Other questions concerned the origin of the raw materials used in book manufacture. A technical audit of equipment together with its age, value and utilisation has been made.

Assessment of company performance, current goals and future directions, obstacles to profitability and cost reductions were explored.

1.13 RECIPIENTS

The list of recipients for **Imprint 2001** was compiled from a number of areas. One source was from a study of the list of former Book Bounty payments: 'The Claimants'; and 'Amount of Bounty Paid'. Names of other companies were obtained from the book industry: publishers; printers; trade; and supplier sources.

Imprint 2001 was distributed to sixty-six Australian printers who were considered to be involved in book production and they were all, where possible, contacted by telephone and followed up by fax or email. Although generally, with only one strongly expressed exception, these printers acknowledged the possibility that the exercise would provide benefits to their companies, the necessity of having to provide input and effort proved too much for some. Others considered that book production was a minor part of their business and that it did not justify their inclusion in the study.

Another group, involved in book production but not as a major part of their business, showed enough interest to want to be considered but eventually fell by the wayside, despite repeated encouragement.

1.14 THE FINALISTS

The final fifteen companies that came through with proper responses have since demonstrated that they are making a genuine attempt, in their own way, to participate in the study with the prospects of opportunities for growth and the enhancement of the long-term competitiveness of the Australian book industry.

This 'baptism of fire' has distilled an appreciative group of Australian book manufacturers who deserve the support that this study should provide.

Production personnel from fifteen major publisher respondents were interviewed for discussions on the **Manufacturing Analysis**, to obtain cost and performance examination of their supply printers.

Case studies of eleven printers, two trade binderies and two print brokers were carried out.

The questionnaire **Book Cost 2001** was distributed to seventeen publishers, twelve book printers and two print brokers to obtain an adequate sample of book manufacturing costs in both Australia and offshore. This questionnaire relates to book size, type of binding, paper, colours and country of origin of manufacture.

2.0 The Size of the Book Printing Pie

The ABS survey *Book Publishers 1363.0 1999-2000* shows 207 businesses as book publishers and the expenditure of \$255.4m on book printing. This was split into \$121.7m printed in Australia and \$133.7m printed overseas.

The twenty-four publishers in **Foreword 2001** spent \$125.4m on printing, \$68.8m in Australia and \$56.6m overseas. The twenty-four publisher sample represent about 75% of the major publishers in the industry.

The responses to **Imprint 2001** from fifteen of the sixty-six printers who were on the original list of Australian book printers, showed that the fifteen produced \$138m of books.

Extrapolating from the audited Book Bounty payments for the last four financial years that the Bounty was paid, the value of books printed in Australia was:

1993/94	\$185m	1995/96	\$270m
1994/95	\$235m	1996/97	\$225m

Book printing in Australia declined after the cessation of the Bounty. However there are a group of books, which did not qualify for it, and PIAA, based on available data, estimate their value as 25% of the total. The total figures for 2001 are \$275m for Australian printed books.

The ABS survey shows that 52% of Australian published books are printed overseas, and data from **Foreword 2001** gives a figure of 45%. Therefore, the total number of books originated in Australia is double the figure calculated from the Bounty. This rates the market at \$550m.

Of the \$275m printed in Australia, however, only \$121.7m were printed for the 207 businesses identified by the ABS as book publishers, leaving \$153.3m originated from businesses not identified as publishers. These businesses would be less likely to print overseas, thus limiting the doubling of the \$153.3m to a quarter of this to go overseas. This downsizes the market by \$38.3m, therefore we estimate the total market for Australian books printed both in Australia and overseas to be \$511.7m.

The 207 businesses surveyed by the ABS as publishers therefore originate only half of the total volume of book printing. The other fragmented half is of vital interest to the book printing industry. In summary:

- major publishers originate \$167m;
- minor publishers originate \$88.4m;
- others originate \$256.3m.

3.0 Technical Audit

All respondents to **Imprint 2001** participated in an audit of equipment used in the manufacture of books.

This audit identifies the major items of equipment used in book manufacture, their age, their book value, the total annual hours of production, and the percentage of those hours spent producing books.

3.1 PRE-PRESS EQUIPMENT

Pre-press production is the area of most spectacular change and development. Equipment in this section has the shortest effective life in the industry.

Although a wide range of pre-press systems and hardware of various generations is available, it is one area where most individual companies have chosen with consideration to their needs and finances.

Invariably, high-quality results are forthcoming and costs are kept to such a reasonable level that the pre-press reproduction requirements of Australian publishers is not as much of an issue as are printing and binding. Much of this work is either carried out by local trade houses or by local book printers themselves. Because reproduction is the least expensive of the book manufacturing operations, it is only those in search of the highest cost savings that would send reproduction offshore (unless accompanied by the printing) or in a few cases to New Zealand.

The average age of pre-press equipment is 4.3 years, which demonstrates that the industry is fairly up-to-date. More printers are now self-sufficient in this area whereas several years ago they would have been more reliant on trade houses for their supply. This has resulted in reduced lead times for their clients and an ability to take the total responsibility for the quality of the printed image. In fact, the ability to produce high-quality reproduction in-house can be a way to attract business.

One of the more capital-intensive sections of the pre-press area is the computer-to-plate equipment which the larger printers are steadily introducing. A large volume of printing plates is required to justify this equipment and therefore some installations have very low utilisation. Little attempt has been made by the owners of this equipment to offer a plate-making service to other printers as a means of attracting extra work, of assisting in amortising costs, and perhaps even helping to delay the installation of competitive facilities in the vicinity.

3.2 PRINTING EQUIPMENT

Printing equipment is the area of greatest investment and the statistics show it has the oldest average age of 13.9 years. This figure does not really represent the true picture as the age varies markedly between single-colour web-fed rotary and multi-colour sheet-fed presses.

Sheet-fed offset

More than a dozen eight-colour, sheet-fed offset presses have been installed in Australia over the past four years. With this sort of technology

Australian printers can deliver products and services equal to any international counterpart.

- The Technical Audit made by Imprint 2001 has captured and identified the capability of the book manufacturing industry in Australia.
- Publishers need to be made aware of the new capabilities available locally as these opportunities are presented.
- No directory of services currently exists and this would be of benefit to both printers and publishers.

Web-fed offset

Generally the sheet fed and rotary multi-colour presses in the industry are respectably modern and produce good quality high-speed output with short make ready times the order of the day. Much of this equipment is used less for books than with general colour work — periodicals, annual reports and promotional printing.

High-speed web-fed presses for one- and two-colour printing, are restricted to the main players and are generally much older than the sheet-fed presses. Most of these presses are between twenty and forty years old and this has distorted the average age of total printing equipment.

Most of this rotary equipment is generally well maintained and has, in some instances, been retrofitted with later innovations. Their book value is very low. Any update in this sector to replace the old with new equipment would be expensive, and courageous, given the unacceptably low profit margins achieved.

There is one exception to this situation with the current installation of a large web-fed rotary press, with all the latest bells and whistles. It will be interesting to see what impact this decision will have in a very competitive market. The printer will enjoy lower costs of operation and be able to retain some of the improved gross margin to contribute to a better net profit. This installation will help reinforce Australia's position as the choice for mono- and two-colour books in the higher volume area.

All these presses are wholly dedicated to one- or two-colour book production in the lowest margin group of the industry. Because of the intense competition between the two main players forcing prices down, the major requirements of Australia's publishers' books on uncoated stock is produced in Australia with a smaller proportion going offshore.

3.3 BINDERY EQUIPMENT

Binding equipment has the highest percentage dedication but the lowest percentage utilisation of all. The relative productive efficiencies of this equipment vary greatly with increasing age. A handful only of the book printers surveyed had state-of-the-art, highly productive, perfect bound and saddle-stitch binders. The majority are ten to fifteen years old, and they are costly items to update to achieve best outputs.

