HMV/OTTAKAR'S

Key arguments and views of third parties (excluding third party submissions on the CC website)

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Market overview

1. A publisher said that in many ways the UK market was healthier than in recent times, with a wide range of competitors.

2. Tim Waterstone said that the book market was flourishing with growth of 4.4 per cent since 1963 and 6.2 per cent compound in the last ten years. He thought the entry of Amazon and other Internet booksellers had increased the market.

3. The Society of Authors said that the book market might be growing in volume but not necessarily in value. The increase in value and volume came from a very small number of titles. The best-selling 100 titles in 2005 comprised 15.7 per cent of the market compared with 12.8 per cent in 2003.

4. The Publishers Association said that the market had grown in the past year by about 6 per cent in volume as a result of a discounting strategy pursued by retailers (3 per cent in value).

5. The Independent Publishers Guild (IPG) said that the UK market experienced a period of growth during the 1990s, with the emergence of the large chains (Waterstone's and Ottakar's). This was followed by a period of consolidation during which Waterstone's acquired Dillons and various UK publishers were bought by conglomerates. Waterstone's has now become a more powerful player in the market and is able to command bigger and bigger discounts from publishers.

6. The Publishers Association said that it had entered into relations with the supermarkets in the expectation, fully borne out, that the participation of the supermarkets in book retailing would expand the volume market.

7. Methven's Booksellers Limited (Methven's) said that the abolition of the Net Book Agreement had allowed discounters into the market (eg British Bookshops) and also encouraged entry by the supermarkets (which were steadily increasing the range they sold) and the Internet.

8. Methven's said that too many books—around 100,000 a year—were published. Methven's, for example, was being presented with a minimum of over 2,000 new titles a month and there were too many to be 'given a life'.

9. The Society of Authors said that there was a lot of confusion about the numbers of books in print, due to the proliferation of ISBN numbers. Each title could have many ISBNs.

10. Profile Books Ltd (Profile Books) said that it had reservations about the figures which suggested an increase in the number of titles published based on the number of ISBNs. ISBNs could be misleading (eg multiple ISBNs for one book) and also included desktop publications. Even if total titles had increased, the key issue was

the number of books actually promoted, which was dropping. It was becoming more difficult to launch an author's career.

11. The Publishers Association said that it was not convinced that the overall number of titles published was increasing. Many books had multiple ISBNs and a significant proportion of titles were academic or scientific productions which could have print runs as low as 300.

12. A publisher said that a definition of 'reasonable volume sales' was around 10,000 copies for a paperback. Below this level it was difficult for a publisher to make a profit and for a title to be available in the shops in sufficient quantity to be visible to the consumer. Between 2003 and 2005 the total number of paperback fiction titles that sold between 10,000 and 100,000 copies fell by 21 per cent in the industry, from 862 titles to 681 in 2005. The publisher said that this considerably challenged the Office of Fair Trading view that 'many more books are published each year than are stocked by any one retailer suggesting that even if some publishers went out of business and the range of titles were reduced the impact on the customer would be negligible'.

13. Gardners Books Limited (Gardners) said that the publishers liked publishing new books. There were 190,000 published in 2005, considerably higher than in previous years. There were more than a million books in print at any one time. If a publisher took a book on, he would price it and put a sales team together which solicited orders from traders (booksellers, wholesalers etc). The trader decided how many to buy, based on the renown of the author, the publisher's marketing budget etc.

14. Methven's said that BookTrak data allowed everyone to see which books were selling and whether a book should be stocked.

15. Tesco PLC (Tesco) said that the market was particularly well supplied with transparent and accurate data which gave Tesco the opportunity to take titles that were doing unexpectedly well into the range very quickly.

16. The Society of Authors said that 20 or 30 years ago book selling in the UK was dominated by independents and WH Smith was the only large chain. Waterstone's invented a new strategy. Waterstone's defined a new strategic group of the modern chain bookstore, which negotiated promotional terms, discounted with publishers and had a central buying team. Ottakar's was the most successful competitor to Waterstone's and built up a similar chain. Borders started in the USA and bought Books Etc in the UK and was now in the same strategic group.

17. The Society of Authors said that the wholesalers' market share was declining, as was the market share of the independent bookshops that traditionally depended on the wholesalers. Publishers gave big discounts to supermarket chains and this made it more difficult for independents to survive. Publishers were trying to help independents more, but it was not in the interests of any individual publisher to offer higher discounts to independents.

18. The IPG said that stocking a wide range of titles was expensive and book retailers were under pressure to try to reduce costs. They could make better margins in the short term by narrowing their range and were able to do so by working with the wholesalers and avoiding the smaller publishers.

19. A book retailer said that a narrower range made it easier for the consumer because more books could be displayed face-out.

20. The Society of Authors said that it was now almost impossible to be published without a literary agent. Agents earned a percentage of an author's income. Royalties were generally fairly standard, although they were reduced when high discounts were given to booksellers.

21. The Society of Authors said that royalties were based on the recommended retail price (RRP). There were gradations depending on how much discount publishers gave to the booksellers. The booksellers were very much in control, especially with regard to promotions, such as the three-for-two promotions, book of the month, book of the week and so on. The author received lower royalties but sold a lot more copies when the book was promoted. Consequently, promotions benefited a small number of authors a great deal, but disadvantaged authors who were not included in the promotions.

22. Gardners, which is located in Eastbourne, is now the largest wholesale provider of books in the UK, stocking 500,000 titles. It initially supplied books primarily to independents but now has extended its supply to all major booksellers and some supermarket and Internet retailers.

23. Gardners said that its two main competitors in the UK were Bertrams of Norwich and Total Home Entertainment (THE). There used to be about 11 wholesalers, but most had closed.

24. Gardners said that its competitive advantage over other wholesalers was its efficiency, driven by IT. It was a family-run business that moved quickly and decisively. Every order received by 5.30 pm, and every Internet order received by 3.00 pm, went out the same day. Gardners operated 24 hours a day, seven days a week.

25. Gardners said that some booksellers had exclusive arrangements with Gardners, although the majority did not. With about 50,000 publishers in the UK, most booksellers dealt with just the top few hundred and sourced the rest from wholesalers.

26. Gardners said that it did not sell direct to the public. It has 15,000 customers and it would perceive it to be trading against them.

27. Gardners said that the book return rate direct to a publisher from a major retailer might be 20 per cent of annual purchases. As a wholesaler, Gardners encouraged its customers not to buy in multiple copies, but to buy in ones and twos several times a week, and returns were nearer 5 per cent. The publisher and the wholesalers paid for the carriage of books to the bookseller; the bookseller would pay for their return carriage. Returns were put back into stock if they were in saleable, mint condition. In many cases it was not economically viable for the publishers to put them back into stock and they would be pulped or thrown away.

28. City Books said that as an independent it was at a disadvantage on sale and return arrangements, because the wholesalers tried to restrict returns to 5 per cent. Also, City Books might get 30 days to pay as against large retailers having 60 days or even 90 days.

29. A publisher said that publishers had very limited control over the supply of their titles because, in order to ensure the widest possible distribution for any given title, all titles were made available via the wholesalers, to whom, in turn, all retailers had access.

30. The IPG said that during the last few years the chains had become less inclined to deal with very small publishers and had encouraged trade through the wholesalers. Many independent book retailers bought from wholesalers through choice.

31. The IPG said that regional publishers in particular had had great difficulty in managing the logistical requirements of the chains whose central buying and stock control functions rarely worked effectively, with the consequence that branches ran out of particular titles. As a result, publishers could find that they had not achieved the necessary rate of sales relative to the agreed discount.

