

Australian Booksellers Association Submission: Bookseller Perspective on Impacts to Local Business from Global Internet-Based Competition

About the Australian Booksellers Association

The Australian Booksellers Association (ABA), an incorporated association, is the peak membership body promoting the interests of booksellers in Australia. Established in 1924 as a Federation, the ABA now acts as the national body representing Australian booksellers. Members range from independent bookstores to chain and franchise shops, as well as specialist, second hand, antiquarian, academic and educational booksellers.

The ABA has approximately 500 bookseller members representing between 6,000 and 8,000 owners and employees, as well as 100 small and micro-publishers who have associate membership status; representing approximately 75% of businesses that identify as booksellers.

How have [booksellers] coped with changes to the sector's landscape brought about by the existence of global online retail business?

The state of the sector

Australian booksellers are the '*canary in the coalmine*' of Australian small businesses faced with global internet based competition, as they have been exposed to the challenges created by global internet-based competition since 1996. Books were the first product sold on Amazon and are still the main product associated with the public's perception of the Amazon model of global internet retailing.

In the past 20 years Australian booksellers have faced and had to respond to:

- The continued and inexorable rise of one dominant internet retailer in the English speaking world for the sale of books
- The imposition of sales tax on books – Australia is one of the few English speaking countries that imposes sales tax on books
- The development of ebooks and closed or proprietary distribution models and environments for digital texts and content
- The worldwide failure of 'big box' book retail
- The significantly higher than elsewhere costs of business including rent, wages and freight

Despite these challenges, the Australian bookselling sector is one of the most vibrant in the English-speaking world, with a comparatively healthy independent bookselling sector sitting alongside successful chain and franchise operations, educational and academic bookshops and specialist booksellers

Excellence in bookselling as a response to global competition

Recently, several Australian bookstores have been recognised internationally:

- In 2016 Readings (Melbourne) was named 2016 International Bookstore of the Year at the London Book Fair
- In 2017 Kay Craddock's (Melbourne) was named one of the most beautiful bookstores in the world
- In 2017, The Little Bookroom (Melbourne) celebrated 58 years of trading, the world's oldest specialist children's bookstore
- Booktopia (Sydney) started about 15 years ago as an online bookstore operating out of a garage. It now turns over nearly \$100 million per year, and is the largest Australian internet bookseller, with many awards as an outstanding and innovative online retailer.

Excellence in service is a byword for many bookstores and these bookstores are just a few of many businesses that have aspired to do better for their customers. Excellent customer-focused and community engaged bookstores operate in CBDs, suburban 'High' streets, shopping centres, regional towns and cities and on university campuses, contributing to local economies and enriching local communities across Australia.

Such a strategy must be one of continuous improvement. Currently training and skills-based learning is *ad hoc* and created by individual bookstores. Bookselling is a complex art and requires training and updating in a wide range of book related as well as digital skills. Whilst there is graduate and post-graduate training in the field of publishing, there is no equivalent for booksellers. The re-establishment of vocational training or support for Industry Association led training and conferences will be crucial to ongoing improvement in this area. The ABA welcomes any effort on the part of Government to improve skills and training in the bookselling sector.

The collapse of REDGroup

The failure of the REDGroup (Borders and Angus & Robertson) in 2011, with the loss of 139 bookstores, and close to 2100 jobs, was inaccurately represented as the *death knell of bookselling in Australia*.

In an analysis produced for 'The Conversation', Kwanghui Lim, Associate Professor in Strategic Management, Melbourne Business School, argues that there were a series of strategic blunders regarding the failure of the REDGroup bookstores.

In his conclusions, Associate Professor Lim says, "In many industries, firms that have survived large waves of change had to creatively diversify and adapt. For example, when travel agents became increasingly irrelevant, American Express morphed from being a travel services firm into a financial powerhouse. "

In this context, REDGroup, as a big-box retailer, with high fixed costs of business and a business model driven by size and competition on price alone, failed to respond to the Internet and its customers... REDGroup remained a traditional 'big-box' book retailer to its end, with attempts at selling e-books, gifts and other operations hardly making a dent, and no serious attempt made at selling books online. It wasn't the Internet that killed REDGroup. They failed to adapt and learn how to exploit the power of the Internet.'