Saddle-stitch and perfect binding

The impressive bindery of one large printer contains a state-of-the-art perfect binder and saddle-stitcher. This very efficient operation, in

conjunction with the latest multi-colour web presses, puts it in world class and, although the majority of its work is in magazines, annual reports and periodicals, their book manufacture benefits greatly from the efficient use of this modern equipment. Books are only a small proportion of their turnover and are not solicited.

The capabilities of this printer are almost unknown to book publishers and great opportunities exist for economical four-colour perfect bound and saddle-stapled books to be produced at a high quality and enormous volume at this fine plant.

By contrast, the recent installation of a more modest but modern perfect binding machine in a much smaller printing company was made possible by the lateral thinking of the management in making arrangements with other printers in their area to carry out trade perfect binding. This has brought them the benefit of extra volume and has reduced the binding cost of their own book work.

Technical change takes place at a rapid pace and strategic alliances are an inexpensive way of maintaining a steady work flow. The soundest plant purchase decisions are driven by need rather than a desire to have a shiny new machine. There is much under-utilised equipment in the industry and the philosophy of helping each other for the common good is to be encouraged.

Hard-case binding

One of the most serious deficiencies in the global competitiveness of the Australian book manufacturer and the most difficult one to remedy, is in the area of hard-case binding. These installations in Australia can be counted on the fingers of one hand and all are either well past middle-age with the associated infirmities of long make-ready times, and have a low output, or, where less mature, are not completely coupled for optimum efficiency.

Consistently unsatisfactory levels of utilisation reduce the possibility of this equipment being replaced, in the current climate, with the latest models. Modern equipment is capable of nearly 50% higher productivity and offers a more exciting range of product possibilities.

It is indeed almost impossible for producers in isolation to remedy this serious deficiency when coupled with other shortcomings and impediments in the local industry.

While the inability of Australian book manufacturers to compete in some sectors of the available market is aligned with equipment deficiencies, the quality of the product in all formats is quite acceptable for the intentions for which it was designed.

3.4 CAPACITY UTILISATION

Australian printers are generally strong adopters of technological innovations. New and more productive equipment continues to appear but there is also a tendency to hang on to the old and less-effective items, which inefficiently absorb manpower, costs and space.

The **Imprint 2001** report shows the utilisation for equipment in the manufacture of books is too low. The best performing plants have discarded all old and inefficient machinery and focused on obtaining maximum utilisation of their more effective units, which also happen to produce a better-quality product.

3.5 SUMMARY

- **Pre-press equipment.** Industry up-to-date — quality high.
- **Sheet-fed presses.** Fourteen new eight-colour presses in the industry — most other multi-colour presses adequate — quality high.
- **Multi-colour web presses.** State of the art — quality high.
- **Mono- and two-colour web presses.** Web presses elderly but often rejuvenated and well preserved — operating from a very low book value.
- **Bindery Equipment.**
 - Saddle-stitch and perfect binding equipment varies from latest to adequate — quality satisfactory.
 - Case-binding equipment — incapable of matching latest models and expensive to operate — low utilisation — quality adequate with care.

4.0 Book Cost 2001

4.1 THE QUESTIONNAIRE

The questionnaire was designed to capture a comparison of manufacturing costs for books in both Australia and offshore. The special software was designed for simplification and consistency with multiple-choice responses.

The responder filled in the depth, width, copies and pages, then selected from the range of multiple-choice options outlined below:

- seventeen different popular paper stocks;
- seven binding styles;
- five colour combinations;
- sheet fed or web offset;
- thirteen countries of origin apart from Australia.

The sample comprised:

- eleven major Australian publishers;
- eight major Australian printers;
- one Australian print broker.

The sample response below illustrates how the data was collected.

Book Cost 2001 Questionnaire

Paper size		Quantities		Quality Factors		Binding	Colours	Production Method	Country	Total Cost \$A
Depth	Width	Copies	Pages	Paper quality						
210	130	8000	112	A2 Coated	130gsm	Sewn, limp cover	4 Colour	Sheet fed	Singapore	\$19,600
210	130	8000	112	A2 Coated	130gsm	Sewn, limp cover	4 Colour	Sheet fed	Hong Kong/China	\$21,280
210	130	8000	112	A2 Coated	130gsm	Sewn, limp cover	4 Colour	Sheet fed	Australia	\$25,600

The samples listed in the appendix, at the back of this report, may be helpful in providing comparisons between the cost of Australia and offshore printing, and a guide to the popular paper stocks used in Australian published books.

The results are also illustrated graphically in the appendix.

The costs received from McPherson's Printing Group, Griffin Press, Ligare and those of their clients who are engaged in a similar business were excluded from the samples in the appendix because of their transparency.

4.2 SUMMARY OF BOOK COST 2001

- **Saddle stitch < four-colour.** Cheaper to produce this work in Australia and accordingly there are few figures for offshore.
- **Saddle stitch — four-colour.** No benefit in going offshore, accordingly much of this work is performed in Australia. It would appear Australian print houses could deliver the same cost.
- **Perfect bound < four-colour.** Little benefit in going offshore — much of this work performed in Australia.
- **Perfect bound — four-colour.** Little benefit in going offshore — much of this work performed in Australia.
- **Sewn limp < four-colour.** Mixed bag, but runs under 10 000 cheaper offshore.
- **Sewn limp - four-colour.** Markedly cheaper offshore.
- **Case perfect < four-colour.** No benefit in going offshore and most performed in Australia.
- **Case perfect - four-colour.** Offshore much cheaper.
- **Case sewn < four-colour.** Prices vary but most of this work is performed in Australia very likely because of the economies of web presses.
- **Case sewn — four-colour.** Australia 15–30% dearer than offshore but still some of this work performed in Australia in the shorter print runs.
- **Wiro, spiral bound < four-colour.** The majority of this work is performed within Australia.
- **Wiro, spiral bound — four-colour.** Limited range of run size in Australia and no examples of any printed offshore.

Other graphs in appendix

- Average cost by quantity.
- Average book cost by binding.
- Cost of paper per square metre.
- \$ differentials for binding.
- \$ differentials for colours.
- \$ differentials for countries

5.0 Case Studies

Direct interviews were conducted with senior executives of twelve Australian book printers and the production managers of twelve Australian publishers. In addition, interviews were held with senior executives of five other organisations involved in the book printing, paper, and publishing industries.

The cooperation that was received was appreciated, particularly considering the heavy demands to which present-day executives in both

large and small enterprises are subjected. Frank discussions on many aspects sensitive to their particular businesses took place.

With respect to the confidential nature of some of these matters, an assurance was given that points relative to the benefit of the study would be reported anonymously under the appropriate sections in the report, rather than by identifying individual companies.

By this means, it has been possible to also include pertinent points from the publishing interviews.

5.1 MARKET DYNAMICS

Of the fifteen printers who responded to **Imprint 2001**, their dependence on books varied considerably and their growth trends are as follows:

	\$ Sum 99/00	\$ Sum 98/99	\$ Sum 97/98
Totals sales of all company products	247,948,486	309,976,033	279,858,912
Total sales of books only	132,264,120,	120,252,297	139,290,596

The three largest book printing groups are much more highly dependent on books and their combined growth trends are as follows:

	\$ Sum 99/00	\$ Sum 98/99	\$ Sum 97/98
Total sales of all company products	130,968,000	125,106,000	116,696,000
Total sales of books only	105,364,000	97,053,000	90,630,000

It has been recorded elsewhere in this report that the total market for books in Australia is a little over \$500m per annum, but highly fragmented.

Australia's book printers are at the crossroads. The tables above show a much slower growth pattern than the rest of the industry.