32. The IPG said that the RRP of a book was set by benchmarking it against equivalent books in similar genres. Setting the RRP was a fine balancing act: booksellers were resistant to prices that were higher than the industry norm and consumers would not buy a book (unless it was in a promotion) if the RRP was too high. Once the RRP had been determined, the publisher would offer the retailer and wholesaler a discount. The level of discount was either related to volume or product exclusivity.

33. Profile Books said that the RRP was set in relation to judgements about what it and bookshops thought the market would bear. A major and increasing difficulty was that booksellers' subscriptions to a new title might only be made known shortly before publication.

34. Profile Books said that the system of discounts was complex [✂]. Supermarkets such as Tesco expected even higher discounts [✂]. Profile Books had turned down promotions with supermarkets because they were not economically viable. A feature of high discounting was that authors earned significantly less.

35. Publishers said that they usually expected to have to offer the larger book retailers discounts of at least 47 per cent, or as much as 65 per cent for a promotion. Wholesalers received similar discounts. As a result, publishers made money on only a few of their titles.

36. Methven's said that better discounts were also available from wholesalers to independents and small chains than from the publishers themselves.

37. WH Smith PLC (WH Smith) thought that the fierce discounting which had occurred over the Christmas period had its origins in Waterstone's policy of running a half price book offer. WH Smith was simply matching that. Supermarket discounting was also a factor. WH Smith said it expected that fierce discounting would continue to be a major factor with bestsellers. [✂]

38. Amazon.co.uk (Amazon) said that Christmas had seen high levels of discounting coming from the supermarkets, offline retailers and online retailers.

39. Borders (UK) Ltd (Borders) said that its bargaining power with publishers was a balancing act, because publishers had sole ownership of the copyright of the product. There was a process of ongoing negotiation.

40. Tesco said that all titles were discounted on the RRP. £1 was the minimum discount, with greater discounts on higher-priced titles.

41. Profile Books said that it saw a significant power shift towards retailers and away from publishers in the last few years, evident in the rise of discounts that retailers expected from publishers, especially on promoted titles.

42. A book retailer said that publishers had a strong position in negotiating discounts in relation to bestsellers because of their sole rights to the title of the author. The book retailer said that it had no choice but to stock these titles. The retailers had more power on deep range titles.

43. WH Smith said that there was fierce price discounting in relation to front-list titles. There was less price competition and promotional activity for back-list titles, with most titles being sold at RRP. Specialist bookshops therefore tended to compete on non-price factors. WH Smith said that it estimated the average customer discount for front list titles at around 20 per cent compared with around 4 per cent for back-list titles.

44. The Publishers Association said that discounting to supermarkets was not necessarily higher than to the high street retailers. In particular, it did not pay very high promotional discounts to the supermarkets in the way it did to Waterstone's. The publishers said that, in addition, there were significant cost savings for publishers associated with distribution to supermarkets, and there were lower sales force costs.

45. The Publishers Association said that since the collapse of Tesco's wholesaler, Thomas Cork, discounts to supermarkets had generally been coming down while those to high street retailers were going up.

46. The Society of Authors said that authors were involved in some promotional activities, particularly book signings and events. The bookstores and chains that could offer events were greatly valued. Ottakar's offered very good openings locally to new authors. Promotion was absolutely crucial to an author's career.

47. The Society of Authors said that the success of a book could be unpredictable. *Eats, Shoots & Leaves* (Lynne Truss) was an example of a book that might not have been expected to become a bestseller. In this case it was due to the publisher's vision, the amount of promotion through bookshops, and extensive media coverage. The bookshops ordered large quantities and built it up into a Christmas best-seller. The author was a well-known journalist and broadcaster, so there were avenues open to her which might not be open to unknown writers. *Stalingrad* (Antony Beevor) owed its success in the early days to reviews in particular.

48. City Books said that the Lynne Truss best-seller, *Eats, Shoots & Leaves* had not become a best-seller through promotion by one of the large chains. The independents had had a role in spreading the success of the book.

49. Profile Books said that diversity of access points to the market was important. Its bestseller *Eats, Shoots & Leaves* had gained momentum through the author's media profile and reviews, but was only modestly supported by the large chains, at least in the early days. Once it became apparent it was a winner, all booksellers had given it excellent support.

50. The Society of Authors said that the sales data of the author's last book had a great impact on the interest of bookshops for the next book, especially if the book did not do very well.

51. The Society of Authors said that an author's career and success was very random, and a multiplicity of choices and outlets was needed because otherwise authors might be missed forever.

52. The Society of Authors said that reviews used to be the largest part in making books best-sellers, but promotions were now very important.

53. The Publishers Association said that, in relation to book promotion, it saw a distinction between the large-range booksellers and other actors in the market. WH Smith did undertake book promotions but essentially of mass market titles. In addition, WH Smith did not take risks, and tended to support a book once it had become successful. Amazon, although increasingly important in the market, was essentially passive in terms of promotion of titles.

54. A publisher said that new books were almost always 'broken' through Waterstone's or Ottakar's or Borders. A publisher said that over the last four years, Waterstone's had promoted 435 of its adult titles, and Ottakar's had promoted 142. Of these 142, 60 were promoted in both Waterstone's and Ottakar's.

55. A publisher said that it was more difficult for the representatives of small publishers to place their titles in central promotions, to obtain an appointment with central buyers, and to gain access to the branches of many of the chains.

56. The Publishers Association said that advertising revenue had in the last few years shifted away from posters etc (above the line advertising) to in-store promotion which it estimated took up 70 per cent of its promotional budget, essentially with high street booksellers. This was because it was the most effective method of book promotion, particularly on the growth of new authors. Other forms of promotional activity included, for example, reviews, circulation of proof copies, selling by sales representatives, consumer advertising, author websites and book signings.

57. The Society of Authors said that the publishers used to publish books that they were passionate about. Now editors thought about which retailers would be likely to sell the book. Promotions were decided on a national basis, and publishers paid marketing contributions towards the place on the table, which discriminated against the small publishers.

58. The Society of Authors said that online retailers and supermarkets played no part in the service of promoting and producing innovative titles. Individual independents were typically too fragmented to do this and the chains were dominant.

59. Amazon said that it had on occasion been responsible for creating a bestseller. There had been cases where authors had self-published through Amazon, built up a following and then, for subsequent titles, signed on with a larger publisher.

60. Profile Books said that it doubted if relying primarily on online sales would ever be a viable option given the crucial nature of the experience of being able to see the book and pick it up.

61. Borders said that printing books on demand was already a reality, with good-quality finished product. The question was the size of the printing machines required, and the cost of the technology. It had the potential to add to title range, because a store with 80,000 physical books in stock could offer 150,000 titles by offering to print titles on demand.

62. The IPG said that the technology existed to make print-on-demand a viable economic proposition, although it is still some way off being of acceptable quality. E-books were much less likely to be successful for fiction.

63. Amazon said that print-on-demand already existed. Amazon was working with a print-on-demand publisher that provided lesser-selling authors and books.

64. The Society of Authors said that the large Internet retailers relied on the promotion done in other spheres. This might change in the future. There might be a great effect on the high street bookshop once there was digital downloading of books.

65. Gardners said that a major change in the market was the ability for digital printing to reduce the size of print runs and therefore reduce the amount of overstocks. The other area was a development of e-books, although this was only a minor sales channel at present.

66. Gardners said that the major difference between the UK and the USA was the Robinson-Patman Act, which controlled discounts to retailers and linked them to volume. It provided a level playing field between small independents and a large chain.

