

13 September 2012

Honourable Nick Champion MP
Chair
House of Representatives Standing Committee on Infrastructure and Communications (the "Committee")
Parliament House
Canberra ACT 2600

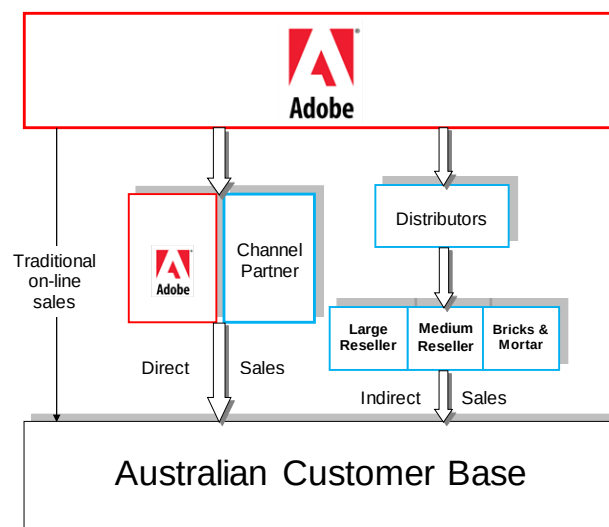
Dear Mr Champion,

Thank you for your letter of 15 August 2012. As requested, Adobe can provide further information to assist the Committee. Adobe Systems Pty Ltd. ("Adobe Australia") contributed to the Australian Information Industry Association (AIIA)'s submission dated 6 July 2012 to the Inquiry into IT Pricing (the "Inquiry"). Adobe Australia was also represented at the public hearing on 30 July 2012 by the AIIA's Chief Executive Officer Suzanne Campbell.

Adobe Australia is primarily a sales and marketing subsidiary of Adobe Systems Incorporated covering Australia and New Zealand. Its business is to supply software packages to a broad range of private, business and government customers. The software packages are important tools that our customers use in producing high-quality documents, images and audio-visual material.

Adobe directly employs approximately 166 employees and has offices in Sydney and Melbourne. Adobe also has a subsidiary set up in Wellington, New Zealand.

It is important to note that the number of people working directly for Adobe is only one part of a much bigger ecosystem that is engaged in supplying and supporting Australian customers. Adobe works together with many other contributors, including over 500 channel partners, to deliver the best products and services for customers. Together these parties are called the local ecosystem¹.



Adobe's channel partners include individual and chain-store retail businesses which make our products available to the general public throughout Australia in shrink-wrapped packages and also

¹ Local ecosystem includes Adobe Australia employees, channel partners, partner employees and customers.

IT services companies who work with businesses to purchase, install and integrate our products. In some cases the latter work as a team with our own staff directly with the customer and in other cases these IT companies purchase and re-sell our products. In many instances, channel partners provide their own value-added services and software to the software provided by the vendor, creating total solutions. These are often specifically tailored to meet a particular business requirement for a specific industry sector. In many instances, these solutions and services have been developed by Australian businesses, and represent local innovation and entrepreneurship.

It is important to understand that around 85%, the vast majority of Adobe sales, flow through local channel partners. Adobe's local channel ecosystem is estimated to employ around 3,000 people in Australia.

The Committee has received a number of submissions that refer to 'Adobe's prices' and these are mostly references to prices of software that are available in our online store. It is important for Adobe to make its products available to customers online, but this is only one channel to market available to our customers. Direct sales and sales through our channel partners are also very important for effectively supplying and servicing our Australian customer base and ensuring the success of the Australian business.

As the software industry continues to transition to the cloud and on mobile devices, we need to continue to stay closely connected with our customers in each of the markets that we serve. Delivering the best customer experience is highly dependent on the ecosystems that we have developed in each of our markets.

While each local market has incredible opportunities, Adobe continually faces threats ranging from piracy, competitive offerings and free open source alternatives. In this overall context, Adobe depends on each local ecosystem to be a successful stand-alone business.

Since we conduct most of our business through our 500-plus local channel partners, the majority of the costs of the ecosystem as a whole are incurred locally and in local currency. The cost of doing business in Australia is higher than in North America, as has been noted by many companies, as well as the Productivity Commission's Retail Inquiry which reported in 2011.

Both suppliers and customers would like to be able to enjoy the benefits of favourable currency movements and avoid the costs of unfavourable currency movements. However, fair and efficient pricing needs to strike a balance between upward and downward currency movements.

Since most of our business is derived from the local ecosystem, Adobe has an AUD price list which ensures our distributors can always purchase from Adobe in AUD. This leaves the foreign exchange rate risk to be carried by Adobe.

Adobe is working to deliver greater value for our customers through cloud technology. One example of this is the introduction of our Creative Cloud Membership (CCM) solution in April 2012, a new subscription-based business model which has been met with enthusiastic response from customers, channel partners and the media.

With the introduction of Creative Cloud, and subscription pricing, Adobe creative products have become significantly more affordable to our Australian customers. For example, annual subscribers paid A\$199/month for a subscription to Master Collection CS5.5, and now pay A\$62.99/month for CCM. That's a reduction of 68%. CCM includes access to all of the products in Master Collection, plus more.

Customer reaction has been enthusiastic, and media and industry commentary has been very favourable in terms of recognising that this pricing represents significant value to Australian customers:

"You can access the entire Adobe Creative Suite for a minimal monthly fee. Adobe has gone for broke and provided not only storage space for your files and a way to access them from anywhere, but it has also given you the ability to pay for your software by subscription at prices that make its software accessible and to a lot more people than ever before." – PC User Magazine

"The attraction of the Creative Cloud membership is it takes away that initial purchase cost and spreads it out for as long as you want to stay subscribed." – Tech Guide²

"And how much will this subscription cost? Creative Cloud membership comes in at \$62.99 per month for annual membership or \$94.99 per month on a rolling subscription. That could make the full CS6 package far more accessible to casual users, even if it's not quite the bargain you'll find in Adobe's Touch apps for tablets." – PC&Tech Authority³

Adobe is aware that the Federal Treasury has recently provided a submission to the Inquiry. The Treasury submission outlines the many reasons for price differentiation and points out that the issue is neither new nor unique to the IT sector. The Treasury submission also states there are a range of factors affecting supply and demand and that the global marketplace is developing and changing rapidly. Adobe agrees with the Treasury's view that businesses should be free to independently set their own prices in the marketplace in Australia and around the world.

Adobe believes that allowing competition and innovation to flourish in the global marketplace is the best way to deliver the ultimate technology, services and prices for consumers. The Australian market has responded favourably to the new solutions and pricing models that have been introduced.

Yours faithfully,

Paul Robson
Managing Director
Adobe, Australia and New Zealand

² <http://www.techguide.com.au/reviews/computers/1059-adobe-launches-creative-cloud-and-cs6>

³ <http://www.pcauthority.com.au/News/298116,adobe-cs6-introduces-pay-as-you-go-creative-cloud-licence.aspx>