5.2 THE HEALTH OF THE INDUSTRY

Profit margins in this industry are generally below acceptable levels. Investment costs are heavy. The industry is constantly pressured to deliver more product at lower costs. Customers are demanding high-value-added products. Simple price/volume competition will not guarantee success in today's market place.

A healthy book printing industry is fundamental to the emerging knowledge-based economies. Will this demand be satisfied from Australia or offshore? The possibilities for growth lie in how the industry's current capabilities may be profitably developed to embrace the opportunities of the future.

If Australian book printers choose to participate in the future, it should be a carefully considered choice. More than in almost any other sector of the printing industry it is confronted with intense competition. This is not

only from around the corner but also globally from enormous facilities offshore that benefit from the huge mass of book printing from the northern hemisphere.

The industry should also search for methods of satisfying customer needs in ways that are less capital intensive and that offer better utilisation of existing equipment.

Australian printers must move their competitive advantage away from a total reliance on selling price. If this could be achieved it would promote opportunities for Australian producers to compete internationally.

5.3 CUSTOMER ACQUISITION AND SATISFACTION

Customer acquisition and satisfaction should be the focus of every member of the industry, and this aim should pervade the company from top to bottom. The customer relationships today are maintained over a wider group of contacts than in the past. In the digital age, every employee is a potential point of contact with customers.

It has been reported that the book printing market has three main sectors:

- major publishing houses (\$167m per annum);
- minor publishing houses (\$88.4m per annum);
- others (\$256.3m per annum).

A book printer would need to be in the major league of the top twenty of specialists to attempt to service the major publishing houses. The sales representatives or contacts would need to have been adequately trained and aware of their firm's capabilities and be able to understand the customer's business. Production managers in major publishing houses are generally knowledgeable in their trade. A well trained and organised printing representative, however, is able to smooth out technical problems and establish a level of mutual respect and understanding with the customer. Senior executives would be expected to maintain a close interest with these accounts, and oversee fulfilment of the longer-term aims and achievements.

5.4 CUSTOMER CONTACT

Major publishers report:

'Our main Australian printer has a Sydney rep who sees me every three weeks —excellent service.'

'Excellent service, rare to have problems but always resolved. Do a forward load for next six months — good to have someone local — the plant has a dedicated contact for our work.'

'Printer X has much room for improvement in response — quality unreliable—Australian printers not using local advantage to keep customer informed. In fact offshore in touch and respond more quickly, for example, the current turnaround of quotes is one to two days but locally takes two days to a week.'

'Use offshore printer who has a local rep who visits once or twice a year — able to have satisfactory contact with email, unusual to have to use the telephone — courier service to Hong Kong or Singapore overnight.'

'We use both of Australia's two biggest printers, C formats at one, B format at the other — happy with both suppliers. Other formats are quoted and can go anywhere — regularly obtained quotes from four local printers — also use print brokers and consider them to be very professional.'

'Have no contracts offshore but deal with six printers in Hong Kong, Malaysia and Singapore —the repro usually goes with the printer when offshore — have an intrinsic idea of where to buy.'

'Australian service varies — some are old-fashioned and want to visit clients — still nitty gritty bits and need to talk to printers to upgrade knowledge and welcome visits.'

'With a new book get three to five quotes offshore as well as Australia.'

'Used to print in Singapore but gave up — will not request any overseas prices —lose control —need to build a good relationship with printer and for him to consider us a key customer — that's why I don't shop around.'

The servicing of the minor publishing houses and others (a market of around \$333m per annum) would require considerable research, as it is much more fragmented. It would be necessary for the printer to be able to provide considerable assistance and advice on technical and other matters regarding the construction of the publication and the agreement on suitable specifications for economical and effective production.

5.5 ESTIMATING

Few customers would consider placing an order in the printing industry without having received a quotation.

The cost of preparing estimates in the printing industry is considerable. Even small to medium printers have one or two estimators full time and some larger printers have four or more.

Estimates are usually produced with various software packages. The calculations are still quite detailed and customers are required to wait for forty-eight to seventy-two hours for a response. There is a complication in book manufacturing quotations whereby the printer may have to contact their binder to obtain a quotation for these operations and for any other sub-contract work, which could extend the time to a week.

One trade binder has a web site which printer customers can access and submit the details of an inquiry. However the costs are still calculated by the binder and emailed back to the printer a couple of days later, to further add to the delay.

One international publisher reports:

'With our international estimating package, we feed in specs and the \$A rate. Prices are worked out from our master grid in Hong Kong, which

names the printer, the price, and maybe with the extra message "Contact your counterpart in Toronto as he has a book the same size as you have, so you can tag along with him". All estimates are only a matter of hours.'

Local publisher reports:

'Customer service with Printer Y very difficult — one quote took three weeks.'

Local printers report:

'Estimates take five to ten minutes to produce if they are standard — our response time is twenty-four hours and for our best customers we give same-day service.'

'We have a sales force of six with three estimators and produce 1500 estimates per month — acceptance rate is about 25% and each estimate takes around twenty minutes to complete.'

Full use of the capability of computers is not being made. The purpose of an estimate is simply to arrive at a price for the sale of goods. Most of the software packages in use still require considerable human intervention. When the software was being written for **Book Cost 2001**, it became apparent that, with some modification, we actually had a very fast method of arriving at the cost of a book. This software could be converted into an estimating system that would give accurate prices for a wide range of books, incorporating many different papers and any or all of the binding methods that the printer may require.

Most estimates could be produced in thirty seconds — not minutes.

Usually, the computer-generated estimate produces hard copy for the customer and writes the job docket. In some cases, however, the estimates are not stored in the computer and, if the inquiry is successful, job dockets are produced from scratch.

One of the more enterprising groups in our industry has produced its own software, which has resulted in a very fast and user-friendly estimating system. They are print brokers and have included data from their various sub-contractors into the system, so that, not only are they able to quote on their behalf, but a price can be produced on their laptop computers in the publisher's own office.

5.6 SALES FORCE AND COMMUNICATIONS

Most of the book manufacturers interviewed had a sales force of up to half a dozen supported by two or three estimators.

Huge savings could be made in this area. In fact, these selling and estimating overheads probably cost the company as much as they achieve in annual net profit. Certainly these functions cannot be eliminated, but they surely could be brought into the digital age to everyone's benefit.

5.7 A BETTER WAY

Offshore printers communicate quite adequately by email and with a minimum presence with their customers, and this is accepted.

The Printing Industries **Action Agenda — Print 21** clearly provides inspiration for printers into the way ahead.

Instant electronic communications and fast courier services surely gives fresh opportunities in the liaison between printers and those they depend on.

One approach to reaching out to the largest combined sector of the book market — namely minor publishers (\$88.4m) and others (\$244.6m), totalling \$333m, would be for the book printer to have a small team of 'marketers'. They would investigate and identify this potential and analyse the changes that may be required in their capabilities to capture future opportunities and growth.

Having established the initial contacts with the prospect, and determined that a useful relationship can be forged, they would hand over to a dedicated account controller at an appropriate time. The account controller would oversee all aspects of quotations, translation of the inquiry into the ordering procedure, addressing of technical problems, interfacing with production control, and ensuring quality and delivery fulfilment.

The controller's presence is predominantly within the printer's premises but would include some regular meetings with all parties in the customer's supply chain to identify issues and correct problems. This is at least more attention than customers receive from offshore printers.

Substantial savings would be possible from a reorganised customer liaison system. It should result in reduced administration costs, and some of the savings could contribute to more profitable but competitive prices.

When discussing this concept during the case study interviews, most printers claimed that their hold on their customers were so tenuous that unless a sales representative was continually at the customers' beck and call, the business would go elsewhere.

Printers must be just about the last of the Mohicans, because most other industries cannot afford to give this sort of treatment — perhaps the printers cannot either.

5.8 PRINT BROKERS

There are two significant print broking organisations in the Australian book manufacturing industry.

