

24<sup>th</sup> 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 (8<sup>th</sup> Jun 2015 to 7<sup>th</sup> Dec 2015) and Pilot B (10<sup>th</sup> Aug to 9<sup>th</sup> 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   |
|---------------------------------|--|---|---|
| <b>No. of Stores</b>            | 19   | 20  | 20  |
| <b>Setup</b>                    | 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.  |
| <b>Dates</b>                    | From Jun 2015 to Nov 2015 (6 months)   | From Aug 2015 to Jan 2016 (6 months)  |   |
| <b>Data Analysed</b>            | From 8th Jun to 7th Dec (6 months)   | From 10th Aug 2015 to 9th Feb 2016 (6 months)   | To compare with pilot A: 8 <sup>th</sup> Jun to 7 <sup>th</sup> Dec (6 months)<br><br>To compare with pilot B: 10 <sup>th</sup> Aug 2015 to 9 <sup>th</sup> Feb 2016 (6 months) |
| <b>How stores were selected</b> | <ul style="list-style-type: none"> <li>▪ High quality and reliable EDI (sales data)</li> <li>▪ Within merchandising call locations (based on impact and crossmarks coverage)</li> <li>▪ Eastern Seaboard priority so that MPA committee members could call on if required (which they did to many)</li> <li>▪ Mixture of metro, regional and country</li> <li>▪ Mixture of shopping centre and strip shop locations</li> </ul> |   | <ul style="list-style-type: none"> <li>▪ Selected with broadly similar attributes (size, location) to Pilot A and Pilot B stores</li> </ul>                                     |

# 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.

|                |                                   | <b>Pilot Performance</b>  | <b>Pilot Performance excluding outlier</b>                                    | <b>Vs. Historical</b>  | <b>Vs. Control Group</b>   |
|----------------|-----------------------------------|---|---|--|--|
|                |                                   | <i>2015 Sales, sales '14/15<br/>2015 RR<sup>2</sup>, RR<sup>2</sup>'14/15</i> | <i>2015 Sales, sales '14/15<br/>2015 RR<sup>2</sup>, RR<sup>2</sup>'14/15</i> | <i>2014 Sales, sales '13/14<br/>2011-14 CAGR<sup>3</sup> Sales</i> | <i>2014 sales, sales '14/15<br/>2011-14 CAGR<sup>3</sup> Sales</i> |
|                |                                   |   |   | <i>2014 RR, RR '13/14<br/>2011-14 Av RR</i>                        | <i>2014 RR, RR '14/15<br/>2011-14 Av RR</i>                        |
| <b>Pilot A</b> | <b>Sales<sup>1</sup></b>          | <b>\$1,891K, -8%</b>  | <b>\$1,709, -10%</b>  | <b>\$2,055K, -6%</b><br><b>-7%</b>                                 | <b>\$1,725K, -3%</b><br><b>-6%</b>                                 |
|                | <b>Rate of Return<sup>2</sup></b> | <b>39.2%, -18%</b>  | <b>38.7%, -19%</b>  | <b>48.0%, +2%</b><br><b>46.7%</b>                                  | <b>49.3%, +4%</b><br><b>47.1%</b>                                  |
| <b>Pilot B</b> | <b>Sales<sup>1</sup></b>          | <b>\$1,438K, -13%</b>   |   | <b>\$1,643K, -6%</b><br><b>-7%</b>                                 | <b>\$1,743K, -4%</b><br><b>-7%</b>                                 |
|                | <b>Rate of Return<sup>2</sup></b> | <b>38.5%, -19%</b>  | <b>No outliers</b>  | <b>47.7%, 0%</b><br><b>46.9%</b>                                   | <b>47.7%, 1%</b><br><b>46.3%</b>                                   |