Expansion of stores as a response to global internet based competition

Putting aside the anomalous collapse of the REDGroup, over the past 5 years there has been a small but steady increase in the number of bookstores in Australia including the following examples of existing bookstores that have expanded over that period:

- Readings Books & Music: Growth from 4 to seven shops by the end of 2016 (Vic)
- Avenue Bookstore: Growth from 1 to three shops by mid-2016 (Vic)
- The Sun Bookshop: Growth from 1 to two shops (Vic)
- Robinson's Book: Growth from 1 to 7 shops (Vic and ACT)
- Avid Reader: Expanding from 1 to 2 shops (Qld)
- Berkelouw Books: Several 'brands' including Berkelouw, Harry Hartog and Bookface – total of 20 shops, nearly doubling in last three years (NSW, ACT and Qld)

Bookselling is a capital intensive business that requires high levels of stock/inventory to be held. Expansion is not a solution for all bookstores as many are capital constrained due to the high level of inventory expected to be held by their customers.

Creating online stores as a response to global internet based competition

Over the past 20 years a significant Australian online commerce presence has developed – both stand-alone online retailers like Booktopia and independent and chain booksellers – including Readings, Collins Booksellers, Abbeys, Dymocks, and Gleebooks.

Due to a lack of transparency about the sales of Amazon and its subsidiaries in Australia it is difficult to say what portion of the online market these bookstores have, but anecdotally, the industry acknowledges that Amazon is and probably has been the largest book retailer in Australia for some time. The Australian Bureau of Statistics (ABS) has not measured the Australian book industry for over 20 years. With the advent of new significant players it would be prudent to start measuring the Australian book industry again via the ABS.

For the reasons noted below, not all bookstores are able to easily create online e-commerce websites. For small and micro businesses, the significant costs of creating a viable online store so as to compete with global online retailers or even large Australian online book retailers are, without significant improvements in technology and supply chain processes, unviable. And even with those improvements, many small and micro businesses will be capital constrained from investment.

Shop local movements and community engagement as a response to global competition

Sales trends over the last several years indicate that readers, and consumers generally, wish to shop locally if they have the opportunity to do so. The various spontaneous and consumer led 'shop local' movements across Australia confirm that there is a great deal of social capital gained by people who can walk or make a short drive to shops, see their neighbours and be recognised by their shopkeepers. The importance of this social capital can't be overstated.

Bookstores are a key component of that 'shop local' experience, and are active cultural and social hubs for their local communities engaging with schools, young readers, community groups and local charities.

Many small to medium bookstores have effectively engaged with their local communities through in-store and community events, collaborations and community engagement.

Continued engagement by all levels of government for festivals, cultural events, forums and venues where Australian communities can engage with literature, knowledge, artists, thinkers and authors – places where books can be sold is required.

'Bookshops are frequently owned by people living locally and employing local staff. They are anchor businesses in local communities around Australia.'

- Fiona Stager, Avid Reader and Where the Wild Things Are (West End, Brisbane),

Local bookstores importantly also provide choice to consumers by stocking carefully curated products relevant to their communities and having them available for immediate purchase.

The Consequences of Global Internet Competition

At the same time, it is increasingly clear that consumers wish to have the convenience of the option of shopping online and that consumers now take full advantage of multiple ways to discover and purchase books. Australian bookstores welcome fair competition.

Notwithstanding the vibrant state of bookselling in Australia, and the effective use of various strategies to respond to global internet based completion, bookselling, and retail in general is currently fragile. Economic factors beyond the control of small business owners are affecting retail businesses across Australia. Rents remain high by world standards. Wages, despite stagnant wage growth, also remain high by world standards. In this environment, Government leadership to support and sustain small business in continuing the transformation to the digital age is crucial.

For twenty years, Amazon and its wholly owned subsidiary, Book Depository, has been supplying books online to Australia from the US and UK. This has resulted in unprecedented challenges to retail operations in Australia of all shapes and sizes – from small ‘High Street’ shops to franchise and chains to suburban shopping malls; mixed online/bricks and mortar businesses; and to directly competitive online retailers.

The effect of the ubiquity of Amazon/Book Depository/AbeBooks (all owned by Amazon) in the marketplace has been to have the consumer treat them as – effectively – a local business, even prior to their very recent entry into the domestic online retail distribution space. Their ability to undercut prices – frequently selling at below what small to medium sized bookshops pay at wholesale price is unprecedented. Their pricing model suggests that books as a category have been treated as loss leaders to gain market share and to data mine.

It is important to note that in this context, whilst consumers have received cheap prices, Global Internet-based retailers have rarely if ever disclosed a taxable profit.