Broker A

One widely experienced broker deals exclusively with offshore printers and has had a very wide experience in his trade. He organises a significant amount of printing for two large publishers in particular and for a group of smaller firms engaged mainly in travel guides publishing. That selling, estimating and negotiating costs are eliminated and the work is professionally presented.

A major part of his business is importing large quantities of paper directly from very competitive mills, and shipping to offshore printers on behalf of the publishers.

Broker B

The other group is of more interest to Australian book printers as it deals with local printers exclusively.

The group has built up a client base of mainstream publishers. The three partners have all worked with book printers in functions ranging from selling to purchasing and estimating.

Over the past five years they have built up considerable business with an impressive collection of major publishers, most of whom source their main supply of book printing from offshore.

5.9 ATTRACTING BUSINESS

This group claim that the major reasons for attracting business is because they can deliver unsurpassed production efficiency to publishers of colour books, linking the right title to the right resource, while combining extensive knowledge, understanding of quality, and service that makes a difference.

5.10 SPECIALISATION

This not an easy task for colour book producers as the product range is so varied — from large four-colour coffee table books to limited extent children's picture books. Some publishers may not have at their disposal all of the printing resources required to meet these varied demands at competitive prices. This group operates freely within the Australian printing industry linking each title to the right equipment for each project. They claim that this results in efficiency, smoother production processes, and improved delivery schedules. They are committed to significantly closing the gap between Australian and international prices.

They have developed their own 'quick-quote system'. Specifications are keyed and the price is arrived at within minutes. This system has been taken one step further by allowing the customers to do their own variations. The quote is sent via email or on disk to the publisher and if the specifications change they may alter the quote themselves and update prices automatically.

This group has an impressive track record and interviews held with publishers' production managers have produced, almost entirely, very favourable comments. One publisher stated that by using the experience of this group he has been able to eliminate the production department and the publishing editors' order directly.

5.11 PRINTERS' REACTIONS

Some book printers do not view brokers favourably and it is their choice whether to deal with them or not. However, it is worth bearing in mind electronically archived.

The cementing of mutually beneficial strategic relationships is possible without tying the hands of the printers in pursuing their own interests.

5.12 PRODUCTION CONTROL AND SCHEDULING

Having taken the industry to task for not using the full potential of computers in estimating, the role of the scheduling board in the realm of scheduling is still paramount. In every case it is still preferred to have machine loadings displayed on the wall and by various means of identification to denote the status of the job, even though modern computerised systems are linked to presses and other vital machine centres. The importance of the daily production meeting is still relevant as a means of personal contact for those dedicated to looking after the customers' requirements and to those responsible for fulfilling those tasks.

Production control is the very heart of the business. Manipulating schedules, ensuring plates, paper and instructions are ready for the press, optimising press utilization, and delivering on time are indeed vital functions.

5.13 PERFORMANCE MEASUREMENT

The individual company's evaluation of this function varies considerably.

At the lower end of the scale, in some smaller and 'no frills' book printers, there is little apparent performance measurement and it is left to the operators' best efforts with a bit of encouragement from the boss. One such firm is a family company that produces high quality books for self-publishers. It offers a graphic art design service. All binding is sub-contracted. It has low overheads and has been in business for nearly thirty years.

The next level of performance monitoring is to set arbitrary standards from personal experience for estimating and production operations. From examination of job sheets, and data stored by computer on actual performance, monitoring and adjustments are made with the participation of the operators.

At a higher level and suitable for medium-sized shops is the new Heidelberg Data Control System. This is electronically linked into production control and modules are available for every type of data required.

5.14 PRINT MANAGEMENT SYSTEMS

The most sophisticated system examined was Logic, which is a fully integrated print management system. It covers all aspects of the print workflow including the following.

- Estimation — both sales and production estimates are produced, and are supported with a live actual comparison after manufacturing.
- Order entry and job planning — all technical specification is recorded in the system, displayed live throughout the plant and He prints in Singapore, Malaysia and Hong Kong/China.

- Scheduling — job ticket and production estimate data are transferred into the scheduling system. Components are broken down as scheduled. The schedule is displayed live throughout the plant and all sales people have access to view scheduling milestones.
- Purchasing and inventory control — all recited, allocated, issued and recorded electronically in Logic.
- Shipping — shipping history is recorded, and archived in Logic.
- Logic Plant Manager captures machine status and process counts. All labour is recorded and product, operator, shift or date can report on performance. This ensures decisions are based on up-to-date and accurate information.
- The Plant Manager processes are supported with integrated accounting systems and reporting tools.

Coupled with tools developed by the company, it uses Logic to closely manage all aspects of its book printing to ensure efficiencies that enhance competitiveness.

5.15 PLANT LAYOUT AND HOUSEKEEPING

Of the twelve plants visited, fewer than half had what could be described as an ideal plant layout, that is, on a single floor with smooth flow for work in progress from paper storage through production areas to dispatch.

Three plants were near perfect and enjoyed large premises that allowed for freedom of choice in the flow layout required. Some printers were in premises that were either not originally designed for a printing factory or had grown like Topsy, with equipment located in the best way that was possible but without adequate room for the efficient movement and temporary storage of work in progress. It is not possible to organise a printing factory to the ultimate of a GMH Just-In-Time production line because of the need to hold some work in progress for post printing processes that are only proceeding in batches.

Some of these plants have a good layout with a network of 'freeways' and defined 'off-road parking' areas.

It is no coincidence that the plants with the best layouts almost always had the more acceptable profit ratios. Three of the plants with less fortunate layouts already have an agenda to either relocate or make extensive changes to the existing premises.

Strict rules and constant awareness is necessary to maintain good housekeeping. Book manufacture, particularly, produces waste. Binderies are the worst offenders with a legacy from the old craft years. Untidy pallets of spoiled books and overs of sections of the job are frequently left in crucial operational areas for too long as grim reminders of the past. The less automated the process, the more likely it is to promote untidiness.

The modern pressrooms where work passes through with urgency lifts the game to a higher level.

5.16 MATERIAL HANDLING

This function is well performed in the larger plants with dedicated material handlers who proficiently move materials from one operation to the next. Reels can be stored without shelving. Sheet stock requires racking and fork-lifts for efficient storage. Most large plants have these functions under control.

Some of the small to medium plants could well consider more racking with hand fork-lifts to conserve space and facilitate easier access to raw materials and work in progress. It is not an expensive capital outlay and it frees valuable space for more productive operations.

5.17 RAW MATERIALS

Of the fifteen book printers who responded to **Imprint 2001**, the origin of paper used was as follows:

	\$A Sum 99/00	\$A Sum 98/99	\$A Sum 97/98
Australian origin	22,660,992	21,266,585	19,930,918
Overseas origin	27,694,847	20,048,195	19,883,308
Total	50,355,839	41,314,780	39,814,225

5.18 PAPER PROCUREMENT

Just as there is a need for book manufacturers to invest wisely in plant and equipment, it is also imperative to invest in having the correct paper and materials available when required to meet publishers' needs.

A range of stocks suitable for the common formats must be held, and they should be selected by consultation with the customer base and sourced economically and efficiently.

Because offshore printers have papers that are sourced globally available to them, so must the Australian book printer cast a very wide net.

The **Imprint 2001** report shows that, of the fifteen printers in the sample, 45% of materials are supplied from Australian and 55% from overseas sources.

5.19 THE PRINTING INDUSTRY COMPETITIVENESS SCHEME (PICS)

PICS has been designed to compensate book printers for the cost of duty on paper imports. Its objective is to improve the competitiveness of the Australian book printing industry by reducing the effect of negative assistance resulting from the termination of the Book Bounty in 1997. The scheme is to operate for the period of 1 January 1999 until 30 June 2003.

