

9th of May 2016

Dr. Richard Chadwick
General Manager, Adjudication
Australian Competition and Consumer Commission
23 Marcus Clarke Street
Canberra ACT 2601

By Email: adjudication@accc.gov.au

Dear Dr Chadwick

MPA –Authorisation A91472

Please find attached the MPA Pilot Interim Report issued by Boston Analytics. This report is to assess the success of the MPA Pilot set to address an industry wide problem of oversupply of magazines to newsagents. The report is focused on the sales and efficiency results of the pilot stores, as Boston Analytics and MPA were challenged in collecting timesheets and other data that can be used to assess the full impact.

For background, Pilot A, with the optimized supply and merchandising support, started June 8th, while Pilot B stores, with only the optimized supply, commenced August 10th. This report provides an interim assessment using 4 months of data for Pilot A (8th of Jun 2015 to 7th of October 2015) and 2 months of data for Pilot B (10th of Aug to 9th of October 2015).

Overall, the Pilot delivered on expectations with substantial increases in efficiency i.e. decreased rate of return (-17% in Pilot A and B vs. +2% in Pilot A and +1% in Pilot B historical and -2% in control groups).

We expected sales to decline at an 8% given the amount of supply that was cut from the long tail. Pilot A and B both delivered -9% and -11% declines in sales. Excluding an outlier store that increased its subagents, Pilot A delivered -12% which is quite similar to Pilot B.

Boston Analytics will be receiving the final data for the following 3 months by mid-May and will be able to issue the final report in early July 2016.

In the meantime, we are already in discussion with the committee members to see what could be done to improve the oversupply based on the learnings achieved through the interim report. Gordon & Gotch will be leading this work.

If you have any questions, please don't hesitate to contact me

Regards



Mary Ann Azer
MPA Executive Director

11th May 2016

CoC Pilot – Interim Assessment

Pilot A, B and Control Group



Interim Assessment Executive Summary

Objective & Overview

- This report is to assess the success of a pilot to test a proposed approach to address an industry wide problem of oversupply of magazines to newsagents.
- This report is to assess the impact on Newsagents, Publishers, and Magazine distributors on the implementation of a proposed Magazine distribution Code of Conduct. Explicitly, to understand the sales and efficiency impact on all stakeholders to identify the viability of moving to such a Code.
- This report builds on earlier analysis to baseline performance of Pilot A, B and Control Groups. This report provides an interim assessment using 4 months of data for Pilot A (Jun 2015 to Oct 2015) and 2 months of data for Pilot B (Aug to Oct 2015).

Sales Impact

- Pilot A: magazine sales declined at a slightly faster rate (from -7% in 2013/14 to -9% over 2014/15) versus improved sales performance in the control group (From -9% in 2013/14 to -6% over 2014/15). These results showed similar declines to Pilot B when one outlier store that acquired sub-agents was removed from the analysis.
- Pilot B: with two months of data only, magazine sales had a steeper decline (from -3% in 2013/14 to -11% in 2014/15) more than historical performance, pilot A and control group.
- A sales decline of approx 8% was predicted when the reduced range in the Pilot A stores was analysed.

Efficiency

- Interim data shows substantial reductions in the rate of return across both pilots (Pilot A: 48.4% to 40.1% or 8.3 pts and Pilot B: 49.1% to 40.5% or 8.6 pts over 2014/15) compared to the same stores' flat historical performance and compared to Control Group.
- Based on the current MPA distribution model, reduction in volumes will have a negative revenue impact to MPA's distribution (GGA).

Data Challenges

- The project team experienced difficulties in sourcing consistent and high quality POS data.
- The analysis was not able to rely on timesheet data as it was incomplete.
- Distributor data drove the quantitative analysis and in the final report will be complimented with qualitative information from face to face newsagent interviews and an anonymous survey of participating stores.