67. A publisher said that although e-books have not been a success to date, it believed that the market would evolve to a dual format within the next five years. By this time reading devices, which are as desirable to use as the iPod is for music, may be available to enable commuters, business travellers and holidaymakers to download books from the Internet.

68. Amazon said that the e-books market represented a relatively small proportion of its market. Although it had grown over the last couple of years, it was not rapidly expanding like, for example, music downloads.

69. Tim Waterstone said that e-readers were bound to improve, but were more likely to be used for information such as legal textbooks than works of fiction.

70. The Publishers Association said that, in relation to new developments in the market, while scientific publishing had now become almost wholly electronic, progress had been slow in general trade publishing, because of the importance of the physical book to customers.

Market definition

71. A publisher said that the UK book market comprised different sectors. Waterstone's and Ottakar's were very significant in the specialist books sector.

72. A publisher said that although the Internet (back list) and supermarkets (best-sellers) exerted competitive pressure on Waterstone's and Ottakar's, they were not part of the same market. The chain bookstores offered consumers important browsing opportunities and knowledgeable staff advice, eg handwritten signs explaining why a member of staff liked a particular book.

73. The IPG said that the market comprised those high street shops involved in the retailing of books, but excluded supermarkets (which only stocked bestsellers), the Internet, and the small number of sales generated through the national press. The great strength of the high street was its ability to offer the consumer a diverse range of products, a result of the competition between the various book retailers.

74. Amazon said that the relevant market included both offline and online supply. It did not view the UK as a distinct market: it viewed the market globally. The reason why Amazon.co.uk existed was because Amazon wanted to provide value to the British customer specifically rather than having them order from Amazon.com and have the product shipped from the USA.

75. Profile Books said that there were three sections of the market: UK bookshops; supermarkets; and the online retailers, particularly Amazon. The overall market was growing and the average retail price falling, partly driven by the supermarkets.

76. The Society of Authors said that there were three principal categories of retailers selling books: supermarkets, Internet bookshops and high street bookshops. Waterstone's and Ottakar's together constituted more than half of the high street market. WH Smith was a hybrid; it was not a destination bookshop, as it also sold stationery or newspapers.

77. The Publishers Association said that the retail market contained a range of players from online (with a very deep range), through the specialist high street chains and independents, to chains such as WH Smith selling books as a part of wider merchandising, to the supermarkets with a smaller range of bestsellers.

78. WH Smith said that it thought there were different segments in the market appealing to different consumers: the supermarket offer appealing to bargain hunters and light readers looking for a front-list product; light users who shopped in generalist stores such as WH Smith; and serious book buyers who valued the browsing experience and were looking for a range title.

79. Tim Waterstone said that he considered Waterstone's to be in a market with a range of about 35,000 titles upwards. He said that Waterstone's loss of back-list position had been exploited by Amazon whose stock range was unsurpassed. Tim Waterstone said that WH Smith's move into large-range bookselling was to be welcomed but in his view they were over-centralized and had insufficient staff expertise to be successful. Borders suffered from lack of fundamental drive from their US parent.

80. Methven's said that it was not in agreement with market definitions based on 'large-range bookselling'. With competition on the front-list so general and so fierce it was 'tenuous' to separate off-the-range booksellers.

81. British Bookshops & Stationers PLC (British Bookshops) said that supermarkets operated in opposition rather than as competitors, because they were usually based out of town, whereas all British Bookshops stores were either on the primary or secondary high street. It said that supermarkets sold the same books at discounted prices, but they mainly sold the bestsellers, and did not offer a book-ordering service.

82. The Society of Authors said that people bought books and book-selling services. Online retailers provided a fulfilment service if people knew that they wanted a particular book. On the other hand, if they were not yet sure what book they wanted, the high street retailers (independents and chain booksellers) provided the book-selling service, which facilitated browsing. That was an important market distinction.

83. Tim Waterstone said that the browsing experience on the Internet was of a different quality to the browsing experience in a specialist bookshop.

84. The IPG said that the Scottish and Welsh markets were different because local interests were stronger.

Competition in the market

85. A publisher said that it agreed with the Office of Fair Trading's conclusion that Waterstone's and Ottakar's were particularly close competitors on a number of non-price parameters because: *(a)* they were the only dedicated book retailers on the

high street with national coverage that enabled consumers to browse through the deep range, including new titles; *(b)* they stock a substantially similar offering; and *(c)* they are the leading authorities on books. For these and related reasons the publisher saw Waterstone's and Ottakar's as each other's closest competitors and as acting as gatekeepers for quality or literary fiction and serious non-fiction in hardback and paperback.

86. Borders said that Waterstone's and Ottakar's offered a more traditional bookshop than Borders. Their stores were smaller and their range was not as broad as Borders'. Waterstone's and Ottakar's were primarily booksellers (ie over 90 per cent of their sales were pure books). While Waterstone's and Ottakar's had a different feel (Waterstone's was black, red and gold and had a certain authority to it, whereas Ottakar's had a more an informal look and far more locally created point-of-sale merchandise), the range between the two stores was remarkably similar. Waterstone's primary competitor was WH Smith because they shared similar locations.

87. Profile Books said that both Waterstone's and Ottakar's were classic range-holding bookshops with similar levels of service. Waterstone's was historically more successful of the two and more metropolitan. Ottakar's was based more in market towns.

88. WH Smith said that Waterstone's and Ottakar's were each other's closest competitors. They provided a unique service, offering a browsing experience, the ordering of back-list titles, the provision of pre-sales service and the availability of knowledgeable staff. WH Smith said that, in locations where Ottakar's was not represented, Borders, a large WH Smith, independent bookshops or the Internet were likely to be the nearest competitors to Waterstone's. However, if you were looking to buy a front-list title, there were many more competitors, including the supermarkets.

89. The Society of Authors said that Ottakar's had a marked strength as a children's book retailer. Ottakar's had spent a lot of time and effort building relationships with schools. Ottakar's had created this children's retailing because there were two competing booksellers, Ottakar's and Waterstone's. There would be fewer innovations of that kind if there were fewer people making the decisions to innovate in business processes. Competition led to choice, variety, innovation.

90. The Society of Authors said that Ottakar's was very good at promoting local authors, for example in Scotland or in the South-West of England.

91. The Society of Authors said that Ottakar's and Waterstone's had the same business model with a wide range of books. They competed in a number of ways, and people had a choice. If a small bookshop decided not to take a book, it was not going to affect the author, but if Waterstone's decided not to take a book, it could be commercially very damaging.

92. The Society of Authors said that Waterstone's was generally more literary than Ottakar's. Borders had pioneered the very large bookshop and had made the bookshop a kind of leisure facility. It competed aggressively with successful innovations.

93. Tim Waterstone said that Waterstone's had gone downmarket, reducing the range of books available, concentrating excessively in his view on the front-list, yet had also produced poor financial results.

94. The IPG said that although Waterstone's stocked quite a wide range of titles (tens of thousands) throughout its chain, it concentrated on selling only a few of these in large numbers. Many of the books it carried were stocked in a very small quantity and for a short period of time. The titles stocked in each branch were determined by Head Office. There was a high degree of overlap in the range of books stocked by Ottakar's and Waterstone's, although these varied from shop to shop within the chains.

95. Gardners said that, although Ottakar's had not discounted to the level of Waterstone's and Borders, its location in small market towns had made the independent bookseller's life very challenging. Gardners said that Ottakar's bought at better margins than the independents, enabling it to discount and advertise more.