E-books were touted by some – mainly those with a vested interest – as being the death knell of the physical book – with some suggestions around 2010-11 that within five years 50% of book sales would be digital (E-books).

Amazon’s Kindle has approximately 85-90% of market share of E Books world wide. The market for E Books has rapidly matured and is now relatively static. The reality is that after getting up to 30-32% of US and UK markets, it has dropped back to around the low 20s, with much of that confined to genre (romance, thrillers, erotica) fiction that has not been a significant part of the traditional bookstore for many years. In Australia E-book sales never reached 20%.

What are the consequences for bookstores in terms of new competition and access to digital platforms?

The Consequences of New Competition

Australian booksellers welcome fair competition on a level playing field. Unfair competition will be prejudicial and may cause bookstores to close.

The Consequences of access to Digital Platforms

Some Australian bookstores (mostly second-hand or antiquarian) have used third party marketplaces such as eBay and AbeBooks successfully but not many are completely happy with the option. Most do not; partially because of the range of books required to be listed and partially because the fees and terms and conditions applied result in significantly reduced margins.

Using marketplace style aggregator websites is generally not a good fit for new bookstores and they are not widely adopted.

The anecdotal experience from overseas markets (authors, booksellers and publishers) is that vendors in third party marketplaces run a significant risk of either their customer database being taken over by the marketplace or their products being replicated or replaced in the marketplace by copies, grey market imports or even remainder and hurt books.

Before new bookstores could safely and confidently use third party marketplaces a number of significant trade practices, copyright and privacy issues would need to be addressed. Even then the cost of access, given the significant number of titles that would need to be listed would likely be prohibitive

Similarly websites that are not curated but rely on third party data feeds for book and product meta data are not widely used in Australia; again partially because of the cost, but also because the content and data is not exhaustive or sufficiently Australian.

For example, recent nominees and winners of the Miles Franklin Award and the Prime Minister's Literary Awards, particularly those from small Australian publishers are not all listed on some overseas databases or digital platforms managed by Global Internet Based Competitors.

How are [bookstores] responding to digital change and what is their uptake of new digital business services?

Bookstores are and have been responding to digital change over the past 20 years in a range of ways depending often upon their size and location. Change has often been incremental and small due to the cost of new digital business services and the continuing poor retail economic environment in Australia

Databases & E-Commerce

New bookstores are different to a fashion store or a retailer with a bespoke limited number of products.

There are millions of books in print in English and approximately a million new books are published world-wide in English every year; most of which are available to Australian booksellers to sell to their customers. Australian booksellers are now highly reliant on industry based book metadata and databases to enable the sale of books to customers.

Addressing the need for quality data, the Australian Publishers Association (APA) set up some years ago, TitlePage, an online service for the benefit of the book industry to provide a free user-friendly price and availability service for booksellers & suppliers to search all titles available in Australia. TitlePage has been having a significant – and ongoing upgrade over the past 2 years – and the ABA and APA are working collaboratively on improvement of the service, book product metadata and ways in which the service can better support booksellers in Australia.

Despite the establishment of TitlePage, Australian booksellers are continuing to struggle to manage the sheer volume of data available to them either instore or as online ecommerce stores.

The bookselling industry in Australia is not large and development of sophisticated book industry specific point of sale systems (POS) (for what is a uniquely large set of data) is not a commercial priority for software vendors. Most bookstores operate POS systems that have not had been integrated well with Web2.0 technology if at all and most don't cater for or integrate with modern customer communication tools such as social media.

Software cannot be imported from the US or the UK for a variety of compliance and copyright issues.

Larger bookstores (for example Booktopia, Readings, Dymocks and others) have invested heavily in proprietary or customised digital technology – setting up websites with large databases – with e-commerce capacity. Many larger stores have invested in more sophisticated, and again proprietary or customised POS and data management systems instore as well.

Notwithstanding this, because of the sheer volume of the product range the customer expects from a bookstore, many of the new and innovative digital retail platforms, products, channels and technologies being trialled in other retail sectors cannot easily be adopted or are not available to booksellers.

Most new bookstores and almost all of the smaller bookstores do not have the capital to invest in proprietary or customised digital technology. Industry solutions are constrained due to a lack of investment capital and limited potential technology partners

What impacts do the above have on employment, including employment levels and conditions?

Employment levels in the bookselling industry have decreased over the past 20 years. The main loss of jobs in the sector was caused by the failure of the REDGroup. However changes in technology, customer behaviour and retailing costs are also having an effect making bookselling a more marginal business.