Book printers are able to claim payment of 4% of their paper purchase price to compensate for the effect of duty on their paper inputs. All paper used in the production of eligible books, whether actually imports or not, and whether duty was actually paid or not, is eligible under the scheme.

5.20 UNCOATED PAPERS

One large Australian printer, specialising in printing single colour on uncoated paper with dedicated web offset presses, reports:
 'Supply restrictions are being encountered with all current suppliers, hence we have a spread of ordering between mills. With lead times out to twenty weeks delivery it is vital that we get forward programs from a client base, but some information is still somewhat unrealistic.'

One world-wide publishing house with Australian connections prints in Malaysia/China and supplies its printers with uncoated stocks from South America to the level of over 300 tonnes per month. Their comments follow.

'These orders are placed in collaboration with other publisher colleagues and are shipped to China, Singapore, Malaysia and Europe.'

'All publishers printing in Asia supply paper to their printers.'

'Paper merchants in Asia prefer to sell to end user and so do the mills.'

'If the sale were to the printer the merchant would have to wait ninety days, as the printer has to give ninety days credit to his publisher clients.'

'In Asia, as a rule, quantities greater than 12 500 copies are printed reel-fed and under 12 500 are printed sheet fed.'

'When buying paper in bulk in either Asia or South America, it is usually in reels with a \$US50 per tonne saving. If sheets are required, they are sheeted at a cost of \$US30, still a saving of \$US20 per tonne for sheets.'

Despite this, industry data shows the major Australian book printers buy their uncoated stocks (bulky news, mechanical and bible papers) at favourable landed cost compared with offshore printers.

5.21 OPTIONS

For the larger contracts, the major Australian book printers, in collaboration with their publisher clients, explore all available world-wide options in paper costs and qualities acceptable for the product and clearly understand the complex web of global paper procurement.

This is one reason why most mono- and two-colour web-fed work from the major Australian publishers is able to be printed locally by the largest printing groups.

This culture is not so widely practised by some smaller operators for whom it is not a priority and who have less working capital to tackle the hazards and obstacles erected for the faint-hearted, especially in the coated paper arena.

One Asian source states:

'Australian printers never hold paper stocks. They have a split ream mentality. Asia buys big at cheap prices.'

5.22 COATED PAPERS

Here, the story is quite different. The tables below show the relative costs of book papers from Australian and offshore sources.

Australia												
Paper Grade	gsm		Cost A\$		gsm		Cost A\$		gsm		Cost A\$	
		per sqm		per sqm		per sqm		per sqm		per sqm		per sqm
Bulky news	48.8	0.06	50	0.066	53	0.068						
Mechanical	80	0.13										
Woodfree Offset	80	0.15	90	0.175	100	0.19						
A1 Coated	150	0.35	170	0.39								
A2 Coated	80	0.17	90	0.2	100	0.23	115	0.26	130	0.29		
A3 Coated	80	0.17										
Bible Paper	40	0.11	45	0.12								

(Based on 1 square metre of paper for comparison purposes.)

Offshore												
Paper Grade	gsm		Cost A\$		gsm		Cost A\$		gsm		Cost A\$	
		per sqm		per sqm		per sqm		per sqm		per sqm		per sqm
Bulky news	48.8	0.09	50	0.09	53	0.09						
Mechanical	80	0.17										
Woodfree Offset	80	0.12	90	0.13	100	0.14						
A1 Coated	150	0.28	170	0.31								
A2 Coated	80	0.14	90	0.15	100	0.16	115	0.18	130	0.2		
A3 Coated	80	0.13										
Bible Paper	40	0.14	45	0.15								

5.23 WHAT AUSTRALIAN MERCHANTS HAVE TO OFFER AUSTRALIAN BOOK MANUFACTURERS

			Indent	Ex Floor
Merchant A	A2	Europe	\$1,900	\$2,177
	A2	Korea	\$1,800	
	A2	Australia	\$1,803	\$2,044
Merchant B	A2	Europe	\$1,910	\$2,217
	A3	Europe	\$1,799	
Merchant C	A2	Europe	\$1,902	\$2,030
	A2	Indonesia	\$1,856	\$2,052
Merchant D	A2	Italy	\$1,770	\$2,418
	A2	Indonesia	\$1,763	\$2,204

Indent - Based on \$US @ \$A0.516

Quantity of stock ordered to meet mill minimum quantities.

Based on a 650 x 910mm sheet. Grammage range from 115gsm to 150gsm.

4% book discount on paper has not been deducted from these prices.

5.24 OPPORTUNITIES FOR PUBLISHERS PRINTING OFFSHORE

An international publisher reports:

'We purchase coated papers in Japan and Korea in a small group of other publishers and ship direct from the mill to our book printers in China, Singapore and Malaysia.

A1 Japanese reels \$US850=\$A1647 per tonne.

A2 Korean reels \$US810=\$A1570 per tonne.

We use three sheet sizes: 650 x 970mm 790 x 1040mm 900 x 1160mm.

Overseas mills regularly offload paper in lots of around 200 tonnes. Merchants pick it up and offer to publishers at special prices.

We only use reels. Each offshore printer has its own sheeter and sheet for \$US25 per tonne.'

Sheeting costs in Australia are much higher, varying from \$140 to \$200 per tonne.

5.25 MAXIMISING OPPORTUNITIES FROM AUSTRALIAN SOURCES

An executive from the Australian paper industry advises as follows:

'The current Australian Book grades are very competitively priced internationally and during the last twelve months have if anything been better priced when comparing like qualities with overseas qualities.

The Australian book printers buy at good rates and, given the competitive nature of the market, there would be little benefit in smaller groups trying to combine their purchasing power. Market dynamics are such that size does not always mean better purchasing power, when overheads etc., are taken into account.

The main opportunities for Australian book printers to reduce their paper costs would be to:

- move down in grammage;
- switch to lower-quality papers, for example, from a woodfree sheet to a mechanical sheet;
- rationalise the number of sizes they carry, so that they can reduce their working capital commitments;
- increase their usage of digital printing for the smaller run lengths or review minimal run lengths for web-fed printing;
- reduce wastage through reduction in reprints due to quality or error issues.

In summary, the best opportunity for the industry is to involve all stakeholders in looking at ways to reduce the number of returns from slow selling items through the better use of technology available to record sales of the books at each bookstore to better gauge sales.

To do this the industry culture needs to change right through the supply chain which still tends to be based on a transactional basis rather than a strategic basis where price is the main driver.'

5.26 POSSIBLE FURTHER IMPEDIMENT TO AUSTRALIAN BOOK PRINTERS

Imports of two-sided woodfrees in sheets (75–150gsm paper grades A1, A2, and A3), are affected by dumping duties applying to Austria, Finland and Japan. Also, certain exporters in Finland, Germany and Japan have entered into minimum price undertakings. The price of coated papers from these sources is artificially inflated in Australia.

While there are no dumping duties on exports from Italy, Korea and Indonesia. Currently the major sources of these papers, price/quality considerations are distorted by this dumping action.

5.27 FINANCIAL PERFORMANCE

Profit before interest and tax (PBIT) in the book-printing sample interviewed ranged between break-even up to 11%, with most firms earning 5–6%.

Although competition is fierce, those companies less reliant on books for their major sales fared no better.

6.0 Australian Book Sizes

The Manufacturing Analysis in **Foreword 2001** lists, in addition to the standard formats, the number of sizes of books printed in Australia and offshore.

The grid below lists these sizes.

The dimensions in bold type are sizes that could be rationalised together. This still leaves what appears to be an exceedingly wide variety of sizes. Nobody would expect to see all books restricted to a limited number of standard sizes and one realises the need for unusual shapes to attract interest.

