

18th of July 2016

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

By Email: adjudication@acc.gov.au

Dear Dr Chadwick

MPA –Authorisation A91472

Please find attached the Pilot Final Report issued by Boston Analytics prepared for Magazine Networks (previously known as MPA).

For background, Pilot A stores, 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 a final assessment using 6 months of data for Pilot A (8th Jun 2015 to 7th Dec 2015) and Pilot B (10th Aug to 9th Feb 2015).

These results were in line with the interim report. We expected sales to decline at an 8% given the amount of supply that was cut from the long tail. Pilot A (excluding outlier store with new subagents) and Pilot B both delivered -10% and -13% declines in sales (-9% and -11% in the interim report).

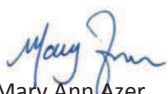
Both pilots showed substantial reductions in Rate of Return. Pilot A rate of return dropped from 47.8% to 38.7% or 9.1 points and pilot B dropped from 47.7% to 38.5% or 9.2 points Year to Year. This is a substantial improvement compared to the same stores' flat historical performance and compared with the control group.

Qualitative results from a survey conducted by Boston Analytics with the participating newsagents indicate a positive reaction from the stores especially on reduced rate of return and reduced labour costs and complexity. However the sales decline was a clear negative.

This report has been provided to Magazine Networks' members for their consideration. As you will be aware Magazine Networks' member Bauer Media has ceased providing magazine distribution services and therefore these services are currently provided substantially by Gordon & Gotch. Gordon & Gotch is not a member of Magazine Networks and its dealings with Magazine Networks members are governed by individual service contracts with each publisher. No decisions have been made as to further actions on this project at this time.

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

Regards



Mary Ann Azer
Magazine Networks- Executive Director

24th June 2016

CoC Pilot – Final Assessment

Pilot A, B and Control Group

Executive Overview



Executive Summary

Objective & Overview

- This report is to assess the results of a pilot for a proposed approach to address an industry wide problem of oversupply of magazines to newsagents.
- This report assesses the impact on newsagents and publishers on the implementation of a proposed magazine distribution Code of Conduct. Explicitly, to understand the sales and efficiency impact on stakeholders to support a decision on adopting such a code.
- This report builds on earlier analysis to baseline and interim assessment of Pilot A, B and Control Group. This reports analyses 6 months of data for both Pilot A (8th Jun 2015 to 7th Dec 2015) and Pilot B (10th Aug to 9th Feb 2015).

Sales Impact

- Magazine sales for both pilots declined faster than the control group:
 - Pilot A:-declined at a slightly faster rate than trend (from -6% in 2013/14 to -10% over 2014/15) versus improved sales performance in the control group (from -8% in 2013/14 to -3% over 2014/15)*.
 - Pilot B:-had a steeper decline (from -6% in 2013/14 to -13% in 2014/15) more than historical performance, pilot A and control group (from -6% in 2013/14 to -4% over 2014/15).
- A sales decline of approx. 8% was predicted when the impact of only the reduced range in the pilot A stores was analysed.

Efficiency impact

- Both pilots showed substantial reductions Rate of Return. Pilot A rate of return dropped from 47.8% to 38.7% or 9.1 pts and pilot B dropped from 47.7% to 38.5% or 9.2 pts YTY. This is a substantial improvement compared to the same stores' flat historical performance and compared-with the control group.
- Based on the current distribution model, reduction in volumes will have a negative revenue impact to distribution (GGA).

Data Challenges

- The project team experienced difficulties in sourcing consistent and high quality POS data and the analysis was not able to rely on timesheet data as it was incomplete. As a result, distributor data drove the quantitative analysis
- Qualitative information based on anonymous surveys of participating stores were used for this report to complement the quantitative analysis.

* These pilot A results excludes one outlier store that acquired a substantial number of sub-agents in 2015.

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 6 month period.
- For the term of the pilot, members of Magazine Networks and magazine distributors – at the time of the pilot, 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).
- Magazine Networks engaged Boston Analytics to assess the results of the pilot.
- This final Boston Analytics report is to be provided to be placed on the ACCC's public register.