As supply chains become more efficient and computerised, less staff are needed for stock management, ordering and retail sales. The rise of online sales for some of the medium to larger booksellers has led to a transfer of staff levels from traditional customer facing retailer positions to back-of-house effectively logistics positions. There has also been a small increase in employment of customer facing marketing and communications roles with the rise of social media, email newsletters, blogs etc.

Notwithstanding the more recent increase in the number of bookstores, employment levels have anecdotally remained broadly static since the collapse of the REDGroup. The reasons for this are:

- Technology is allowing bookstores to do more with less staff; particularly in relation to book cataloguing, customer communications, accounts, payments and non-customer facing roles.
- the 'death of a thousand cuts', where because of difficult economic conditions and the continued high costs of business, small and micro bookstores are having to reduce staff levels, or do more with less.
- Small and micro business owners are having to work more and more hours, and reduce their casual and permanent staff levels.
- Vocational programs for training and education of bookselling staff have ceased

What roles can the Commonwealth Government and Parliament play in fostering innovation for Australian businesses in responding to this change?

Global internet based retailers broadly rely on being 'disruptive'. In all cases, whether it be Uber, Amazon, Spotify or any other digital retail or service business the competition seeks a competitive edge by avoiding or seeking loopholes in legislation, Government policy settings, and/or fixed business costs. In other words they seek to compete only on "un-level playing fields".

Global internet based retailers have done this and perfected many of the models for doing so in the USA, the UK and Europe over the past 20 years. There are many lessons to be learnt from the experiences and responses of these jurisdictions. We have attached several reports from the US and the UK outlining some of the issues encountered in these jurisdictions.

For many small businesses, remedial action by Government to close loopholes or rebalance the environment in which they complete - will be too late. For example, the decision to close the GST loophole is welcomed and supported but it comes almost 17 years after the problem was identified and throughout that period Australian booksellers have been at a structurally imposed 10% disadvantage.

With the expansion of the digital economy also comes the potential for the expansion of the digital criminal economy. Cyber security is paramount to small businesses for conducting good and safe business with consumers and suppliers.

As a broad principle, the Australian Government should act proactively to ensure that Australian small businesses are at all times provided with a fair, safe and level playing field so that they can compete fairly and energetically against Global Internet Based Competitors and:

- Sustain and create more Australian jobs
- Pay Australian taxes
- Support Australian authors and creators
- Build and support Australian communities
- Engage in safe and fair commerce

Recommendations:

There are numbers of significant areas that the Commonwealth Government and Parliament can play in fostering innovation and ensuring a diverse, sustainable and beneficial Australian small business economy in the book industry.

Level Playing Field

The Commonwealth Government, and the Australian Parliament through legislation must ensure that the online providers from off-shore, or global companies who establish 'beachheads' in Australia are not provided government subsidised pathways to profitability in Australia either by direct or indirect subsidy or by omission.

In particular:

- Until 1 July 2018, offshore providers get an automatic 10% 'discount' on retail prices by not having to pay GST on purchases of less than \$1000. This is unfair, inequitable, and has created a significant black hole in the Australian economy over the past 17 years. The ABA supports the implementation of the current legislation as soon as possible. The ABA also supports the extension of the legislation to low value threshold users in a way that is consistent with the application of GST to all Australians.
- Laws and enforcement regimes must be in place to ensure that global businesses whether digital or otherwise, operating in Australia, do not use 'transfer pricing' laws to send money that should be going to the Australian Tax Office to their overseas companies in low tax collecting countries. The current legislative efforts of Government are a good step in the right direction but there is a lot more work to be done. The ABA supports further reform in this area and calls for further support for the ATO, ASIC and ACCC to ensure that Australia is not being 'ripped off'
- No subsidies should be provided at any level of government (Federal, State or Local) to Global Internet Based Competitors trading within Australia regarding PAYG, property taxation or any other form of tax advantage that is not available to local businesses.
- Additional support should be given to all Government agencies including State and Federal Small Business Commissioners charged with ensuring business compliance with Trade Practices and Consumer Protection law, Employment law, and Workplace law to enable them to proactively ensure compliance by Global Internet Based Competitors with Australian law and business standards.

Training

As noted above, there is currently no formal skills based training available to booksellers. Government support for vocational, adhoc or Industry Association led training would address some of the sustainability issues identified and assist small and micro booksellers transition to the digital economy.