110x100	165x138	205x180	234x153	275x210	297x200
120x180	165x139	206x136	244x184	275x210	297x210
125x130	165x140	208x136	245x160	275x210	300x235
127x106	165x216	210x135	245x168	275x218	305x277
127x200	173x165	210x275	245x175	275x235	307x226
128x140	176x104	210x280	245x190	277x200	310x230
130x130	176x140	212x238	245x220	277x218	324x196
130x210	177x125	213x219	245x245	280x210	325x200
140x105	178x111	215x165	246x189	280x217	330x235
140x110	180x210	217x154	247x190	280x215	362x252
150x135	180x245	220x200	250x195	280x216	363x262
152x111	184x128	220x260	250x203	280x220	406x275
152x113	185x120	225x152	252x187	280x230	430x330

155x110	185x245	225x245	253x232	280x310	490x346
155x235	186x123	227x218	254x203	284x210	495x367
156x113	190x195	228x178	255x185	285x210	500x364
159x113	200x127	228x228	260x210	286x210	
157x145	200x170	230x155	270x210	290x220	
159x139	200x175	230x160	270x307	290x230	
160x170	202x142	230x230	275x115	291x235	
165x135	203x148	230x250	275x204	295x215	
165x137	203x203	233x168	275x205	295x220	

Both Australian and offshore printers have accommodated this plethora of sizes.

It should be realised that obtaining special paper sizes is likely to incur extra costs.

7.0 Books in the Digital Print Age

Changes in the traditional world of information-publishing, production, and delivery are under investigation by many players in the publishing value chain and present the publishing industry with exciting new business models and opportunities.

Positive changes in the publishing model being realised today are derived from reverse engineering from the customers' perspective.

The traditional book format is part of a mindset that will need to be set aside when envisioning a new business model for the publishing industry in the digital age.

7.1 RANGE OF FORMATS

The wide range of formats that the consumer is happy to accept today, and the required technologies to deliver these new formats, are actively used by non-traditional publishing sectors.

Small, independent publishers, departments within large publishers, corporations, government, universities and manufacturers have been in the forefront of publishing with the digital print processes.

For many years, book-type products have been created using Just-in-Time production, distribute and print manufacturing techniques. The interesting factor for the traditional book publishers is the format in which the consumer has accepted these products. Books, booklets, product manuals, training materials, reports, journals, guidebooks, newsletters, educational course packs — secondary and tertiary— are being produced on demand and customised in a variety of formats — hole punched, loose leaf, saddle stitched, tape bound, comb bound, stapled, as well as perfect bound.

These booklet type formats have been acceptable and appropriate to their particular consumer requirements, given the correct degree of timeliness, cost and quality. A whole new business opportunity is realisable today.

7.2 DIGITAL PRINT TECHNOLOGY

It is here now and will be the pragmatic trigger and 'window of opportunity' to encourage the principle of 'interoperability' through the development of digital repositories, automated manufacturing and rights management systems. The integration of production on demand (POD) technology will lay the foundations of a new publishing model. This will be the platform to launch additional new book formats, more authored content, and new channels to the consumer.

7.3 WHAT IS DIGITAL PRINTING?

Digital printing is a broad term and includes any reproduction technology that receives electronic files and uses spots (or dots) for replication, ink, toner, inkjet, or any other dye- or pigment-based transfer system. This covers almost every present system for outputting graphic information to film, plate, or to paper — anything from home inkjet printers to high-powered sheet-fed Xerox printers and high-speed statement printers

The reproduction of image on paper falls into two categories: static printing and dynamic printing.

7.4 STATIC PRINTING

This is the traditional ink-on-paper-offset lithography which is the most common. Here each sheet is reproduced from an image carrier fixed with the same image and each copy looks exactly the same.

7.5 DYNAMIC PRINTING

Dynamic means that the printer must regenerate the image for every page; thus, every page can be different (variable printing). Toner-based printers use an image carrier that is imaged each time a sheet comes in contact with it, re-imaging for each copy. The copies look the same, but each is generated individually. Inkjet-based printers have no image carrier but regenerate the image every time. The advantage of dynamic printing is that the re-imaging for each sheet lets you do two things you cannot do with a printing press:

- Each sheet can be personalised to a person or company.
- One multi-page document is produced at a time.

This print versatility has given rise to many new printed products and markets to the printing industry for short runs, targeted marketing, personalised mailing, billing, statement printing and book of one, etc.

7.6 PRINT-ON-DEMAND

Print-on-demand has the benefit of 'dynamic' or digital printing. Usually defined as short notice or quick turnaround, on-demand printing is possible because of the minimal make-ready period required for digital printing in contrast with conventional printing processes. This printing provides a new, potentially cost-effective way to view document production, as products can be printed when and where they are required, eliminating the need for warehousing requirements. There are

some other advantages but in most cases these newer digital printing presses with built-in automation compete in the areas of:

- short runs;
- fast turnaround;
- distributed printing;
- custom printing.

7.7 SHORT RUNS

Short runs have traditionally been one of the biggest problems in the printing industry. Offset presses produce any number of impressions over a thousand. As a result of the time and cost involved in creating films and plates and the waste created during the make-ready, it has been expensive for offset to offer shorter runs. Very short print requirements such as annual reports for small organisations, low-volume/versioned product brochures, specialty magazines, books and newsletters are a few of the applications where digital printing equipment is the most efficient.

7.8 TURNAROUND TIMES

Digital presses can offer turnaround times as short as ten minutes. Digital files only require ripping before going to press and do not require films, plates or make-ready time. Additionally, print jobs can be queued and easily scheduled, and any production run can be interrupted for special jobs and resumed with minimal fuss. A strong advantage of digital printing is therefore the ability to frequently update the content of the material being printed. Information can be updated immediately through delivery of a new file. This allows for the most accurate, up-to-date publication to be produced either periodically in short- or medium-run lengths, or on-demand at a customer's requirement and convenience.

7.9 DISTRIBUTE THEN PRINT

In traditional static printing, the client specifies a quantity of printed material which is then distributed to end-users. The disadvantage of print and distribute is the time and expense required to ship publications around the country or world. Digital printing allows a publication to be electronically distributed to a number of different digital printers for distribute and print. The files can then be ripped, printed and distributed locally. In many instances, significant time and financial savings may be achieved by using this method rather than the typical print and distribute scenario.

7.10 CUSTOM PRINTING AND EDUCATION

Printing has long been about mass circulation. Because the economics of the process required longer runs, it was necessary to try to reach a mass audience. However, run lengths are getting shorter. The new digital technologies will increasingly allow publishers to tailor their messages to ever-smaller consumer niches.

Lecturers and teachers in tertiary and secondary education often require their student course packs to reflect their curricula and educational outcomes. Many of today's textbooks are re-versioned in part and

modified with additional articles, chapters from different published sources and assessment work sheets. They are then delivered via a digitally printed work flow designed to a semester timeframe.

Custom printing is a valid strategy in many segments of the publishing industry, Professional, Technical, Scientific, as well as Education.

7.11 NEW BUSINESS MODEL

The mission of the new business model for players in the publishing value chain can only be commenced with a business philosophy informed by a customer and consumer perspective. This focus will be the initial engagement of all traditional publishing value chain players and technology providers. It will enable them to realise the new work flow and business relationships that deliver books in a shape, breadth, and timeliness valued by consumers.

Just as the combination of digital cameras/computers is threatening the traditional film camera and professional processing at a rapid rate, so digital printing may make considerable inroads into small-run book printing as we have known it. It offers a number of distinct advantages, not the least of which is electronic distribution for production in areas close to the consumers.

The new five-colour 15 000sph 74DI press installed in Adelaide is a significant move forward for the Australian print industry.