About the Report

- This report is to assess the impact on newsagents and publishers on the implementation of a proposed magazine distribution Code of Conduct. Explicitly, to understand the sales and efficiency impact on stakeholders to support a decision on adopting such a code.
- This is the final report aiming to assess the results of the pilot program, following an interim report released in May 2016.
- The program was made up of two pilots (A and B) and one control group.
- The quantitative assessment used primarily distributor sales & returns data.
- Qualitative analysis based on store surveys are also included in this report.

About the pilots and control group

	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)	To compare with pilot A: 8 th Jun to 7 th Dec (6 months) To compare with pilot B: 10 th Aug 2015 to 9 th Feb 2016 (6 months)
Data Analysed	From 8 th Jun to 7 th Dec (6 months)	From 10 th Aug 2015 to 9 th Feb 2016 (6 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

Overall Results - both pilots had a decrease in sales and an increase in efficiency

- **Sales:** both pilots showed sales decline at a faster rate compared to historical performance and the control group. Sales results for both pilots were similar when an outlier store in pilot A was removed.
- **Efficiency:** the final 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	Pilot Performance excluding outlier	Vs. Historical	Vs. Control Group
		2015 Sales, sales '14/15 2015 RR ² , RR ² '14/15	2015 Sales, sales '14/15 2015 RR ² , RR ² '14/15	2014 Sales, sales '13/14 2011-14 CAGR ³ Sales 2014 RR, RR '13/14 2011-14 Av RR	2014 sales, sales '14/15 2011-14 CAGR ³ Sales 2014 RR, RR '14/15 2011-14 Av RR
Pilot A	Sales¹	\$1,891K, -8%	\$1,709, -10%	\$2,055K, -6% -7%	\$1,725K, -3% -6%
	Rate of Return²	39.2%, -18%	38.7%, -19%	48.0%, +2% 46.7%	49.3%, +4% 47.1%
Pilot B	Sales¹	\$1,438K, -13%	No outliers	\$1,643K, -6% -7%	\$1,743K, -4% -7%
	Rate of Return²	38.5%, -19%		47.7%, 0% 46.9%	47.7%, 1% 46.3%

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

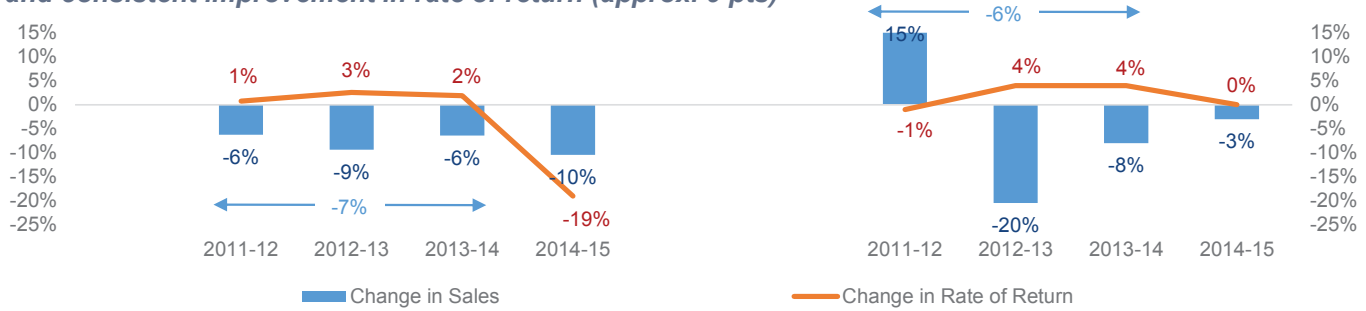
Footnotes:

1. Sales: Sales throughout this report are dollar sales, percent changes refer to year to year changes for the dates of the pilots (Pilot A: Jun to Nov '15 & Pilot B: Aug '15 to Jan'16)
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 – excluding one outlier store

Declines in sales in pilot A and B were similar and in both cases worse than control group. Both pilots resulted in a substantial and consistent improvement in rate of return (approx. 9 pts)