**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)

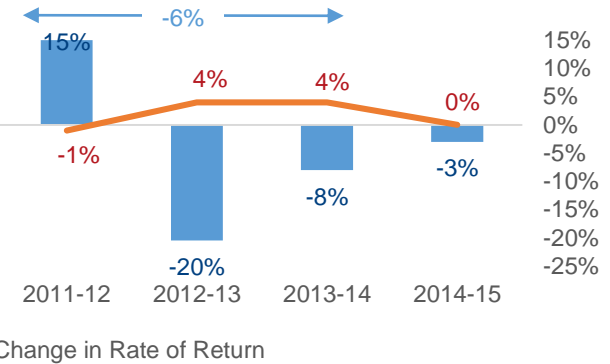
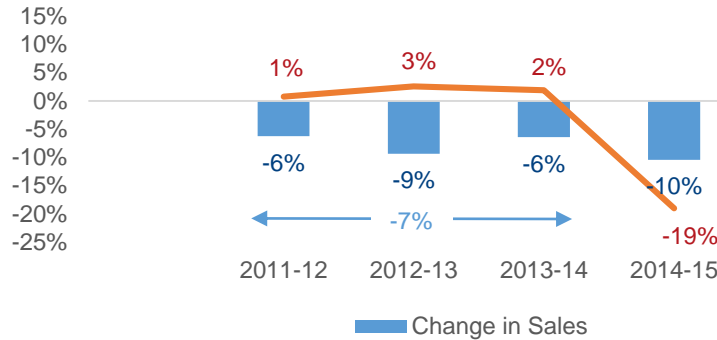
2. RR: Rate of return calculated as the volume of returned units/titles expressed as a percentage of total units/titles supplied

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)

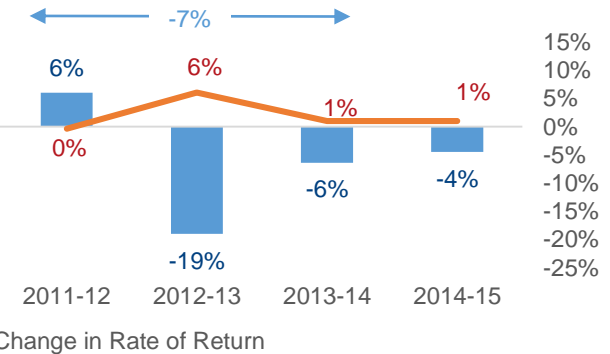
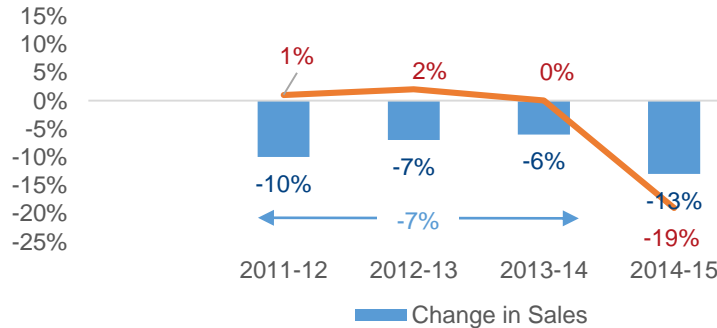
Pilot A



|                | 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 <sup>(1)</sup> |       |       |       |       |
|----------------|------------------------------|-------|-------|-------|-------|
| 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% |

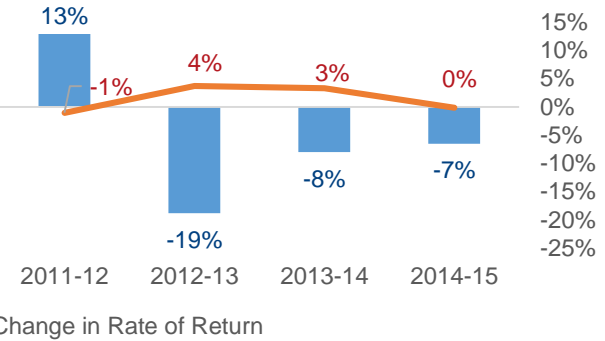
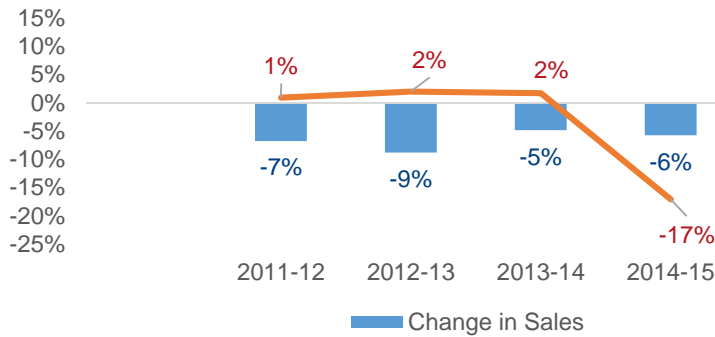
|                | Control Group <sup>(1)</sup> |       |       |       |       |
|----------------|------------------------------|-------|-------|-------|-------|
| Year           | 2011                         | 2012  | 2013  | 2014  | 2015  |
| Sales (\$ 000) | 2,146                        | 2,282 | 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

