

ON THE CUSP OF CHANGE



According to booksellers, the recession story has a happy ending. 'Buoyant booksellers stare down recession' was the headline that closed the annual Booksellers NZ conference this year. But the nasty old statistics tell another story.

Booksellers NZ added that the 'vast majority' of independent booksellers are trading at, or above, last year's returns, and they are optimistic about the future of their businesses. Peter Rigg, co-owner of Page & Blackmore Booksellers in Nelson, reported eight per cent growth while John McIntyre of The Children's

Bookshop in Wellington reported 12 per cent year-on-year growth – his best year ever.

If all independents are doing that well, then someone must be really hurting. According to Statistics New Zealand returns, the books and stationery sector's turnover is nearly seven per cent down on 2008 (see *The Numbers*).

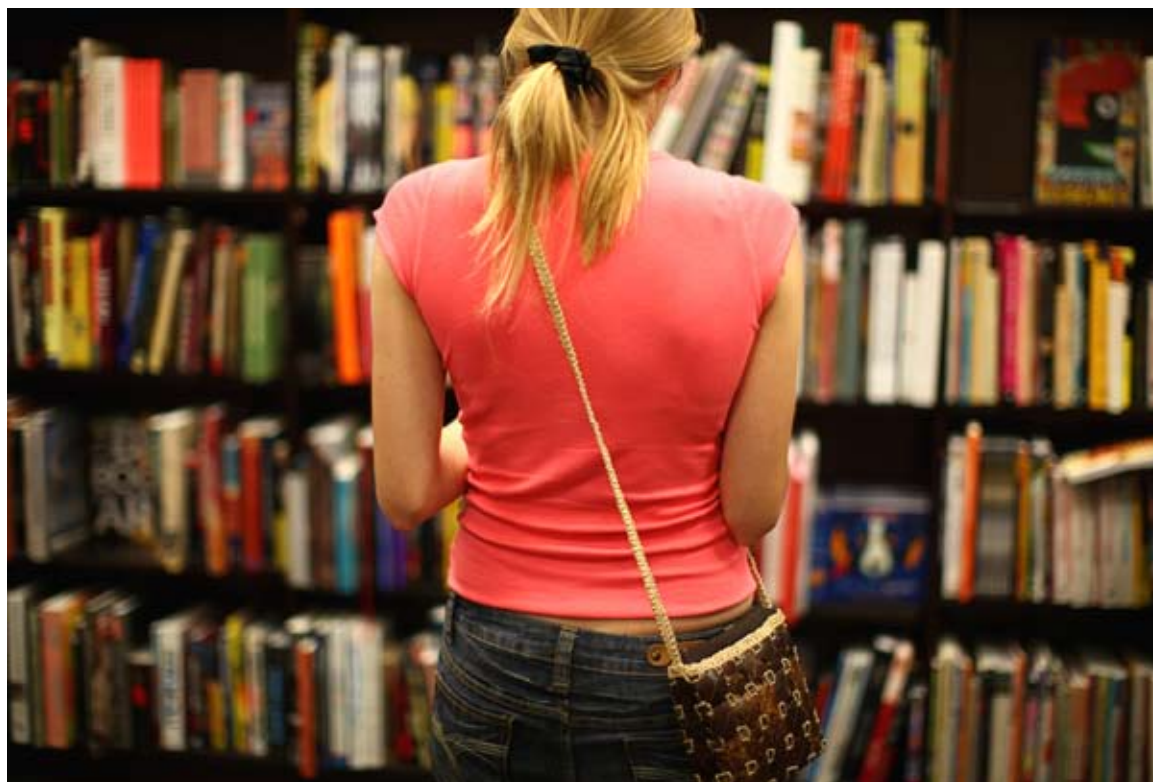
‘To some extent, books are protected by the value we place on them as objects.’

Perhaps the long-term threat to sales comes from technology rather than the economy. While the recession has affected all retail sectors, booksellers are at the cusp of a technological

change that will see traditional paper books competing with digital e-books – and could do to the bookstore what MP3 did to the record shop.

TECHNOLOGY

New Zealand booksellers have been competing against on-line sales for years. No one knows just how much business is lost to on-line traders –



such as Amazon.com. The Commerce Commission estimates internet sales are worth about five per cent of the market and are growing at 25 per cent per annum. Like most retail sectors, book retailing has adapted to on-line competition and both Whitcoulls and Paper Plus offer on-line sales through their websites.