96. Gardners said that Waterstone's was larger physically and therefore carried a wider range in some stores and tended to be more structured and centralized than Ottakar's. Ottakar's had generally smaller shops, but had allowed a high level of local entrepreneurial drive. Ottakar's was bringing in more sophisticated systems and more central policies as the number of branches increased, but not currently to the degree of Waterstone's. They were both very good booksellers, but different in the way they worked and the feel of their shops.

97. A publisher said that Ottakar's had excellent training systems for booksellers, leading if successfully completed to diploma qualifications, and that Ottakar's was also admired for its innovations (such as its annual 'Rising Stars' promotion). Such service developments and innovations had not been matched by Waterstone's and the publisher felt they would be lost after a merger.

98. Gardners said that Ottakar's would probably see its main competitors as WH Smith (because they were often in the same market town) and the independents. Waterstone's would probably see Borders and some of the larger WH Smith stores as its main competitors. The larger Ottakar's competed with Waterstone's.

99. Gardners said that independents saw Waterstone's as a large, corporately-driven company, which provided room for the independent to be more local, flexible and specialist. Gardners considered that 90 per cent of independents would say that they would rather compete against a Waterstone's than against an Ottakar's.

100. The Publishers Association saw Waterstone's and Ottakar's as direct competitors competing on both price and non-price factors. Both stocked a wide range of titles which facilitated browsing, employed well-read staff, and attracted heavy book buyers. Ottakar's was seen as presenting greater opportunities for local promotions and local involvement.

101. The IPG said that some of its members commented that Ottakar's was easier to deal with and friendlier than Waterstone's; was more in tune with local concerns and the local market; was keen on supporting and promoting local authors; was more responsive to specialist titles; and its local branches were much more receptive to take on titles. Waterstone's, however, was a more significant customer.

102. Borders said that WH Smith did not offer the depth of range, quality of service, or quality of environment that Borders aimed to offer. WH Smith was offering convenience and price. By contrast, Waterstone's and Ottakar's were similar to Borders in being focused on the specialist book customer, but their stores did not have the size and scope of a Borders store. The great majority of their sales were in books, whereas one third of the sales in a Borders superstore was non-books.

103. British Bookshops said that Ottakar's and Waterstone's were important in promoting a particular title nationwide. It said that it contributed in a small way to bringing new titles to market.

104. City Books said that Waterstone's was more centrally controlled, whereas Ottakar's branches had more freedom to order books at the local level.

105. City Books said that Ottakar's policy was to open shops where there was no high street competition except from independents, whom Ottakar's often closed down. WH Smith would be a fairly big competitor to Ottakar's.

106. City Books said that WH Smith was a direct competitor to Waterstone's.

107. Tim Waterstone said that the supermarkets were a threat to WH Smith but in his view not to Waterstone's. Tim Waterstone said that in the six years from 1998 the large chain booksellers had increased their share of the market from 38 to 44 per cent.

108. WH Smith is a retailer selling books, stationery, cards, newspapers, magazines, entertainment material (eg DVDs), confectionery etc from high street shops. It also has two other businesses: *(a)* a travel business, operating out of airports and railway stations, focusing primarily on magazines and food for journeys; and *(b)* a newspaper and magazine distribution business. WH Smith said that it stocked on average [5,000 to 10,000] titles in a store.

109. WH Smith said that it was a general multiple retailer, offering a variety of different products, with books forming a part of its overall offering. It said that it had a wide range of competitors in its book business, including the supermarkets, Waterstone's, Ottakar's, Internet retailers, independent bookstores and British Bookshops.

110. WH Smith said that its main competitive advantage was its popularity as a place to shop, with a high footfall driven by the fact that it sold items in many categories. WH Smith also offered convenience and good value. It faced several competitive disadvantages including [✂].

111. WH Smith said that it operated in a national market and set prices, ranges, staffing levels, stock levels and store layout centrally. Its business model [✂] also implied a centralized approach. The centre could decide on some local variation (eg local maps and history books provided). There were also variations in Scotland.

112. WH Smith said that its store managers did not normally make local ordering or pricing decisions. However, store managers could stock books by local authors and organize book signings, though the total money value of such activities was very small.

113. As a generalist, WH Smith said that its sales focused on front-list titles, and its promotions were very front-list dominated. In contrast, specialist bookshops like Waterstone's and Ottakar's typically carried many more back-list titles. WH Smith said that it had a market share of around [✂] in the top 5,000 titles but around [✂] for back-list titles.

114. WH Smith said that it was not piloting stand-alone bookshops as such, but rather seeking to optimize the space available in stores in a particular town by making an appealing offer in all categories. It was looking at a variety of formats of which stand-alone bookshops were only one. Other examples included stand-alone stationery stores.

115. WH Smith said that it did not, at the moment, adjust the allocation of space between categories to reflect relative success, although it had carried out a programme to add height to the gondolas stocking books in the 200 stores that were performing best in books. These 200 stores now carried an average of [10,000 to 15,000] titles.

116. Borders said that its superstores carried a very deep range of books—typically 50,000 to 80,000 titles. Books provided about two-thirds of total sales. Borders said that its stores were destinations in themselves, particularly those in out-of-town locations. 80 per cent of customers were drawn from within a 30-minute travelling time radius. The Books Etc stores were smaller and built on a convenience model.

117. Borders said that it was important to its brand to be seen as an authority on books.

118. Borders said that it dealt primarily and directly with the major publishers which ship directly to Borders' distribution centre in Cornwall. Borders had ongoing accounts with over 1,000 publishers.

119. Borders said that its buying took place centrally. Borders had a team of about 20 book buyers who had direct relationships with the publishers. They made all the new title and replenishment buying decisions and allocated stock to stores. Books Etc stores were built to an older model so the inventory systems were discrete to each branch and the buying took place in the branch.

120. Borders said that book signings and major events were handled nationally by Borders' marketing department. With local events, the onus was on the store to create an events programme. Because it opened late, Borders encouraged people to come to its stores in the evenings by organizing activities such as evening reading groups.

121. Borders said that it aimed to give titles a long run in its stores—between nine months and a year. If a book was still selling, Borders would be unlikely to remove it from stock, unless it had clearly been superseded. In allocating space to different book genres, Borders looked at the size of the catchment and the socio-economic grouping of that catchment. Once a store was open, the range rapidly individualized.

122. Borders said that, in recruiting staff for its stores, it looked for booksellers who could provide a good level of friendly and accessible service to customers. It also looked for an interest in, a passion for, and an understanding of, books.

123. Borders said that although its pricing levels were decided centrally, it would respond if there was a competitor pricing particularly vigorously in one or two localities. The pricing strategy was to offer the customer fair value in the context of the market. Customers were sophisticated and recognized that the very cheapest place to buy a book was rarely the specialist bookstore. But the specialist bookstore offered other benefits in terms of range, environment and service.

124. Borders said that it looked more closely at the pricing of WH Smith and Waterstone's than the supermarkets. Borders' primary competitor was Waterstone's. Borders only competed directly with Ottakar's in three locations.

125. British Bookshops is a wholly-owned subsidiary of Eason & Son Limited of Dublin. It has 51 small shops (457 to 1,372 square metres (1,500 to 4,500 square feet)) based mainly in smaller towns in the South-East of England, and supplied from a central warehouse in Brighton. It sells books, stationery and cards, with a total turnover of about £40 million, [✂]. It is a discount bookseller with a range of 5,100 titles, all

discounted and all available at every outlet. All shops have the same single storey, rectangular layout.

126. British Bookshops said that it was a centrally controlled company. A central book-buying team decided which books were sold. Managers had limited flexibility to decide what was offered or how it was offered.