8.0 Obstacles to Growth

Major obstacles to increasing Australian printers' share of local publishing may be summarised as follows:

- Cheaper printing in Asia due to lower labour costs.
- Asian printers have access to cheaper coated papers.
- Asia is logistically closer to UK, Europe and USA.
- Enormous volume of book printing for Northern Hemisphere has created high-efficiency production capability in Asia.
- The large volume of major Australian publishers' work lost to Asia has restricted the scope and capacity of Australian industry to cope with higher volume and faster service.
- Asia has the advantage of fast delivery due to the large number of modern plants with excellent shipping possibilities and the ability to airmail the first 500 copies to launch a book.
- Sheeting facilities offshore at cheaper rates and specialisation on A2 grades of coated stocks at lower price and better availability.
- Australian printers have an impediment with dumping duties on some imported papers and artificial price inflation.
- Offshore printers store books for six months and they are not paid for until delivered.
- Asian printers hold large paper stocks to cope with instant orders.
- Value-added books of four-colour printing are four times more likely to be printed offshore.

- Lack of latest case binding equipment in Australia.
- Less complicated pricing for Asian binding operations.
- Insufficient progress by Australian book printers in individually identifying beneficial new services to the publishers' supply chain.
- Absence of climate for collaboration between Australian book printers to formulate strategy for growth.

9 Characteristics of Successful Firms

- Have defined goals that are clearly understood by employees at all levels.
- Demonstrate inspiring and enthusiastic leadership that fosters confidence and loyalty in both employees and customers.
- Develop a proficient team, competent in administrative and production tasks.
- Develop close relationships with customers, listen to their requests, and offer fair prices, adequate quality, and a quick response to their needs.
- Have a special and significant niche market that attracts hard-core profitable business and is the feature of the company.
- Have technology that is adequate for efficient fulfilment of their chosen market.
- Have ready access to basic raw materials procured from best sources.
- Do not attempt to be 'all things to all men' but are focused on what the
- Sub-contract work out to strategic alliance partners to widen market possibilities.
- Promote continuous learning to all employees, attract suitable apprentices to ensure competent tradespeople, and suitably reward merit.
- Have a knowledge of quality management and an understanding of total value chain processes.
- Create and develop additional complementary services that are of a higher value to customers.
- Keep a lookout for strategic partnerships, joint ventures, networks, or beneficial industry or government programs.

10 Mono or Colour

10.1 IN BLACK AND WHITE

The Manufacturing Analysis for books published by the sample of twenty-four Australian publishers, shows that for the total identified books printed both in Australia and offshore:

- Australian printed books are 90% mono/two- colour.
- Offshore printed books are 57% mono/two- colour.
- Colour books are four times more likely to be printed offshore.

This divides the Australian book printing industry into two sectors, each with different problems.

The biggest three Australian book manufacturers together printed \$105m last year, mainly mono and mostly from large publishers.

This work is very competitive, not only between local printers, but also 57% of offshore work is mono, which is still a big chunk lost by Australian printers.

The two main players continually come head-to-head and large contracts regularly swap around.

The fact that more mono than colour work is produced in Australia is due to factors already reported.

- These big firms buy paper well.
- Rotary presses reduce labour content.
- Most of these books are not case bound.
- Service and response to customers' needs are good.

The big new rotary press in Adelaide and a rationalisation of the recently merged group in Victoria will offer even better possibilities.

One weakness is the reliance on older presses that have a limited life.

A large part of the work lost offshore is educational short-run books where the publishers have time on their side.

These companies are currently achieving margins below acceptable levels and should not sacrifice price to chase volume, but this is easy to say.

They must tighten the ship still further, focus on high utilisation of their best equipment, trim overhead costs, and create new and innovative business strategies.

10.2 IN GLORIOUS COLOUR

An examination of the findings of **Book Cost 2001** suggests that colour books would be the most unlikely group to be brought back onshore. It is, but there is more that could be improved here than mono bookwork.

10.3 OPPORTUNITIES FOR MULTI-COLOUR BOOK PRODUCTION IN AUSTRALIA

The data from the sample of the twenty-four publishers responding to the Manufacturing Analysis of **Foreword 2001**, shows that 43% of the total of \$56.6m books printed offshore are four-colour, which represents a loss of \$24.3m from Australia.

The ABS Book Publishers' Survey of 207 businesses shows \$133.7m books printed offshore. Using the same proportion of four-colour/mono, the four-colour books lost to offshore would amount to \$57.4m.

The data from the sample of fifteen Australian book printers in the Australian Manufacturing Analysis in **Imprint 2001** shows that these local printers produced only \$4.463m of four-colour books. The market for Australian printers for four-colour books is considerable.

10.5 THE MAIN ISSUES IN AUSTRALIA NOT PRINTING MORE COLOUR BOOKS

The issues may be summarised as follows.

- No substantial recognition by publishers that Australia is the place for colour.
- No critical mass to generate any real impetus.
- More expensive coated papers.
- Under-utilised equipment.
- Lack of latest case-binding equipment.
- The trend to buy offshore is increasing.
- No single Australian printing company could hope to make a substantial impact on four-colour book printing by itself.

10.6 WHAT IS THE DIFFERENCE?

Book Cost 2001 indicates, in a typical example below, that Australian colour book printers are 12–27% dearer than offshore for identical examples of cased-sewn and sewn, limp cover books printed on coated paper.

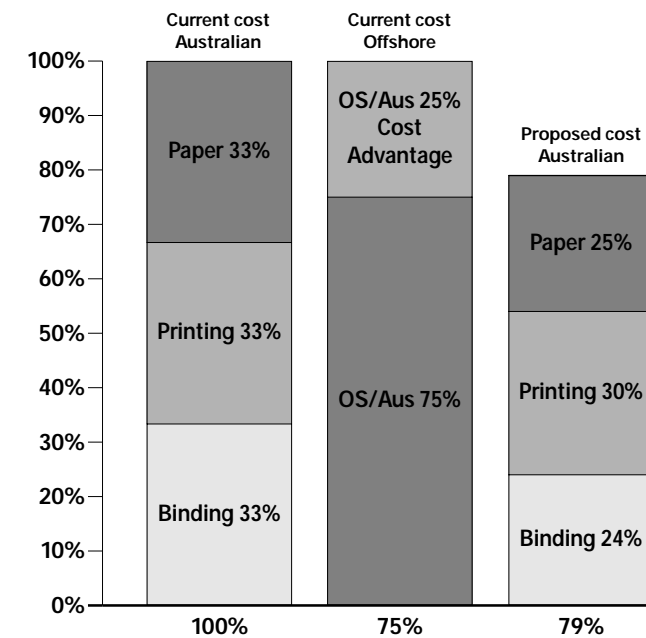
The worst percentage difference between overseas and Australia was 69% but this was an isolated example and the main disadvantage for four-colour, sewn books lay between 75–85%.

Book Cost 2001							Total Cost	
Copies	Pages	Quality factors Paper quality	Production Binding	Colours	Method	Country	\$A	% OS / Aus
20000	176	A2 Coated 130gsm	Sewn, limp cover	Mixed 4 & 1	Sheet fed	Australia	\$86,661	
20000	176	A2 Coated 130gsm	Sewn, limp cover	Mixed 4 & 1	Sheet fed	Hong Kong/ China	\$63,000	73%
5000	144	Woodfree Offset 100gsm	Sewn, limp cover	1 Colour	Sheet fed	Australia	\$9,780	
5000	144	Woodfree Offset 100gsm	Sewn, limp cover	1 Colour	Sheet fed	Hong Kong /China	\$8,650	88%
50000	320	A2 Coated 130gsm	Cased sewn	4 Colour	Sheet fed	Australia	\$412,000	
50000	320	A2 Coated 130gsm	Cased sewn	4 Colour	Sheet fed	Hong Kong /China	\$340,000	83%
30000	304	A2 Coated 130gsm	Cased sewn	4 Colour	Sheet fed	Australia	\$265,931	
30000	304	A2 Coated 130gsm	Cased sewn	4 Colour	Sheet fed	Hong Kong /China	\$196,800	74%

10.7 COME ON AUSSIE

Australian book printers can lower the cost disadvantage by the following means:

- buying coated papers at best world prices;
 - making greater use of the latest sheet-fed offset technology already operating in Australia;
 - acquiring state-of-the-art case binding and ancillary equipment.
- This scenario could produce a cost reduction of over 20% off existing prices. This may not cause an avalanche of books coming back to Australia but it would certainly start a trickle that could turn into a healthy stream.