As music retailers (and former music retailers) will tell us, the real threat from technology comes when the physical product is replaced by a virtual digital product. Get rid of the physical product – the CD or the book – and you can get rid of the physical store with the physical staff and the physical landlord. It's happened once – can it happen to book retailers too?

E-books are still at an early, formative stage. Music retailing changed because the MP3 file format became the industry standard. Today, there is no standardised e-book format and no definitive e-reader device. But the technology is changing fast and experts expect a clear leader to emerge soon.

To some extent, books are protected by the value we place on them as objects. Certainly, the coffee table

book with excellent photography and high design values cannot be replaced by a computer file.

But other categories are more vulnerable. Road maps are already under pressure from GPS systems that can provide much more information than a book. Many non-fiction books could be replaced by an interactive digital version that included active links to references, glossaries and other sources of information.

Martin Taylor has been involved in publishing for 20 years and works in digital and traditional technology. His blog on digital publishing can be read at: www.digitalpublishing.org.nz. Taylor believes novels are ideal for digitising because of the lack of pictures.

"The migration will happen at different paces for different types of books. A novel is very amenable to digitising. The emotional attachment that a lot of people have for books is less likely to happen if you read two or three novels a month – and you are less likely to feel the need to own the book physically."

Amazon is already selling e-books, available for download through its website for about US\$10 per book. At present this service is only available to

US customers, but Taylor would like to see New Zealand publishers and retailers get into digitisation now.

"Getting in early is tough and getting in late is incredibly expensive. From a New Zealand publisher's point of view, I think we are better to use a bit of toughness and get in early, rather than sit back and have to buy our way into a market that has already gone. That would apply whether you are a publisher or a retailer – or some other player in that market. Being early is important in being successful."

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While New Zealand retailers have adapted to on-line sales, none are selling e-books for downloading to e-readers (see Glossary). This had led to publishers offering e-books directly, a move that threatens to cut retailers out of the picture.

Booksellers NZ chief executive Lincoln Gould believes digital publishers will need retailers, but retailers need to fill the gap in the market. "At this moment,

in New Zealand, there are no booksellers who are capable of selling e-books and this is a challenge for our members. We need to help our members take advantage of the opportunities that are becoming available with digitisation.

"Booksellers NZ are engaged with publishers and the National Library and others in an effort which is just gathering momentum in adopting digitisation and identifying the opportunities that can be taken within this country. We're right at the beginning of it and it is going to come. We are in the early stages of formats and technology acceptance. It's no good putting our heads in the sand and saying it's not going to happen."

Martin Taylor believes the industry must adapt to the new technology soon. "If you're looking a year to three years ahead, there won't be a blip for most retailers. But if you're looking five to ten years ahead, I think we're talking about a pretty material impact – and five or ten years isn't far away when you are trying to build a retail business." ■

Continued on following page.

By **Martin Craig**, a specialist retail writer and researcher and owner of Splash Communications splash@actrix.co.nz

THE NUMBERS

Benchmark data			
Sector annual sales:	\$1,022 million (2.5% of core retail industry)		
Number of book stores:	776 (2.8% of core retail industry)		
Number of book store staff:	4,020 (2.2% of core retail industry)		
Staff per store:	5.2 (core retail industry average = 6.5)		
Turnover – annual growth (June Qtr)	2007	2008	2009
Book retailing	+8.9%	+1.2%	-6.7%
Core retailing	+7.2%	+1.7%	+2.7%
Turnover per store p.a.:	\$1.3 million		
Turnover per employee p.a.:	\$254,000		
Stocks held – annual growth (June Qtr)	2007	2008	2009
Book retailing	-4.1	+19.0	-24.7
Core retailing	+6.7	+3.6	-0.6

Sources: Statistics New Zealand, Redgroup Retail, Paper Plus.

WHAT IT MEANS

Statistics New Zealand's data suggests book and stationery retailers are vulnerable in an economic downturn. Despite upbeat comments from Booksellers NZ, sector sales were down by 6.7% in the June quarter, while core retailing was up 2.7%. In 2006, when sales growth was comparatively high, booksellers were doing better than the industry average.

The book sector was heavily overstocked last year as the recession started to bite. Books stayed on the shelves and, at the end of June 2008, the sector was holding 10.9 weeks' worth of stock. That situation has since corrected and, at the end of June this year, the sector was carrying 8.8 weeks of stock. This is due to destocking – not increasing demand – as the sector is holding 25% less stock this year than in 2008.

Seasonal sales are important for the book and stationery sector. Last December's sales were worth 13% of 2008's turnover. Core retailing overall took 11% of its annual turnover during December and that difference shows the importance of Christmas and summer sales to booksellers.

