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HMV Group plc/Ottakars plc Merger Inquiry

Comments from:

Martin Grindley
Managing Director
Browsers Bookshops Ltd
87 Broadway
Leigh-On-Sea
Essex
SS9 1PF

Telephone 01702 471166
Email:

1. Introduction

1.1 These comments are contributed by an independent bookseller with a total of three outlets in East Anglia and Essex. I am an active member of the Booksellers Association and its former President, Vice-President and Treasurer, though these comments are mine alone and should in no way be interpreted as representing the views of the association or any other of its members. I have been a bookseller since 1975.

2. The Central Issues

2.1 I shall not bore you with my interpretation of book trade history. All you need to know is the result.

2.2 The book trade in the United Kingdom now has, in my view, the greatest disparity in supplier terms between large and small retailers of any retail book trade in the world. In defining terms I include 'on invoice' discounts, credit terms and incentives such as placement money and marketing assistance which large chains often require from publishers for special promotions built around a particular titles or limited range of new titles.

2.3 To be more precise, in Germany, France, the United States, Scandinavia and Japan the disparity in terms between large and small booksellers is roughly 10 to 20 per cent. This is transparent in the United States, owing to the existence of the Robinson-Patman Act legislative environment. In the other countries named above the book trade either has a price regulatory background or historically is less concentrated.

In the United Kingdom the absence of any regulatory background has resulted in a disparity between the smallest and largest retail booksellers of between 35 and 50 per cent, depending on particular suppliers and titles.

2.4 Barriers to entry are not principally availability of capital, though it would clearly be a brave investor who entered a market with such concentrated market leaders. The major barrier to entry is the disparity in terms. Barriers to entry will be raised if this merger is allowed to go ahead, by virtue of the further increased concentration in a relatively discrete and small retail sector.

2.5 When Ottakars went through its major phase of growth in the late 1990s it did so at a time when this disparity was not as large as it has become over the last few years. It also did so by rolling out a business model which was sufficiently distinctive from its major competitors, primarily Waterstones, specifically by targeting openings mainly in smaller towns and cities where Waterstones had no representation and by creating vibrancy and excitement in marketing, customer service and staff.

2.6 With a combined enterprise having even greater concentration in the market, wider representation in smaller towns and an increase in purchasing power over suppliers, it is difficult to envisage the likelihood that any new player would attempt to enter the market or that an existing small player would attempt to grow substantially if the proposed merger were to be approved. Innovation, such as information technology, something which has largely been a success story in the book trade for a number of years, might well decline: all players, including publishers and wholesalers, would perhaps prove less responsive to stimuli for trade-wide developments in the supply chain with the creation of such a dominant retailer.

2.7 In my view, if the proposed merger were to be approved, customer service would suffer, particularly in towns which have representation by both companies and were the current Ottakars branch to be closed. The Ottakars business model mentioned in 2.5 above would not have been so successful without its emphasis on the motivated and focussed delivery of individual customer service at a level which Waterstones have proved largely unable to achieve in recent years. It is unlikely that current Ottakars shops would maintain this ethos under Waterstones' management.

2.8 These outcomes do not predict that price competition for the consumer will be lessened as a result. Sometimes fewer players need not necessarily lead to higher prices or reduced access to products. There are still, arguably, a sufficient number of remaining players such as Borders and WHSmith in the 'terrestrial' retail book market to ensure that price competition will be maintained at no less than its current level. It is likely that some supermarket chains will seek to expand their stockholding range; add competition from internet booksellers into this scenario, primarily the dominant market leader Amazon.co.uk, and it reasonable to expect that product availability will not suffer.

2.9 The competitive environment for smaller independent booksellers is already difficult and it is hard to argue that the effect of this proposed merger would be anything other than marginal.

3. Summary:

3.1 Choice of outlet for the consumer and customer service would decline if the merger were to be approved, though access to products would not be significantly lessened.

3.2 The proposed merger would increase market power over suppliers for the combined enterprise.

3.3 The merger would probably not increase consumer prices.

3.4 Its effect would be to raise the barriers to entry by new players or inhibit growth by existing small players. Trade-wide innovation would perhaps decline.

3.5 Its effect on the independent sector would be marginal.