127. British Bookshops said that it had a limited range of books compared with Waterstone's, Ottakar's or WH Smith. Nevertheless these companies were British Bookshops' main competitors.

128. British Bookshops said that its competitive advantages were its pricing policy and locations. It said that, compared with Waterstone's, Ottakar's was more friendly and better on children's books.

129. British Bookshops said that it had been told that the terms it received from publishers were comparable to those given to Waterstone's and Ottakar's. Terms varied depending on the title or the promotional activity [✂]. It would get extra discount for special promotions and price accordingly.

130. Methven's has eight bookshops in the South-East of England. With the exception of one very large shop in Canterbury, the eight shops range from about 244 to 1,219 square metres (800 to 4,000 square feet). The larger stores carry about 13,000 to 18,000 titles (less than a few years ago when it might have been over 20,000), the smaller stores less pro rata.

131. Methven's said that its main competitor was the nearest book retailer to its shop, normally a rival bookseller, but a nearby Tesco would certainly be a main competitor. In practice its main competitor was Ottakar's, which had opened three stores against it in the last 11 months.

132. Methven's said that its style closely resembled the original Waterstone's.

133. Methven's said that its competitive advantages were in small-scale friendly service and its EPOS system, which enabled it to track the stock and to see which books were selling and which were not.

134. City Books said that it sold books in competition with all retailers. However, as a small local bookshop it had learned to concentrate on books which suited local circumstances and local people. Although it did discount titles, and this was important to bring people into the shop, it did not offer the same level of discounts as Waterstone's or WH Smith.

135. City Books said that it had severe competition from Borders, Waterstone's and WH Smith. When Borders opened, City Books' turnover reduced by about 25 per cent, although it had since largely recovered. Waterstone's responded by doubling in size, and WH Smith also increased in size, roughly doubling the competition overall.

136. City Books said that British Bookshops had made Brighton and Hove very competitive; when the Net Book Agreement ended, it immediately started selling nearly all its books at about half price.

137. City Books said that it responded to the competition with local events at a local theatre. They engendered loyalty; customers would often see a book in Borders and order it from City Books.

138. City Books said that some publishers were particularly supportive of independents, whereas others were resistant to giving City Books favourable discounting terms. City Books said that it could order its books from wholesalers at a 5 per cent higher discount than it could get from the less cooperative publishers.

139. City Books said that independents were closing down. Many of the smaller bookshops were selling gifts, stationery, toys and cards, because there was a bigger profit margin on those goods.

140. Borders said that the independent retailers presented a significant amount of competition to the more well-established chains, such as Waterstones, Ottakar’s and Borders.

141. British Bookshops said that there was a role for independents in smaller towns, for customers who did not wish to travel; they offered local knowledge and friendly service.

142. Methven’s said that competition from Ottakar’s was very threatening for small independents.

143. Gardners said that there were not many independent booksellers in major cities due to the cost of rents, the abolition of the Net Book Agreement and the discount policies of publishers. Nowadays discounting to consumers had accelerated. Last Christmas major bestsellers were sold by major chains at 50 per cent off. The independent retailer could not compete with that level of discounting, given their purchasing terms. As a result, independents were usually found in secondary sites and in small market towns, not on the high street.

144. Gardners said that the level of discount offered by publishers and suppliers to the retailers was probably the single biggest difficulty for an independent bookseller. Publishers supplied major Internet retailers and supermarkets at very high discounts, sometimes as large as 60 to 65 per cent off retail price for trade books. Major chains could buy books at least 7.5 to 10 per cent cheaper than independents.

145. Gardners said that it championed collective buying power for independents. It tried to achieve this by using its best endeavours to get a better price from publishers for a range of titles, which it then supplied to independents at discounted rates.

146. The Publishers Association said that it was keen to promote the continued success of independent booksellers. It had a variety of programmes to help them, including promoting the use of electronic systems, and the rate of standard discount to them was rising. Nevertheless, the independents represented a higher cost to serve to the publishers.

147. Tesco has 653 stores stocking books in the UK. Books are sold in all Tesco Extras, superstores and in many Metro stores but not generally in the small Express stores. The range stocked varies from 3,000 titles in the 12 largest stores to a minimum of about 40. Paperbacks are about [✄] of the business. Its turnover in books is about [✄] a year, equivalent to about [✄].

148. Tesco said that the book offer in the stores was managed at a national level with the range at an individual outlet largely determined by space. The only exception was the display in Scottish and Welsh stores of books of local interest.

149. Tesco said that efforts were being made to widen the range of titles sold. Literary prizewinners were being stocked as part of a successful new initiative.

150. Tesco said that ranges of books were refreshed several times a year. The space allocated for books was reviewed less frequently as it was a major logistical exercise.

151. Tesco said that in considering price competition in books it would look first at prices in the other supermarkets (Asda, Morrison's, Sainsbury's). On key title launches, it would look at the whole market, including Amazon, the high street chains, and WH Smith.

152. Tesco said that it saw its competition as anywhere books could be bought.

153. The Society of Authors said that supermarkets had such a concentration of best-sellers that publishers could not refuse to sell to them.

154. City Books said that supermarkets sold the best titles at a heavy discount. Independents were no longer competing with supermarkets, as independents had given up on selling the best-selling titles. Supermarkets were a good source of purchasing books for independents. They could make a profit on a Harry Potter bought from a supermarket, for example, but not on one bought from the publisher.

155. Borders said that the supermarkets had had an enormous impact on pricing perception and also on the channels through which best-sellers were sold. All booksellers had been affected by the deeper and deeper discounting by supermarkets.

156. Methven's said that the exceptional competition in the market made it viable to buy bestsellers at supermarkets or Woolworth's at a better price than was available from a publisher.

157. A publisher said that the Internet and supermarkets were relatively new entrants. The Internet was ideal for people who had a specialist interest. Supermarkets stocked only about 50 different titles per average branch, though more in larger ones. It was possible to 'break' new books through supermarkets although the margins obtained were small.

158. Amazon said that its vast selection would certainly be one area that gave it an advantage. As Amazon sold more products, it believed it could make more marginal profits and pass those savings on to its customers.

159. Amazon said that it also had a global footprint with its software. Amazon's investment in its software gave it leverage into the USA, the UK, Germany and France. Many companies could not replicate this leverage.

160. Amazon said that it would regard itself as a competitor to Waterstone's and Ottakar's, along with companies such as WH Smith, Borders, the supermarkets, Bol.com and Tesco.com. Amazon said that it looked at Waterstone's and Ottakar's as indicators for what the market was doing, although Amazon's pricing, merchandising and promotional activity was quite independent of those companies.

161. Amazon said that as it continued to expand its product range, books would be a smaller proportion of its total turnover, although still its largest single product line. Amazon said that its overall goal was to have the widest selection possible. Amazon wanted all books in and out of print featured on its site. [✂]

162. Amazon said that books were an easy product to buy over the Internet. Amazon provided content, description and reviews around a book, helping customers make an informed choice by providing them with all reviews, good and bad.

163. Amazon said that it bought books direct from publishers and wholesalers. Who it bought from came down to cost and the value the vendor provided, eg level of service. Amazon obtained many smaller-selling titles directly from publishers, and ran a program called ‘Advantage’ where it worked directly with publishers.

164. Amazon said that in most cases it negotiated discounts with suppliers on an annual basis. The discounts were a combination of a standard discount off list prices, plus additional discounts for certain types of promotional activity. Amazon did not know how its discounts compared with competing retailers. It said that it had an associates program where publishers or any other kind of third party could, if they had a website and wanted to sell books, link up with Amazon’s site.