Background

Background

- In June 2015, the Australian Competition and Consumer Commission (ACCC) granted authorisation to the Association of Magazine Publishers of Australia (MPA) to enable a pilot program to test the effectiveness of a proposed approach to address an industry wide problem of oversupply of magazines to newsagents.
- The pilot ran with 39 newsagents who chose to participate, over a 3 – 6 month period.
- For the term of the pilot, members of the MPA and magazine distributors - Network Services and Gordon & Gotch - agreed to uniformly apply certain limitations on the distribution of magazines to newsagents that have chosen to participate in the pilot. In summary, the participating distributors and publishers agree to:
 - cease distributing a magazine title if it has experienced consecutive nil sales by the particular pilot participant for a period of time
 - limit the number of copies of each magazine title to a certain percentage above the number of the title generally sold by the pilot participant (minimum sales efficiencies). These are to be adjusted through the course of the pilot to ensure supply is closely aligned to demand in the participating stores
 - in most cases not require pilot participants to provide returns of full copies of unsold magazines, but instead accept front covers, headers etc. as evidence of unsold copies
 - adhere to certain restrictions on the redistribution of magazine issues which have previously been distributed and returned by newsagents, to the distribution of new magazine titles, and to split deliveries of magazine issues during the period an issue of a magazine is on sale
 - impose a cap on the period during which distributors can require pilot participants to display magazine issues for sale, except in circumstances where the newsagent is compensated by delayed billing and/or extra sales margins
 - not accept early returns of magazine titles during the on-sale period (for weekly, fortnightly and monthly titles), or within 30 days from the on-sale date (for all other titles).
- The MPA has engaged Boston Analytics to assess the results of the pilot. The ACCC expects that this report will be completed and provided within 3 months of completion of the pilot.
- The final Boston Analytics report is to be provided to be placed on the ACCC's public register. The MPA has advised the ACCC that the report will be based on both qualitative and quantitative analysis using data including newsagencies profiles, magazine category segmentation information, sales data, financial data for the stores, and point of sale data.

About the Report

- This report is to assess the impact on Newsagents, Publishers, and Magazine distributors on the implementation of a proposed Magazine distribution Code of Conduct. Explicitly, to understand **the sales and efficiency impact** on all stakeholders to identify the viability of moving to such a Code.
- This is an interim report to outline the initial results of the pilot program.
- The program was made up of two pilots (Pilot A and Pilot B) and one control group
- The quantitative assessment used primarily distributor sales & returns data

About the pilots and control group

About the Pilots			
	Pilot A	Pilot B	Control Group
No. of Stores	19	20	20
Setup	Stores which agreed to limitations on the distribution of magazines and received additional layout and range advice	Stores which agreed to limitations on the distribution of magazines, but no layout and merchandising changes.	A group of business-as-usual stores with no intervention that will be compared to pilot A and B.
Dates	From Jun 2015 to Nov 2015 (6 months)	From Aug 2015 to Jan 2016 (6 months)	
Data Analysed	From 8th Jun to 7th Oct (4 months)	From 10th Aug 2015 to 9th Oct 2015 (2 months)	To compare with pilot A: 8 th Jun to 7 th Oct (4 months) To compare with pilot B: 10 th Aug to 9 th Oct (2 months)
How stores were selected	<ul style="list-style-type: none"> ▪ High quality and reliable EDI (sales data) ▪ Within merchandising call locations (based on Impact and Crossmarks coverage) ▪ Eastern Seaboard priority so that MPA committee members could call on if required (which they did to many) ▪ Mixture of metro, regional and country ▪ Mixture of shopping centre and strip shop locations 		<ul style="list-style-type: none"> ▪ Selected with broadly similar attributes (size, location) to Pilot A and Pilot B stores

Both pilots had a decrease in sales and an increase in efficiency (decrease in Rate of Return)

- **Sales:** Pilot A magazine sales declined at a slightly faster rate versus improved sales performance in the control group. (These results showed similar declines to Pilot B when one outlier store that acquired sub-agents was removed from the analysis.)
- **Efficiency:** Interim data shows substantial reductions in the Rate of Return across both pilots compared to the same stores' flat historical performance and compared to Control Group.

		Pilot Performance	Vs. Historical	Vs. Control Group
		2015 Sales, sales '14/15 2015 RR ² , RR ² '14/15	2014 Sales, sales '13/14 2011-14 CAGR ³ Sales	2014 sales, sales '13/14 2011-14 CAGR ³ Sales
			2014 RR, RR '13/14 2011-14 Av RR	2014 RR, RR '13/14 2011-14 Av RR
Pilot A	Sales ¹	\$1,227K, -9%	\$1,348K, -7% -7%	\$1,082K, -6% -5%
	Rate of Return ²	40.1%, -17%	48.4%, +2% 47.2%	49.1%, -2% 47.4%
Pilot B	Sales ¹	\$492K, -11%	\$556K, -3% -7%	\$576K, -4% -4%
	Rate of Return ²	40.5%, -17%	49.1%, +1% 47.8%	48.5%, -2% 47.3%