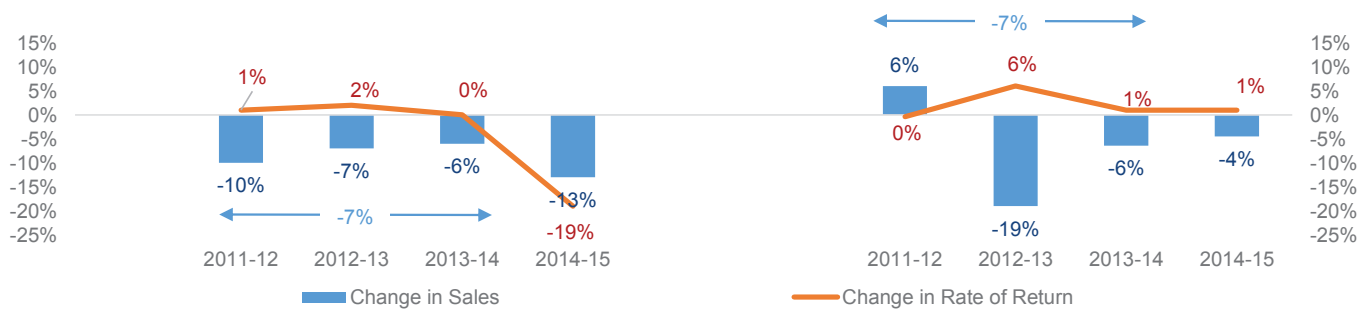
Pilot A



	Pilot A				
Year	2011	2012	2013	2014	2015
Sales (\$ 000)	2,399	2,249	2,039	1,908	1,709
Rate of Return	45.4%	45.8%	46.9%	47.8%	38.7%

	Control Group ⁽¹⁾				
Year	2011	2012	2013	2014	2015
Sales (\$ 000)	2,046	2,350	1,872	1,725	1,665
Rate of Return	46.1%	45.7%	47.4%	49.3%	49.1%

Pilot B



	Pilot B				
Year	2011	2012	2013	2014	2015
Sales (\$ 000)	2,075	1,872	1,740	1,643	1,438
Rate of Return	45.9%	46.5%	47.5%	47.7%	38.5%

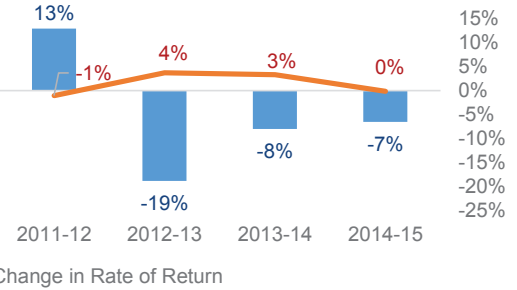
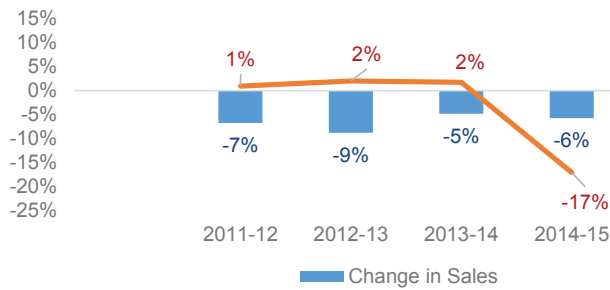
	Control Group ⁽¹⁾				
Year	2011	2012	2013	2014	2015
Sales (\$ 000)	2,146	2,282	1,856	1,743	1,675
Rate of Return	45.1%	44.9%	47.4%	47.7%	48.1%

(1) Notes: Pilot A's data is for 6 months (Jun to Nov '15); Pilot B is for 6 months (Aug '15 & Jan '16); Control Group is therefore presented for both 6 months period to compare against Pilot A and B

Pilot A & B vs Control Group – excluding one-shot and annual

Sales for both pilots were closer to historical performance and control group when one-shot and annual transactions were removed