Cyber Security

Bookstores today are highly reliant on safe telecommunications, payment processes and computers. The ABA notes and agrees with COSBOA's concerns about the importance of cyber security for small business and calls for Government action and support in this area to ensure a safe as well as level playing field for the digital economy.

Freight & Logistics

Australia Post provides a unique backbone service for the delivery of goods from a retailer (digital or traditional) to their customer in Australia. Even where a retailer uses a private courier or logistics business, Australia Post is, in many cases, the provider for the final leg of delivery. Australia Post is the only freight provider with a complete national reach and has an effective monopoly on the ability to deliver to all Australian consumers.

Global Internet Based Competitors seek to minimise costs in a number of ways. Exploitation of the UCCI on postage into Australia is one way in which Global Internet Based Competitors have made a profit on the sale of goods into Australia to the detriment of Australia Post and the Australian economy.

Government must act to ensure that under the UCCI Australia Post is not forced to carry goods for Global Internet Based Competitors for less than the cost it charges Australian small businesses. Treaty obligations regarding international post should not disadvantage Australian businesses

Australian small businesses should also not be in a position of effectively subsidising the Australian freight cost for large business. In other words, Amazon should not get an effective subsidy from Australian postal rates cheaper than local small businesses can get from Australia Post

Government must ensure that small business have equal effective and fair access to logistic services, particularly those owned by Government, to enable them to compete on supply and delivery.

Business Costs

The Government must continue to encourage small business investment in the update of digital services by reducing barriers to making investment and making investment affordable:

In particular:

- The current ATO small business asset write off program allowing assets of up to \$20,000 to be written off should be continued and extended to allow for additional amounts for investment in digital services, particularly ecommerce sites.
- Further, the Government should provide targeted support for digital innovation by retail businesses and or Industry groups such as the ABA and APA by providing innovation grants, tax benefits or low-interest loans for businesses wishing to develop e-Commerce on their website or in their industry sector.
- The NBN program is crucial to small business and investment by Government should continue to ensure that all Australian small businesses and consumers can leverage the benefits of the NBN fairly and to enable fair competition
- Government and the ACCC should continue to monitor the market for telephony, internet services and digital infrastructure to ensure that Australian small businesses are paying a fair price for their digital assets and footprint.

The Government must continue to reduce the cost of doing business in Australia. In particular:

- Support innovation through the development of an e-invoicing platform or e-invoicing platform standards for Australian business to reduce back office and supply chain costs
- Banking and finance imposts should be where possible reduced or removed. Bank profits are large. Whilst 1.5% for accepting a credit card may not seem much, when a business's net profit is less than 8% after tax, 1.5% is a very large amount.
- Where banking services are underwritten or guaranteed by the Australian Government, Global Internet-Based Competitors of small business should pay the same basic fees as Australian small businesses.
- The imposition of costs for retail businesses to collect non-cash payments should be reduced. The undisclosed costs on 'tap-and-go' payments should be made transparent and surcharge able or at least selectable by the bookseller.

Better Measurement and Understanding

To ensure Government investment and effort is correctly developed and applied, Government needs better information about the bookselling industry. In particular

- Funding for measurement and analysis of the Australian Bookselling Industry, particularly in relation to the digital economy, by the ABS should be reinstated. Provision of this data and analysis has been recommended by the Productivity Commission, the Harper Review and other Government inquiries and bodies. Data on the Australian book industry has not been updated for almost 20 years.
- The Book Council of Australia as originally proposed should be re-established and fairly funded to ensure a co-ordinated approach to preserving and promoting Australian books, voices, and culture.
- Given that the small business sector of which booksellers are a small part, is the largest aggregation of employers, voters and participants in the Australian economy, it would be helpful for small business to be represented in Cabinet.

In closing we submit that in facing the challenge of the digital economy over the past 20 years, Australian booksellers have already been innovative, energetic and resilient.

As an industry that does not receive any subsidies, booksellers have done what they can within their often their limited resources (capital and access to digital technology) to sustain themselves to this point. However without Government action, innovation and support Australian booksellers like many Australian small businesses run the risk of being overwhelmed by Global Internet Based Competition.

We are available to appear before the inquiry if you have any queries arising from this submission.

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Tim White (*per Joel Becker*)
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Attached are the following documents

- A report produced by Booksellers UK & Ireland - Bookselling Britain: The economic contributions to - and impacts on - the economy of the UK's bookselling sector
- Amazon and Empty Storefronts – A report prepared by Civic Economics for the American Booksellers Association

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