Note that the ranging analysis performed as part of the pilot A baselining predicted 8% sales drop

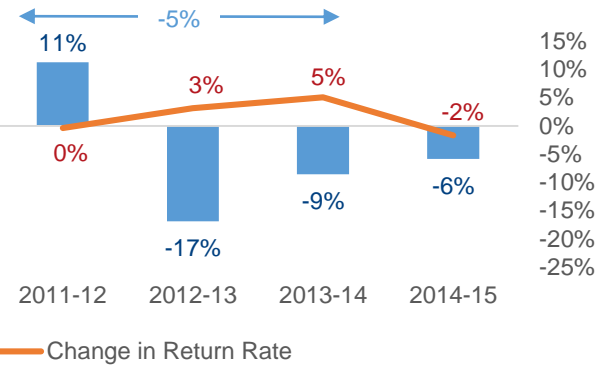
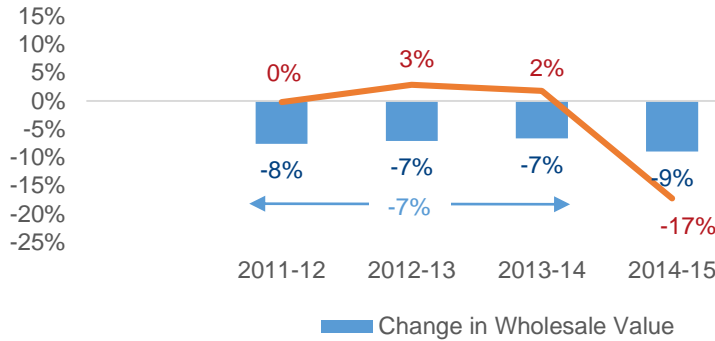
Footnotes:

1. Sales: dollar sales, percent changes refer to year to year changes for the dates of the pilots (Pilot A: Jun to Sep '15 & Pilot B: Aug to Sep '15)
2. RR: Rate of return calculated as the volume of returned units/titles expressed as a percentage of total units/titles supplied
3. CAGR: Compound Annual Growth Rate

Pilot A & B vs Control Group

Sales have declined in Pilot B at a greater rate than in Pilot A. Both pilots declined more than Control. The Rate of Return has substantially improved in both pilots.

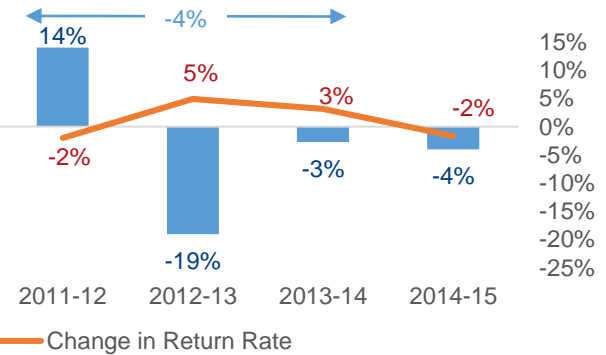
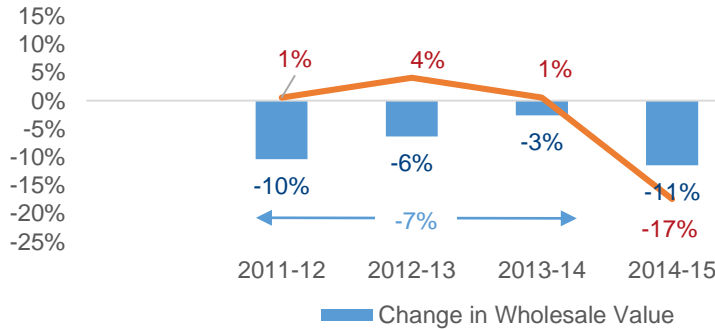
Pilot A



Pilot A					
Year	2011	2012	2013	2014	2015
Sales (\$ 000)	1,681	1,554	1,444	1,348	1,227
Rate of Return	46.4%	46.3%	47.6%	48.4%	40.1%

Control Group (1)					
Year	2011	2012	2013	2014	2015
Sales (\$ 000)	1,359	1,513	1,257	1,149	1,082
Rate of Return	46.2%	46.1%	47.5%	49.9%	49.1%

Pilot B



Pilot B					
Year	2011	2012	2013	2014	2015
Sales (\$ 000)	680	609	571	556	492
Rate of Return	46.6%	46.9%	48.8%	49.1%	40.5%