The addition of value-added benefits may compensate for any additional discrepancies.

10.8 WHAT PUBLISHERS REQUIRE FROM THEIR PRINTERS

Impact of factors affecting the decision to select an Australian printer

Numbers in columns denote frequency of response

Factor	None	Low	Moderate	High	V. High
Quality Performance	2	2	5		
Enquiry responsiveness		3	5	1	
Schedule/Service adherence		3	6		
Price			1	4	4
Communication Effectiveness		2	5	2	
Expertise & technology			1	5	3
Convenience of Production		2	6	1	
Level of shared trust			2	2	5
Quality of management	1	2	3	3	
Short run response ability	1	1	3	4	
Access to raw materials	2	2	4	1	
Payment terms	1	1	2	3	2

Impact of factors affecting the decision to select an offshore printer

Numbers in columns denote frequency of response

Factor	None	Low	Moderate	High	V. High
Quality Performance			1	1	5
Enquiry responsiveness			2	4	1
Schedule/Service adherence		1		3	3
Price				2	5
Communication Effectiveness			3	3	1
Expertise & technology			2	3	2
Convenience of Production	1		3	1	
Level of shared trust	1	2	1	2	3
Quality of management	1		1	4	1
Short run response ability	1	3	1		2
Access to raw materials	2		1	3	1
Payment terms	1			4	2

11.0 The Australian Book Company

The concept of a major strategic alliance of members of the widely fragmented Australian book printing and binding conglomerate may offer a solution to overcoming some of the major obstacles to the printing of colour books in Australia.

This conglomerate, let us call it **ABC**, will comprise three distinct operations.

- 1 **Book Controllers.** They are centralised specialists who interact with the publisher print buyers and assess each project from the client's point of view — negotiating, advising, agreeing on specifications and providing cost estimates, delivery schedules and paper purchasing. They control every stage of production.
- 2 **Alliance Members.** The Book Controllers then link with the second group of strategically allied book printers and with the benefit of knowledge of each printer's capabilities, cost rates and capacity. The Book Controllers place the print order and supply paper to the printer.
- 3 **ABC Book Binding.** The finishing operations of folding, binding or any other special requirements may be performed by the printers, if they have the capability, or may, for reasons of cost or capacity, be outsourced elsewhere in the alliance.

So far so good. However, should the book require case binding, the **ABC's** modern case bindery will perform this category of work.

In the formation of the **ABC**, all printer members contribute to the establishment of two operations:

- 1 **The Book Control Group**
- 2 **The state-of-the-art ABC case bindery**

It would be equipped with the latest casebook line and ancillary book manufacturing equipment as listed below.

- Kolbus 62 book/minute cased book lin
- Dust jacketing
- Foil stamping
- Casemaker
- Sheeter

To overcome one of the other main obstacles to Australian four-colour printing, namely the procurement of economic coated paper stocks, the **ABC** will purchase from the best sources with bulk stock in reels. The **ABC** paper store will be equipped with a sheeter and located with regard to logistics (possibly in the bindery).

11.1 THE ADVANTAGES OF THIS ALLIANCE

The **Book Control Group**, remote from production bias, would have a better chance of perceiving the customers' true needs and place the print order to the best advantage.

A higher combined level of acumen is more likely to be available than from individual book printers.

The chances of forming strategic alliances with publishers are more likely with this arrangement. A main feature of the front-end group is their detachment from individual printer's problems, and they will have a better chance of offering sound advice on book design, production schedules, quality, and delivery fulfilment from a much broader base.

A greater impact on the publishing industry by the **ABC**, as a dedicated and reliable source of efficient book manufacture, is a probable outcome.

Most of the current book printers, who are likely to be interested in this alliance, have excellent print capabilities. A proportion of these printers are not as strong in their binding operations. The increased volume expected to be generated by the group would justify better equipment either individually or as a group.

The members of the alliance, large or small, would still be free to pursue the interests of their existing clientele, but not in competition with the **ABC**.

Small operators with the ability to perform only one or more of the functions of pre-press, printing or binding, can, however, contribute to the alliance and capitalise on their speciality, widen their opportunities, and add to the utilisation of their plant.

The aims of the **ABC** are straightforward but its constitution requires further investigation, beyond the scope of this report, into a structure that will be effective and mutually acceptable to the partners.

The volume of four-colour book work lost from Australia is considerable and far exceeds the capacity of the current facilities in this country.

Only by a serious collaboration within the book manufacturing industry of Australia will any substantial impact be made on the local and international market.

12.0 Value-added Features for Growth

These can best be determined by the **APA/PIAA** consulting each other on a range of issues that are of most interest to both parties.

Some issues that may be explored are as follows:

12.1 PRICE RATIONALISATION

The graphs in the appendix on costs/volume all show a pronounced flattening out as the print quantity increases.

This applies to both mono- and four-colour books and is also demonstrated in an examination of printer's grid estimates.

There would seem to be an opportunity, particularly with standard format paperback books and where a printer enjoys a large volume of work from his publisher customer, to undertake a price rationalisation scheme.

If the reduction in print price for a larger quantity than the median is retained by the printer, then this gross margin could be used to compensate for the higher price of the lower-quantity print runs. This would encourage more titles to be published, but reduce inventory. It would mean going to press more frequently, but the printer would be assisting the publisher with his program for mutual added value.

12.2 DISTRIBUTION

A medium sized Adelaide book printer who maintains a close relationship with his customers has built up a worthwhile niche market of non-professional publishers. This company has specialised in the distribution of many of the customers' products as an enhanced service.

It claims to be strategically placed for mailing, air and sea freight. More than 50% of turnover is from interstate but only 10% of the product is returned to the source.

This involvement with distribution made the printers aware of the minimum postage regulations for an almanac that it regularly prints. They searched the world for an ultralight paper, which brought the product into the lower rate of postage and offered a benefit to its customer.

12.3 STRATEGIC ALLIANCES

The main contact between publishers and printers is at a low level on both sides and it needs to be lifted so that strategic and operational plans can be clearly understood. Higher level contact would lead to increased interaction and efficiencies such as the following:

- Printers and publishers should agree as an industry on the sizes for standard formats. Some of these sizes vary by only a few millimetres and there is no reason why this cannot be tidied up. The printers should take the lead here.

- Agree on three standard sheet sizes for A2 coated papers as commonly used in Asia.
- Agree to an acceptable A2 coated paper grade available in 80–130gsm as a standard so that these grades can be obtained on the best basis.
- Publishers should discuss forward plans more realistically with their printers to secure delivery programs and the maintenance of adequate stock levels.

13.0 Appendixes

The Imprint 2001 report appendixes comprise:

- Growth trends
- Origin of paper
- Technical audit graphs
- Manufacturing Analysis of Australian printed books from sample of fourteen Australian book printers

Please note this explanation of determining the number of colours in the analysis.

HM Colours:	1	2	4	
	100	0	0	Means all in one colour
	50	50	0	Means 50/50 one- or two-colours
	0	0	100	Means all four colour

Lists books published by sample of twenty-four Australian publisher respondents and printed for them in Australia and offshore by standard formats and non-standard sizes.

Book Cost 2001 uses graphs to illustrate comparison of costs of producing books in Australia compared with offshore.

Finally, Book Cost 2001 lists comparative book costs in Australia and offshore by individual orders sorted by book size.

Samples supplied by Australian publishers and printers.