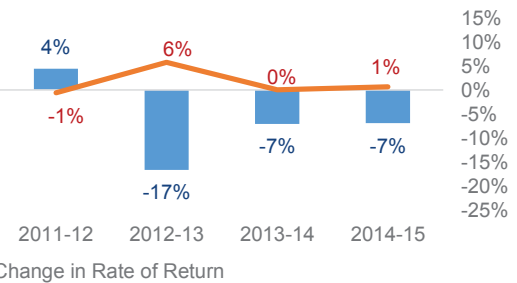
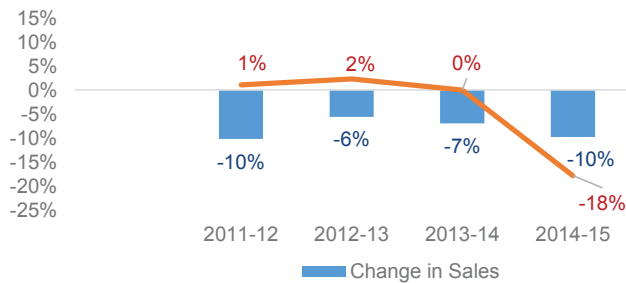
Pilot A



	Pilot A				
Year	2011	2012	2013	2014	2015
Sales (\$ 000)	2,344	2,186	1,994	1,898	1,789
Return Rate	44.9%	45.4%	46.3%	47.1%	39.0%

	Control Group				
Year	2011	2012	2013	2014	2015
Sales (\$ 000)	1,877	2,119	1,720	1,582	1,479
Return Rate	45.4%	44.9%	46.6%	48.2%	48.1%