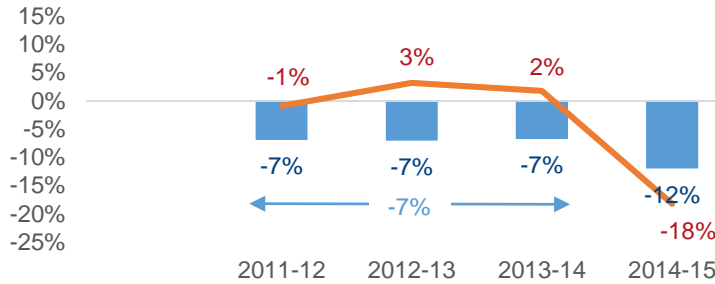
Control Group (1)					
Year	2011	2012	2013	2014	2015
Sales (\$ 000)	669	762	617	600	576
Rate of Return	46.5%	45.6%	47.8%	49.3%	48.5%

(1) Notes: Pilot A's data is for 4 months (Jun to Sep '15); Pilot B is for 2 months (Aug & Sep '15); Control Group is therefore presented for both 4 & 2 months period to compare against Pilot A and B.

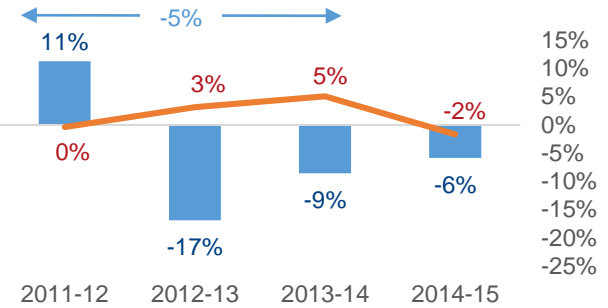
Pilot A & B vs Control Group – excluding an outlier store

Excluding the only pilot A store that acquired a substantial number of sub-agents in 2015, results in pilot A resemble pilot B's performance

Pilot A



Change in Wholesale Value

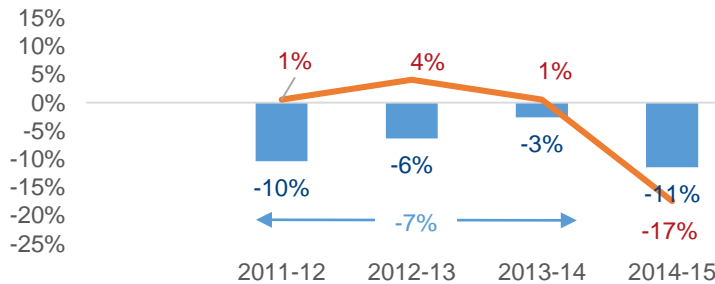


Change in Return Rate

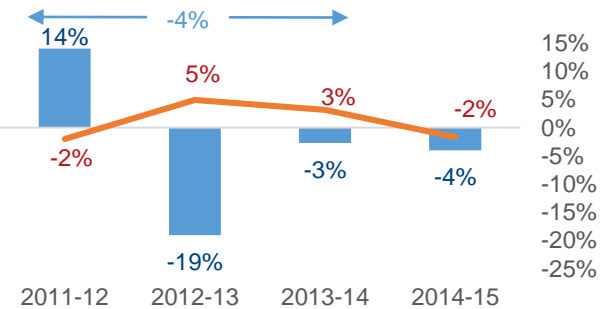
	Pilot A				
Year	2011	2012	2013	2014	2015
Sales (\$ 000)	1,619	1,507	1,401	1,307	1,150
Rate of Return	46.2%	45.8%	47.3%	48.1%	39.4%

	Control Group (1)				
Year	2011	2012	2013	2014	2015
Sales (\$ 000)	1,359	1,513	1,257	1,149	1,082
Rate of Return	46.2%	46.1%	47.5%	49.9%	49.1%

Pilot B



Change in Wholesale Value



Change in Return Rate

	Pilot B				
Year	2011	2012	2013	2014	2015
Sales (\$ 000)	680	609	571	556	492
Rate of Return	46.6%	46.9%	48.8%	49.1%	40.5%

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Next Steps

1. **MPA to share with ACCC (May 2016)**
2. **Receive 6 months data for both Pilots for final Report (Mid-May 2016)**
3. **Prepare final report (July 2016)**