165. Amazon said that the rates it got for bestsellers as opposed to deep-range titles varied by publisher. Some rates varied between trade-orientated titles versus academic titles, so Amazon might get more discounts on front-list titles than academic titles.

166. Amazon said that publishers and authors saw the Internet as a real opportunity. It said that it was definitely taken seriously in terms of being able to help promote certain types of books. Amazon was a natural destination for certain types of books, such as computers and Internet books. It had a strong core base of customers that bought those types of books.

167. Amazon said that it offered free shipping to transactions of £15 and above in order to encourage people to spend more. It said that the books market was still growing.

168. Borders said that it considered Amazon to be an extremely important competitor, because Amazon offered range and convenience, as well as discounts. The online browsing process was different in nature to browsing in a traditional specialist bookshop.

169. City Books said that the Internet increased competition, initially impacting special orders, but now competing much more widely.

170. The IPG said that development of the Internet had increased consumer choice and the volume of sales, though it remained a small percentage of sales.

171. British Bookshops said that the Internet was a business threat, with huge range and strong discounting. The competitive disadvantages were the fact that you could not pick up the book and look at it, and the delay in delivery.

172. The Publishers Association said that smaller publishers operated the Advantage Programme with Internet sales, meaning that the retailer only paid for the books once they had been sold.

173. Amazon said that there was still a place for high street retail bookshops. A lot of people liked the physical experience of bookshops. Amazon was using technology to try and replicate some of that experience. It was not quite the same as picking up a book, but Amazon was allowing people to search inside books and read the back covers.

174. Profile Books said that it saw the Internet’s very rapid growth as having expanded the total volume of sales in the market but it observed that Amazon had done so at the cost of huge losses and even now made little if anything on highly discounted titles.

175. WH Smith noted that, although the Internet offered a very large number of all titles, both front- and back-list, 85 per cent of people have never bought a book on the Internet.

176. Amazon said that online competition was growing. The supermarkets were putting up websites and selling more books through them. There were other players coming into the market.

177. Borders said that customers shopped in many different places and did not necessarily characterize themselves as ‘a Waterstone’s person’ or ‘a WH Smith person’. Developing customer loyalty was a challenge for book retailers.

178. Methven’s said that there was not enough space for two big stock-ranging bookshops in many cities or towns. It was much more difficult than it was even in the late 1990s because of Amazon, the supermarkets, and WH Smith.

179. A publisher said that Waterstone’s main competitors in ‘up-market’ and ‘mid-market’ books were Ottakar’s and WH Smith, while all three companies competed with the supermarkets for the major best-sellers.

180. Methven’s said that in addition to chain booksellers, supermarkets, and the Internet, direct sellers such as Book People were a serious threat because of their aggressive discounting policies.

181. A publisher said that WH Smith was not a specialist bookseller; Borders, though possessing a similar deep range, was not present in many of the overlap areas, and operated substantially in out-of-town retail parks posing less of a competitive constraint than a competitor based in the high street; independents would not compensate for the loss of non-price competition between the parties; Internet retailers, while offering an important constraint on price, did not offer a ‘superior browsing experience’ as did Waterstone’s and Ottakar’s; and supermarkets had a limited range. In a typical month the publisher published 30 books of which the supermarkets would buy a maximum of four while Waterstone’s and Ottakar’s would be likely to buy all 30.

182. The Publishers Association said that it did not see the supermarkets as necessarily leading on price competition. At Christmas, for instance, the main price competition was between WH Smith and Waterstone’s.

183. Profile Books said that, as a small independent publisher, it was dependent for its business on bookshops, in the UK and internationally. It also sold to supermarkets and online retailers. Its dealings with the range booksellers were essentially with Head Offices, with the Head Buyers. Profile Books also used the Faber sales force to call on bookshops.

184. Tim Waterstone said that there was an important interrelationship between bestsellers, with a much more frequent stockturn, and deep-range books which might turn only once a year.

185. The Publishers Association said that there were three types of bestsellers: the immediate bestseller (eg a television tie-in), the surprise bestseller, and the long-build bestseller. The vast majority fell into the third category, and the author often required support over a number of books before selling in substantial numbers.

186. A book retailer said that when Ottakar’s came into a town which already had a Waterstone’s, Waterstone’s carried out a refit more quickly than it otherwise would

have done to make the shop look more attractive. This was the case, for example, in Guildford.

Entry

187. A publisher said that the prospects for new entry by booksellers were not particularly good because the market was mature. New entry within the next few years was unlikely.

188. City Books said that competition issues meant that entry into the market was very difficult.

189. Profile Books said that it would be very difficult for a big chain to enter bookselling because of the development of the Internet, which made it more difficult to run profitable range-holding bookshops; the abolition of the Net Book Agreement which meant competing on price against the supermarkets; and the huge range of titles published every year.

190. WH Smith said that entry into the market was relatively easy at the level of a single shop since premises were available, a large wholesaler would provide the stock, and the necessary systems were easily acquired. There were also possibilities for independents in niche markets. It would be much more difficult to start a large-scale chain, since a new entrant would find it difficult to get the discount terms of the market leader. Lease costs and staff costs would also be important. Other non-traditional retailers might enter the market to sell front-list titles.

191. Borders said that the primary barrier to entry was the level of capital required to set up a bookstore or a chain of bookstores. Borders said that a new entrant would not necessarily find it difficult to compete if it had something different to offer. The publishers were always looking for new channels through which to sell their products. This was illustrated, for example, by the extent to which they had supported book selling through supermarkets.

192. Borders said that setting up as an independent bookseller was not an overwhelming commitment, because the stock could be returned and the store could be fitted out relatively inexpensively. There were as many good independent stores in this country as there ever had been, despite the abolition of the Net Book Agreement. The good independents had recognized that they needed to focus closely on who their core customers were and create an offer that was more specific to those customers.

193. British Bookshops said that it would be relatively easy for a new entrant to come into the market. They would need premises, shop-fitting, staff and stock, which required deep pockets. However, most recent growth had come from expansion of existing businesses, new shops, new openings and larger shops, not from new entry.

194. Methven's said that after the abolition of the Net Book Agreement and with the arrival of Amazon there were unlikely to be new stockholding book chains, though local independents would still come into the market. It was also possible for a big established chain like Barnes & Noble to enter by acquisition.

195. The Society of Authors said that there would always be entry by small independents into the book market, but it was unlikely that there would be a new high street chain entering in the UK. Barnes & Noble might come in, but had shown no inclination to do so, and for smaller businesses there would be issues both with achieving sufficient discounts from the publishers and with high levels of rent.

196. Gardners said that the main difficulty in relation to large-scale entry was finance, given property prices in central cities. But should an exciting new offer come to the high street, and have the financial backing, it could be a success. Borders had demonstrated the scope for a new approach.

197. Gardners said that it provided an EPOS system and hardware at cost, giving the independent a better chance of setting up and remaining in business.

198. Tim Waterstone said that there was no doubt that the Net Book Agreement had been very helpful to both Waterstone’s and Ottakar’s market entry but with a market growing so rapidly there was still room for new entrants who were very good. Indeed, there was still room for an entrant to become a new Waterstone’s.

199. The Publishers Association said that it thought large-scale new entry would be difficult; in particular, no new entrant could establish the position that Ottakar’s had held except over a long time frame.

200. WH Smith said that, in relation to Internet retailing, it would be difficult for a new entrant to overcome the scale advantages of Amazon. It could probably only be done by existing retailers with a large existing group of customers and a delivery mechanism.