Pilot B

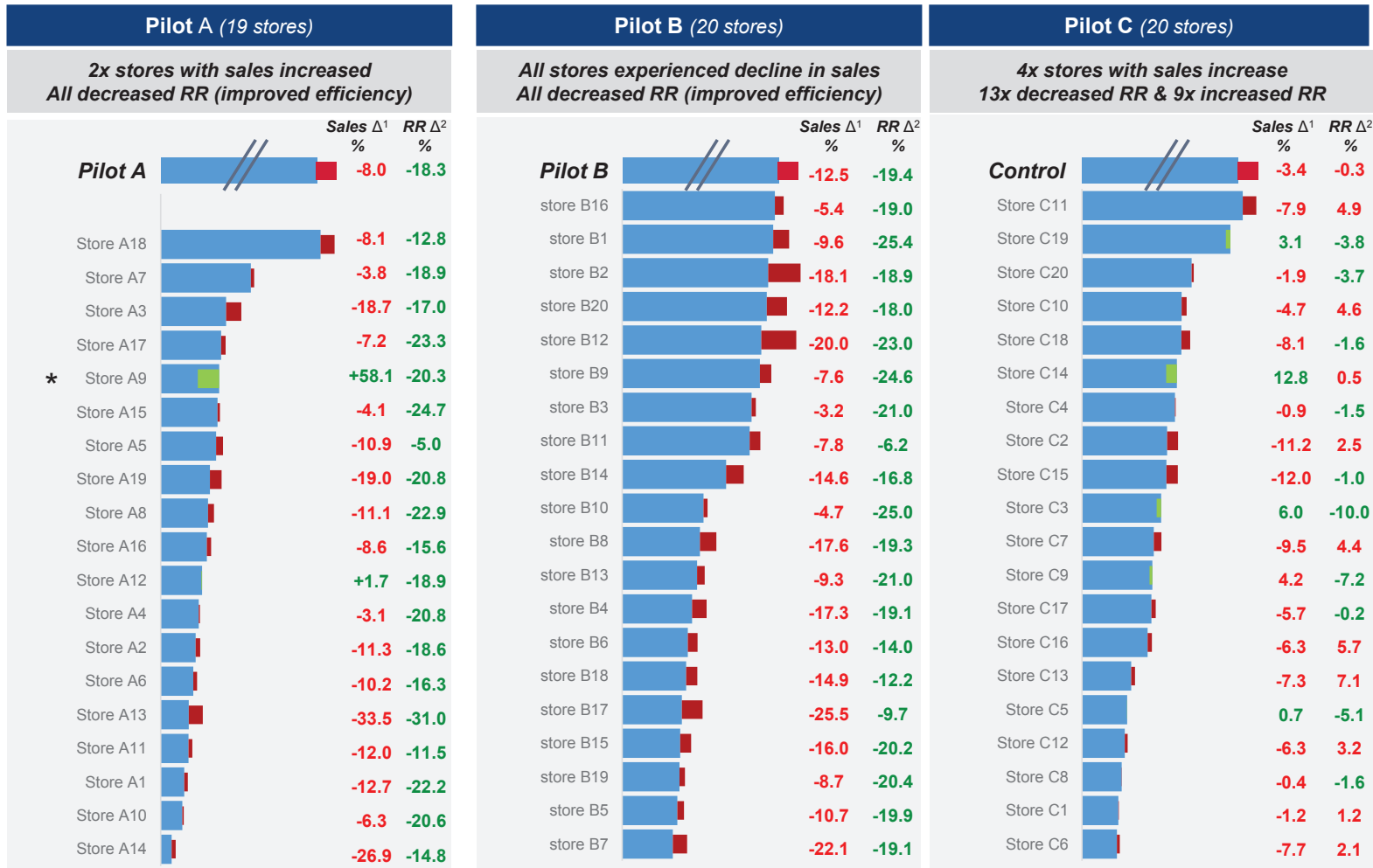


	Pilot B				
Year	2011	2012	2013	2014	2015
Sales (\$ 000)	1,899	1,705	1,609	1,496	1,350
Return Rate	45.2%	45.7%	46.7%	46.7%	38.4%

	Control Group				
Year	2011	2012	2013	2014	2015
Sales (\$ 000)	1,970	2,057	1,715	1,593	1,483
Return Rate	44.4%	44.1%	46.6%	46.6%	46.9%

(1) Notes: Pilot A's data is for 6 months (Jun to Nov '15); Pilot B is for 6 months (Aug '15 & Jan '16); Control Group is therefore presented for both 6 months period to compare against Pilot A and B

Store Summary – the average decline in Pilot A sales was lower than Pilot B and higher than Control Group; Rate of Return (RR) decline was similar for both pilots and much higher than the Control Group



* Store acquired sub-agents in 2015

Sales Δ¹ 2014-15 % Sales (2015) Decrease since 2014 Increase since 2014

RR Δ² 2014-15 % Increase RR Decreased Efficiency Decrease in RR Improved Efficiency



Store Level Performance

Survey Summary

This page summarises the responses from an anonymous online survey sent to the 39 participating Pilot A and B newsagents in March 2016. A total of 23 responses were received

	Survey Results	Respondents Comments	Finding
Efficiency Gains	<p>Pilot A + B (23 responses)</p> <p>The pilot led to efficiency gains, 20 No efficiency gain, 2 No Answer, 1</p>	<p><i>“time reduced on labelling, processing and placing on shelf” (Pilot A)</i></p> <p><i>“we are returning less as we are getting less of what is not selling” (Pilot A)</i></p> <p><i>“yes, but at a cost to sales at this period” (Pilot B)</i></p>	<p>Across all aspects of newsagents’ business, improvement in efficiency was the most consistent benefit of the pilot.</p>
Sales Trends	<p>Pilot A + B (23 responses)</p> <p>Declined & most/some what due to pilot, 7, 31% Decreased but not due to pilot, 6, 26% held steady, 7, 30% Increased & most or somewhat due to pilot, 2, 9% Not answered, 1, 4%</p>	<p><i>“It has improved early returns but cost us significant sales due to supply errors.” (Pilot A)</i></p> <p><i>“Sales have decreased slightly but I suspect that this is the result of economic conditions rather than the pilot program” (Pilot B)</i></p>	<p>The limitations on supply were seen by some to add to sales declines while others saw no link.</p>
Labour costs	<p>Pilot A + B (19 responses)</p> <p>Average reduction of \$110 per week in direct labour cost</p>	<p><i>“Returns don’t take as long and I don’t have to pay staff extra to return copious amounts” (Pilot B)</i></p> <p><i>“Slight decrease in sales but offset by reduced costs” (Pilot A)</i></p>	<p>Efficiency gains translated into limited direct cost savings.</p>