

2/4/15

**Ms H Ransom**  
**Senior Project Officer | Adjudication Branch**  
**Australian Competition & Consumer Commission**  
**23 Marcus Clarke Street**  
**Canberra 2601**  
BY EMAIL

Dear Ms Ransom **RE: A91472 – magazine publishers of Australia**

I have been a newsagent and retailer since 1992 and have over that time experienced the benefits and costs of deregulation upon the newsagency industry. Below I have outlined my thoughts in regards to the application of the MPA. I apologise in advance for my ramblings as I have done this at short notice.

If any changes need to be made a truly transparent process and account of the industry should be considered.

It is obvious from the MPA application that the distributors are paid for distributing magazines not for what is sold. (“the proposed changes will reduce the number of magazines distributed to more closely match demand. If this occurs distributor revenue is likely to decline.”) Anything that matches supply with demand is the most economically feasible outcome.

Secondly, newsagents are and have been subsidising the current model with no competitive advantage. By handling, processing and returning excess magazines for no revenue (unlike the distributors, Network Distribution, Gordon & Gotch etc. are paid to handle and process, including returns, all magazines).

Thirdly it puts newsagents at a distinct disadvantage to the supermarkets that do not have to stock a large range of unsaleable or slow selling titles. Or to put it another way it gives the supermarkets a distinct competitive advantage over the newsagents, by allowing them to choose the most profitable magazines that suite their customer base and refusing to stock unprofitable magazines within their stores. If the supermarkets become the sole distribution outlet (due to the anti-competitive contracts offered to newsagents) the consumers and independent publishers will be the losers. Newsagents have and will diversify their businesses to stay profitable.

The claim “This reduction is likely to be recouped from publishers in subsequent negotiated increases in distribution charges. Ultimately, if these increased distribution costs are not covered by increased magazine sales, publishers may seek to recover this cost in the cover price of the magazine” again shows according to the MPA, that newsagents are subsidising the cover price of the magazines by handling such returns, because if newsagents didn’t the cover price is likely to go up.

Why will the cover price go up, sales shouldn’t decrease so distribution costs like printing should go down (less copies printed), and freight should go down, less items needed to be freighted. Or do they rely on stolen copies and missed returns to prop sales up above normal. Or do they rely on excess distribution for advertising rates within their magazines.

The distributors will be able to reduce their costs by handling fewer items, or are they making unnatural profits by doing so.

The ACCC should seek out the relevant profitability within the industry to see where the burden of these costs lie and who is profiting from this cartel based system, starting with Publishers, down through the supply chain to Distributors, the Supermarkets and finally Newsagents.

This is a unique opportunity for the ACCC to increase its scope and introduce efficiencies into the system for the public and consumer benefit. The industry is obviously undergoing change and has challenges ahead with technology and peoples habits changing. The dominance of the supermarket majors (effectively running an oligopoly) has changed the shopping habits of consumers, at the detriment of small retailers. This is part of a competitive world. But it is decisions, such as the deregulation of the magazine industry, which did not fully take into account the public benefit of the original system that can cause unforeseen negative effects. Just because it was a closed system does not mean it was an inefficient system. It in fact it was a very efficient system and one envied by publishers and distributors world-wide. It is still one of the best magazine markets in the world. By deregulating the magazine industry the ACCC has not achieved any reduction in prices for consumers; they are effectively controlled by publishers and the same system wide. The only real benefit to consumers is the availability of magazines now in so many outlets, which was and could have been provided under a sub-agency system. This does not mean that deregulation shouldn't have happened; it just was not and is not done on an equal footing and therefor anti-competitive.

The cost to consumers now is the reduction of titles and space, magazines are allocated by newsagents, and in extreme cases the closure of newsagents over burdened with a supply system that refuses to allow them to adjust or have a competitive contract with the supermarket behemoths. The newsagency system allows for the entry of independent titles into the market, which keeps the barriers of entry low, without it the cost of entry into the supermarkets would be huge and effectively too high. Again the consumer will lose out. The MPA also alludes to this with their comment "Arresting the current decline in the newsagency channel will assist magazine publishers by maintaining or increasing sales through this sales channel and therefore assist with maintaining the viability of hard copy magazine publication".

As a general rule I believe in deregulation unfortunately, in this case it has not worked. The ACCC must realise that the decision to deregulate has unnecessarily put the burden of their decision onto newsagents. This must be corrected.

My suggestions are:

1. Distributors: effectively running a cartel, that benefits the publishers that own them. Combine the 2 and introduce a not for profit, industry (all stake holders) controlled distributor. To bring in efficiencies needed to combat the decline of sales and keep the system efficient.
2. Renegotiate contracts, on a fair and equal scale. Prices are controlled by the publishers, not newsagents. Newsagents do not have the scope to increase or decrease prices set by the distributors and publishers. The outdated commission structure of 25%, does not take into account size space or shelf life. My suggestions here are
  - a. Weekly magazines attract 25% commission due to their high turnover.

- b. Monthly magazines 33% commission
  - c. Anything longer 50% commission, anything on the shelf for that long is a slow seller, and it needs to recoup more for the space it is taking.
  - d. Or have no commission structure and no set prices, if there were no prices on a magazine it would allow stockists to set their own prices, this would introduce a competitive environment, it may mean that the supermarkets try to take all the major magazine sales by reducing prices, but it would allow newsagents to increase or decrease their margin to suit their business model.
3. A public benefit fee for stockists that keep less than a certain amount of titles (for example 500 titles) to help support the system that provides the public benefit of a range of titles. Or a bonus percentage of say 2.5% to those that stock over a certain percentage. The MPA acknowledges this public benefit with the comment "it will also assist the consumer by helping to ensure that the magazine that they are seeking are being offered for sale at their local newsagent". And distributors know this it is a requirement in the distributors' contract that newsagents stock a certain amount of magazines to be considered for supply. All stockists' not just newsagents that do this should be compensated for doing so.
  4. All returns to be tops (except for maybe part-works). The increased labour, storage and freight costs of returning full copies are exorbitant. It puts pressure on the roads and freight companies and increases pollution.
  5. The current system of push supply, is illegal behaviour, why the distributors are allowed to do this to newsagents is beyond me. All stockists should be allowed to stock what they wish in the quantities they wish. Have full control. It gives the public benefit of a stockist supplying to the consumers demand, not stocking what is supplied. And allows newsagents to compete with the majors.

Finally to summarise, I believe the pilot trial should go-ahead, but I believe the ACCC should be very wary of the conflict of interest being proposed by the MPA on behalf of the distributors. To me the wording of their application suggests that their real concern is their profitability not the public benefit, nor the newsagent as they suggest. I believe the ACC should increase the scope of this application to consider the total supply chain, and to determine what public/consumer benefits are currently being met, and what can be achieved outside that offered by the MPA. By getting this right the ACCC may be able to decrease the competitive advantage of the supermarkets by introducing an equal platform for retailers', not just newsagents, to compete and supply the products that consumers are demanding not what distributors are pushing.

Regards

Aeron Gribble

newsXpress Wallsend

Director

[aeron\\_gribble@optusnet.com.au](mailto:aeron_gribble@optusnet.com.au)

Mobile: 0402 658 662