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Submission to ACCC in response to ACCC Draft Notice in respect of a notification lodged by
Australian Baseball Federation Inc for its Merchandise Licensing Program
Date 16 June 2006
Notification no. N90853
Public Register no. C2001/391

To Commissioners	Samuel
	Sylvan
	King
	McNeill
	Smith

We have read with interest submissions to the ACCC regarding the impact of the ABFs merchandise licensing program on –

The price of licensed goods and subsequent impact on the baseball consumer
The competition within the market place & potential for anti-competitive activity

and would like to make the following contribution to the deliberations regarding the future of the ABFs program. Please note our request for quoted prices not to be published.

1. Background

Addlon Trading is widely considered within the industry to be the largest supplier of Baseball equipment into the Australian Market.

We represent EASTON Baseball USA as their distributor in Australia and sell other brands.

We have not been approached previously regarding the ACCCs investigation of the ABFs program.

Addlon has participated in the License Program since its inception for Balls and took up Clothing license during the 2005-2006 season, selling ONLY pants in this category.

2. Ball Prices

Ball Prices have not been increased as a result of the ABF License Program. Below are prices of our most popular competition ball and the largest contributor to Addlon's payments to ABF.

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Addon represents 20% of the 6,500 dozen balls captured by ABF in its program. We also note that balls used in junior competition (t-ball) are not captured within the license agreement.

3. Pant Prices – Our Listed W/Sale Price (not for publication please)

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As a new competitor entering the pants market, our pricing was determined by the existing competitors. In order to be effective in the marketplace with a product that offered no benefit over the opposition we were forced to meet or improve competitor pricing and absorb the 7.5% royalty.

As yet, Addon represents an insignificant figure in licensed pants sales.

It should be noted that Tops used for competition commonly remain the property of the club and are replaced only every 3 years or so on average. The royalty is only paid upon purchase, not every season/year.

4. Market Size

There is only anecdotal evidence suggesting that Wholesale value of the total equipment market, including Bats, Gloves, Balls, Footwear, Apparel, Bags and Accessories is between 4.5 – 5 mil. AUD.

Due to the fragmented nature of this small market and a lack of formal sources of information, estimates of market size have a large variance.

Retailers importing and selling direct to end user clouds estimates of wholesale value.

The total royalty revenue of the program at \$52k represents a little over 1% of the estimated total sales.

5. Influences on Pricing & Competition

The independent submissions and the ACCC paper refer at times to the license program as a detriment to fair competition, but market forces have such influence that the impact of the license program is nearly insignificant in our opinion by comparison.

3 of the 6 Major retailers import much of their product directly from US distributors and manufacturers to sell direct to the end user. Distributors of major brands, selling to Retailers for on-selling to consumers are “kept honest” as a result.

The internet is a major source of supply for much of the equipment used in baseball and purchases via the internet represent an ever increasing % of the market, both for consumers and savvy retailers & clubmen doing grey market business. These sales also keep domestic pricing down while contributing nothing to local coffers.

Both these sources for product enormously out weigh the *1% gross of w/sale sales* impact that licensing has on pricing, not even considering the benefits side of the contributions.

6. Competitors

By the ACCCs own count, there are 32 clothing licensees and 10 ball licensees. This in a market where sales of ALL Balls & Clothing are around \$AUD1million W/Sale. It is folly to suggest that the license program is anti-competitive when there are no limits to the number of competitors nor available sources for products.

Consider that under these market conditions it is near impossible for any single competitor to reach volumes or economies of scale that would allow it to purchase raw materials or finished product at the best available price. It could be argued that with so many competitors in such a tiny market that limiting the number of licensees may allow better pricing to be achieved as stronger competitors gain market share and consequently achieve better buy prices via their increased volumes.

Indeed we note that bad debts were accrued as a result of some licensees unable to remain in business, perhaps contributed to by having too many licensees.

7. Weigh Detriment against Benefit

The NET result of licensing is only evident when the detriment of a small payment is weighed against the benefit gained as a result of the dollars earned by the program. If the states who receive the funds (starting early 2006) make good use of them this must outweigh the burden shared by the total consumer pool.

Compliance Costs are mentioned as a detriment in 6.20 of the Draft Notice, but no hard example is given –

If umpires are checking equipment for compliance with the “rules of the game” then the cost of this extra check is not significant.

If Suppliers are interested in helping to grow the game by contributing a % of sales, the modest cost of compliance is not a detriment.

This is all coloured by an environment where corporate sponsors are increasingly dis-interested in minor or second-tier sports and as a result new revenue sources are essential for administrators to search out. Refer to paragraph 6.23.

The conclusion in paragraph 6.36 claiming the program in “unlikely to (deliver the intended benefits) in the future” seems to contradict comments from 6.25 & 6.26 recognising “some improvement in the capacity of the program to make returns” since the ABF took control from Victorian Baseball.

The ABF should be applauded for their initiative and allowed to proceed while there is even a modest NET benefit to its constituents.

8. Dealings with ABF

When the program was administered by Victorian Baseball we seriously considered walking away from it. Since taking over, the ABF has shown a clear intention to engage with licensees. This began with consultation regarding how the program could best be run & improved if taken over by the ABF.

As a licensee we are advertised by the ABF on their website.

As a licensee we are offered promotional opportunities with ABF initiatives when they arise.

Administration of the license agreement is simple, our reports being generated at quarterly intervals and payments forwarded. It is not a difficult nor time consuming activity.

9. Standards of Equipment Used

International Baseball Rules stipulate certain standards for equipment used under the rules of the game. Presumably, the standards ensure that the equipment is safe for use in the game.

To date, licensees have not been closely scrutinized regarding the specification of products sold under the licensing program.

The License Program would be a useful tool to ensure that ALL products meet the standards and that only suppliers whose product meet the standard could become licensees, thus giving the license a further practical use and increasing safety levels for its players.

10. Conclusion s

Addlon / Easton Ball & Pants Prices have not increased as a result of the Licensing Program

32 Clothing & 10 Ball Licensees continue to ensure healthy competition in the market place

The internet and direct imports by retailers continue to create downward pressure on prices & margins

We applaud any initiative that returns revenue to state associations in a climate where corporate sponsorships are increasingly difficult to negotiate – there is no license on balls used for junior t-ball.

We welcome the program being used to scrutinise the quality of product used in competition

Communications over license issues have improved since ABF took control of the program

We believe that the benefits outweigh the detriments resulting from the license program and that in any deliberations, only the NET result should be considered.

Thank you for the opportunity to contribute and please feel free to contact Tony or Steve for any further clarification.

Sincerely
Steve Lumley & Tony Zucconi