201. Borders said that barriers to entry online were relatively low, because there was no physical bricks-and-mortar store.

202. Amazon said that it did not consider Internet retailing as having high barriers to entry, but it would be difficult to replicate the Amazon functionality, the data warehousing, the scale and the catalogue.

203. The Society of Authors said that in terms of expansion, the high street bookshop trade was not expanding despite growth in the book market because online booksellers and supermarkets were taking an increasing share of the popular titles. It was possible that WH Smith might reposition itself to compete more directly with Waterstone’s and Ottakar’s.

204. Borders said that it intended to continue opening around seven superstores a year.

205. British Bookshops had opened two new stores in the past 12 months and was looking at new outlets within the South-East.

206. Borders said that the most recent primary entrants to the market were Borders and Amazon. There had not been a significant major entrant since, but there had been a huge increase in the market share held by the supermarkets.

207. Borders said that, of the possible new entrants, [✂] had a track record of investment in its dot.com business, in acquiring publishing businesses, and in consolidating its lead in the USA. It would require a significant strategic shift for [✂] to enter the UK. [✂] had so far avoided the English language market.

Counterfactual

208. A publisher said that it did not believe there were any other potential bidders for Ottakar’s in the event that the merger did not proceed.

209. A publisher said that although it had concerns regarding the proposed acquisition, it would prefer Ottakar's to become part of Waterstone's than for the company to go out of business.

210. Profile Books said that if the merger did not go ahead someone else would be likely to try to buy Ottakar's.

211. WH Smith said that if the merger did not go through it thought that there would be a number of options for Ottakar's, including continuing as a publicly listed company, going through a management buyout, or being bought by an alternative purchaser.

212. British Bookshops said that if the merger did not go ahead someone else was likely to buy Ottakar's. British Bookshops said that it was unlikely to be interested because it did not see itself as a specialist bookseller in the same way as Ottakar's. Nor would it be interested in selected Ottakar's outlets. They would be too big for British Bookshops and the physical layout would be wrong.

213. City Books said that if the merger did not go ahead, Ottakar's might go into James Heneage's hands as a private company. City Books considered that Ottakar's would survive if the merger did not go ahead. Its strategy might be to enter smaller towns which were big enough to support a bookshop but not big enough to support competition.

214. The Society of Authors said that it was possible that either Ottakar's or Waterstone's would be bought by somebody else.

215. Gardners said that if the merger did not go ahead, Waterstone's would continue very much as it was and Ottakar's would continue to grow, probably in medium-size and smaller towns.

216. Gardners said that it was not sure if there were alternative buyers for Ottakar's. If it was being broken up there would certainly be buyers for some smaller stores.

217. The Society of Authors said that there was no real danger of Ottakar's ceasing to exist if the merger did not go ahead. Neither chain was particularly strong financially but it was not a candidate for a failing company. If the merger did not go ahead, they would remain competing with each other.

218. The Publishers Association said that it did not see any real risk of collapse of Ottakar's if the merger did not go through.

219. Tim Waterstone said that he thought an outside bid for HMV might be on the cards, and if so the group might be split up and Waterstone's come on the market again.

Competitive effects of the merger

220. Tesco said that it did not believe the acquisition would cause a substantial lessening of competition.

221. The IPG said that the consolidation of the two major book retailers would narrow the market available to independent publishers. In addition, consumers would lose the different aspects, and level, of customer service that was currently offered by each chain.

222. The IPG said that a significant proportion of members felt indifferent about the merger; a small number were in favour; while the overwhelming majority of those that

expressed an opinion were opposed to it. The trade (including publishing companies, agencies and various writers' organizations) was, in general, opposed to the merger.

223. The IPG said that it did not believe there would be a reduction in the number of titles being published in the future, even if the merger proceeded, because the cost of publishing a book had fallen over the last 25 years. However, the output of mid-range titles (ie ones which sold about 5,000 copies) might decline.

224. Tesco said that the merger, if it went ahead, would not have an impact on its customers because Tesco's current policies and plans would continue.

225. Amazon said that it was neutral in relation to the merger. It did not see the merged entity as being a threat to market dynamics. It did not think the merger would lead to fewer titles being published or lead to fewer best-sellers. It did not consider that there would be more coordination between retailers after the merger.

226. Amazon said that if a merged entity was able to get bigger discounts, this would not push up RRPs. The RRPs had in any case been going up for certain types of books, such as academic titles. The general trend, however, was for average selling prices in the market to decline and that would continue.

227. Amazon said that its pricing structure would not alter if the merger went through. Amazon had been lowering its prices in the deep-title range, regardless of whether competitors had moved in that area. This was because Amazon saw an opportunity to grow its business and a merger would not alter that judgement.

228. City Books said that a merged Waterstone's and Ottakar's would lead to increased buyer power driving up discounts with publishers, price cutting in the market, fewer new books published and less opportunities for authors, particularly in certain genres such as literary fiction.

229. The Society of Authors said that it was deeply concerned about the merger because of its potential to damage quality, innovation and range. Two big chains could spur each other on to do better things and would be encouraged to do different things. It was more likely that the market would generate the right view if there were two central decision-makers rather than one.

230. Amazon said that it did not think that there would be a big reduction in range as a result of the merger. It did not think Ottakar's and Waterstone's ranges were vastly different. Amazon and other players would operate as a constraint to any commercial decision taken by the merged entity to narrow its range, which would cause loss of the merged entity's market share.

231. A publisher said that it was concerned that the acquisition of Ottakar's by Waterstone's would inevitably lead to the adoption of Phoenix v9 for Ottakar stores denying Ottakar's branches the autonomy in ordering titles they currently enjoyed, leading to a serious reduction of range at local level. It based this on *(a)* the experience of its sales force, who found Ottakar's managers more proactive both in new title selection and in recommending and selling books to the consumer, whereas Waterstone's managers were typically more focused on systems and staff administration than on the shop floor; *(b)* the fact that Ottakar had a wider selection of genre-based promotions, with a Science Fiction and Crime Book of the Month selected by panels based out in the stores, unlike Waterstone's where almost all promotions were selected by Head Office; and *(c)* the fact that the Phoenix v9 system meant that although most buying in Waterstone's was formally at branch level, in fact the stores were 'powerless' once a book had been graded by the core

range team. By contrast, although Ottakar's had a core range system, the branches were responsible for reordering, and titles were not automatically replenished.

232. The Publishers Association said that there was the likelihood of several hundred titles a year missing out on the opportunity of promotion as a result of the merger, resulting in a significant reduction in choice for the consumer and endangering innovative and entrepreneurial publishing and authorship.

233. A publisher said that 111 of its centrally promoted titles in 2005 were promoted exclusively by either Waterstone's or Ottakar's. In the event of a merger it thought 41 promotional slots would be lost, equivalent to three or four books a month or around 12 per cent of its annual list. This would be likely to lead to a further decline in title output.

234. A publisher said that it was primarily concerned that the merger would result in increased centralization of buying and the homogenization of the offering of bookshops, with the effect that fewer titles would be bought, promoted and hence published. It was also likely that the merged business would seek greater discounts from publishers and that book prices would increase as a result. If the transaction occurred the publisher might have to cut the number of books on its list.

235. The IPG said that many very small publishers were acutely aware of their size relative to Waterstone's, their dependence on the company, and the limited negotiating room they had with regard to terms. The single biggest concern of the IPG's smaller members was getting their books in to high street shops. It was easier for smaller and regional publishers to place their titles in independent bookshops than in the larger book retailers. The IPG was concerned that the acquisition would give the merged entity more market power in terms of demanding bigger discounts and allow it to concentrate on selling fewer titles.