Two chains dominate New Zealand book and stationery retailing – Whitcoulls and Paper Plus.

Whitcoulls has 69 stores, plus five Borders outlets and the Bennetts academic/legal books business. The New Zealand operation was bought by Australian-based Pacific Equity Partners in 2004 from UK booksellers WH Smith. Pacific Equity now trades as Redgroup Retail and its retail brands include Whitcoulls in New Zealand, and Angus & Robertson and Supanews in Australia. Redgroup owns the Borders franchise in New Zealand, Singapore and Australia. It is also the franchisor for the Calendar Club outlets that sprout in shopping malls all over New Zealand and Australia every summer.

Paper Plus group is a franchised business trading under three different brands. Paper Plus operates 115 Paper Plus stores, 60 Take Note and three Office Spot commercial stationery businesses. Take Note is a group of smaller book and stationery stores, often positioned in smaller centres.

In 2005, Paper Plus took over the Books & More franchise from New Zealand Post. The legacy is shown in the strong representation of New Zealand Post and Kiwibank outlets in Paper Plus stores – of the 115 stores in the chain, 35 include New Zealand Post and 28 feature Kiwibank. Lotto is also strongly represented with 48 franchises in Paper Plus stores. At the time of writing (October) Paper Plus group was planning to make an 'exciting new announcement' in the near future.

Independent booksellers are an important part of the sector and most New Zealand towns have a local independent bookstore. These niche marketers typically rely on a local reputation, quality stock and a pleasant in-store environment – and often on the owner's personality.



E-BOOK GLOSSARY

E-book – a book stored as an electronic file.

There are many different file formats used for e-books. Some are used in other technology, such as the pdf format used for many documents available over the web. Others are dedicated e-book formats that can only be read by specific e-readers, such as azw for Amazon's Kindle reader. The range of e-book formats is wide and growing, and some commentators have referred to this as a 'Tower of e-Babel' because of the resulting compatibility problems. Readers purchase e-books on-line and download them to their e-reader. Some content is free, and best-seller novels are available for about US\$10.

E-reader – the device used to read an e-book.

For many of us, this will be a personal computer. The PC option is becoming more practical as notebook computers get smaller and lighter. An increasingly common option is the mobile phone, especially smart phones with larger screens such as the iPhone and Palm PDA. MP3 players with video capability – like the iPod Touch – can be used as e-book readers. There is also a range of dedicated e-reader devices, such as Amazon's Kindle and Sony's Reader. These are electronic devices, about the same size and weight as a paperback, that display text on a screen. Most use electronic paper displays (see below) and can connect to the internet to download e-books and other content. E-readers currently sell for US\$200–500.

Electronic paper – an electronic display screen used in e-readers.

Unlike computer or TV screens, electronic paper is easy to read. Electronic paper is good for text but doesn't display colours, and isn't good for moving images. Battery life is extended because electronic paper displays do not use any energy to display a static image – you only use the batteries when you change pages or connect to the net.

DRM – digital rights management protects digital files from unauthorised copying and distribution.

As with e-book formats, there are a number of different DRM standards used with no clear industry standard yet. Good DRM will be needed to ensure authors and publishers are prepared to invest in e-books – flexible DRM will be needed to allow readers to move e-books between various reading devices. This balance is a challenge for all digital creative industries, including movies, music and games.

Publishing on demand (POD) – this process uses digital printing technology to print and bind books after they have been ordered.

Unlike traditional publishing and binding technology, POD allows a single book to be produced cheaply. This has advantages for publishers, retailers and customers, too. Publishers don't have the upfront costs and risks that come from printing thousands of copies of a new book. Retailers don't risk having unsold stock, and can sell the book before it is delivered. Customers can access titles that would not be profitable to produce, or that have gone out of print. POD production is usually more expensive than traditional production – and may be used to market-test new authors and titles. Retailers with dedicated POD technology – such as Instabook Maker – can meet a customer's order in a few minutes.

For more information on digital publishing, go to Martin Taylor's blog at: <http://activitypress.com/category/a-basic-ebook-primer/>



THE PLANIT SYSTEM

The Planit system can offer a diverse range of options for retail stores, homes and offices with showcases, shelving units, coffee tables, showroom and merchandising displays.



ULLRICH SALES CENTRES

- > Whangarei
- > Silverdale
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- > Auckland South
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- > Hamilton
- > Rotorua
- > Napier
- > New Plymouth
- > Palmerston North
- > Wellington
- > Nelson
- > Christchurch
- > Timaru
- > Dunedin
- > Invercargill

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