236. British Bookshops said that the post-merger situation might limit access to the market for new authors or new titles that publishers were trying to promote. If a combined Waterstone's/Ottaker's controlled the market, it would be difficult to get new titles out into the marketplace. Books that appealed only to a small percentage of the population might not be supplied. A new book by a new author would be a greater risk and might not be given a chance, so the new authors would suffer.

237. The Publishers Association said that the centralized buying function at Waterstone's meant, in its view, that decisions about book promotion would be concentrated in very few hands. The publishers said that they doubted whether the strengths of Ottakar's, eg in children's publishing, would come through. This had not happened, for example, when Waterstone's had acquired Dillons.

238. Profile Books said that the key issue for competition arising from the merger was Waterstone's advance order process by which it chose the titles it stocked. Consumer choice would be undermined if the central buyers, dominant in a merged entity, had increasing categories of books they did not back. Profile Books said that it might well not have commissioned *Eats, Shoots & Leaves* if it had been in the position of dealing with an all-powerful head buying team disinterested in that subject.

239. Profile Books said that the retailers already had great power to lay down terms for promotions; it could be 'suicidal' for a publisher not to accept. This power would be further increased by the merger.

240. Profile Books said that centralized buying, not centralized systems, were the problem. Centralized systems, which were essentially about economies of scale, made very good sense.

241. Gardners said that it endorsed the ‘gatekeeping argument’—that in the event of the merger, publishers would lose an alternative outlet for sale of their books. As a supplier, Gardners would far rather see Waterstone’s and Ottakar’s continue separately. If there were only one retailer and it chose not to buy a supplier’s book, the supplier would have nowhere to go.

242. Borders said that the ‘gatekeeper’ argument (that the merger would affect the ability of a publisher to market new books) was slightly subjective. Publishers should be encouraged to think vigorously about different ways to sell or market their books. Borders was certainly open to selling more first novels by new authors and was confident that there were other players who were also interested.

243. The Society of Authors said that it was important for competition to preserve rivalry, whether in the form of the variety of books or the choice of books or the method of selling books.

244. The Society of Authors said that it was concerned about a loss of competition following the merger at both a national and a local level.

245. WH Smith said that there was both a national and a local element to the competitive impact of the merger. The issues associated with buying and advertising were clearly national issues, but there were also specific consumer local issues related to levels of service.

246. WH Smith said that, after the merger, there could be a reduction in price competition and a reduction in range and service levels at the new, merged company. A player with a high market share in the specialist book sector would be able to reduce the range of back-list titles on offer. In addition, discounts might be reduced on back-list titles.

247. Borders said that it was not sure that the merger would have a major impact because Waterstone’s and Ottakar’s competed directly with each other in only 33 out of Waterstone’s 200 locations or thereabouts. It would not lead to a reduction in the number of bookstores, save for where there were already two or more stores trading alongside each other. They were both range booksellers and reducing their range would reduce their attractiveness. Structurally or culturally, Borders could not see that Waterstone’s or Ottakar’s would make a change in their range or service were they to merge.

248. Methven’s said that if the merger went through it would only have a competitive effect in 30 to 40 towns where there was overlap between Waterstone’s and Ottakar’s stores.

249. Gardners said that it was unconvinced by the concerns about possible loss of competition at the local level on non-price factors like range and quality of service. Gardners noted that Waterstone’s itself sometimes ran multiple stores in the same town.

250. The Publishers Association said that there was little doubt that Waterstone’s intended a uniform national approach in a merged entity. The publishers said that it was concerned about the loss of regional diversity, particularly in Scotland, that might arise as a result of the merger.

251. Borders was not surprised by the public concern about the merger, because bookstores created a high level of emotional involvement. Regular book-buying customers developed a particular attachment to a particular store, notwithstanding the fact they might not be totally loyal to that store in their book-buying habits.

252. City Books said that the merger would make entry more difficult.

253. WH Smith said that the merger would make large-scale entry in the specialist segment less likely because of the difficulty in obtaining relatively good buying terms on back-list titles if there were already a dominant player in the market.

254. Tim Waterstone said that the merger might make new entry easier, because he was not confident that the merger would be well managed and a gap might open in the market while the merged entity struggled to get its act together.

255. The IPG said that if the merger proceeded, there might be opportunities for independent book retailers to enter the market in areas where competition had been diminished, although they would face a high level of price competition from the larger chains once they started trading.

256. The IPG said that Borders was a relatively new entrant and had established itself quickly in the UK market. WH Smith might provide another route to the specialist book market. It was currently conducting a pilot with a view to opening outlets solely for selling books. It was unclear whether this would provide smaller publishers with a secure and stable platform for a route to market.

257. The IPG said that it was concerned that if the route to market was consolidated, barriers to entry would become higher thereby reducing the attractiveness, economically and financially, to prospective new entrants.

258. A publisher said that if the merger proceeded, prospective new entrants might be deterred from entering the market by the size of the merged entity.

259. Profile Books said that it did not see the merger having an impact on price issues.

260. The Publishers Association said that if the merger went ahead a possible strategy for publishers in the face of increased pressure for discount was to raise the RRP on a small number of best-selling titles.

261. British Bookshops said that the merger would not affect the selection of books that would be sold, but it would affect the price of books. The merged entity would have increased buying power. In the short term the merger would be good for customers who might receive reduced prices. But the smaller players would not be able to get as good terms and in the long term, with fewer players in the market, there would be less reason to hold prices down and the customer might suffer.

262. The Publishers Association said that its key concern was the loss of promotional opportunities implicit in there being only one major high street chain rather than two.

263. British Bookshops said that it was important that Ottakar’s was in the market to keep an eye on WH Smith and Waterstone’s.

264. Methven’s said that the merger, if it went ahead, might give a ‘breathing space’ for independents because Ottakar’s expansion plans were largely going to be at their expense. A Waterstone’s takeover would keep them busy with the process of assimilation of Ottakar’s. This was a view widely, if privately, held by independents.

265. Methven's said that there were signs that if the merger went ahead the publishers might give more attention than previously to sustaining small chains and independents.

266. Methven's said that the proposed merger, if carried through, would create difficulties for publishers and there was likely to be a shake-out in the industry.

267. The Society of Authors said that if the merger went ahead, Waterstone's would probably pursue the children's market.

268. The Society of Authors said that its membership was totally unanimous in its opposition to the proposed merger of Waterstone's and Ottakar's.

269. Gardners said that if the merger went ahead it would expect Ottakar's to become more corporate like Waterstone's. There would be more control and direction provided to the stores because a company of 330 shops would need some further degree of centralization.

270. Gardners said that some larger Ottakar's branches would probably benefit from Waterstone's larger range in the event of a merger. Since Waterstone's was very sales driven, there was no reason to suppose it would not want to protect and build on Ottakar's strengths in, for example, children's publishing.

271. Gardners said that the merger would not change the current high level of discounting.

272. Tim Waterstone said that the merger could only be justified by subsuming the Ottakar's brand totally in Waterstone's. He saw this (along with deficiencies in Waterstone's current management) as likely to lead to reduction in reader choice, less coverage for local authors, less of the 'middle-range' back-list.

273. Tim Waterstone said that he was completely opposed to the merger. He admired Ottakar's as a bookseller and thought the competition it provided for Waterstone's was important for invigorating Waterstone's.

274. Tim Waterstone considered that the combined market shares of Waterstone's and Ottakar's within deep-range bookselling would represent an unhealthy concentration of ownership in a culturally vital market segment.