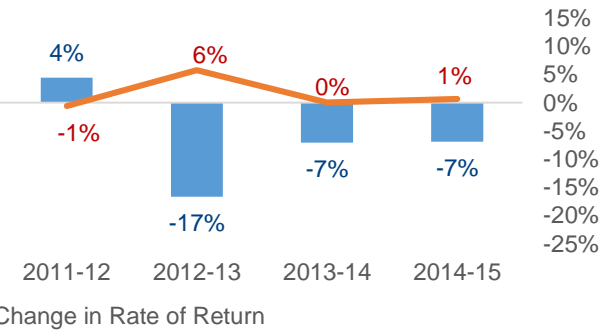
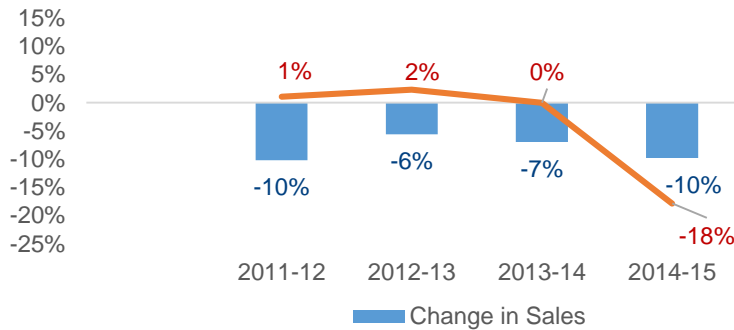
Pilot A



|                | 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% |

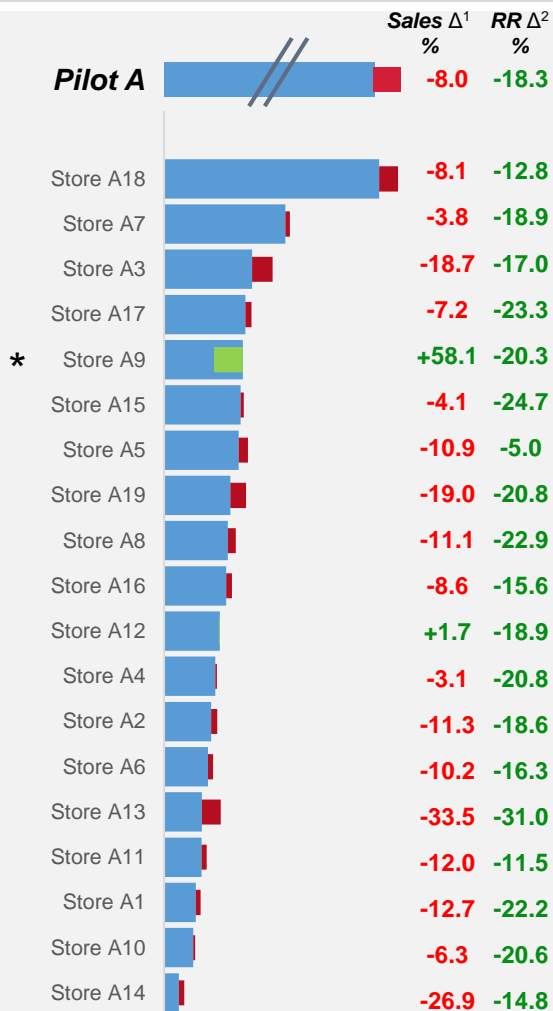
|                | Control Group |       |       |       |       |
|----------------|---------------|-------|-------|-------|-------|
| Year           | 2011          | 2012  | 2013  | 2014  | 2015  |
| Sales (\$ 000) | 1,970         | 2,057 | 1,715 | 1,593 | 1,483 |
| Return Rate    | 44.4%        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

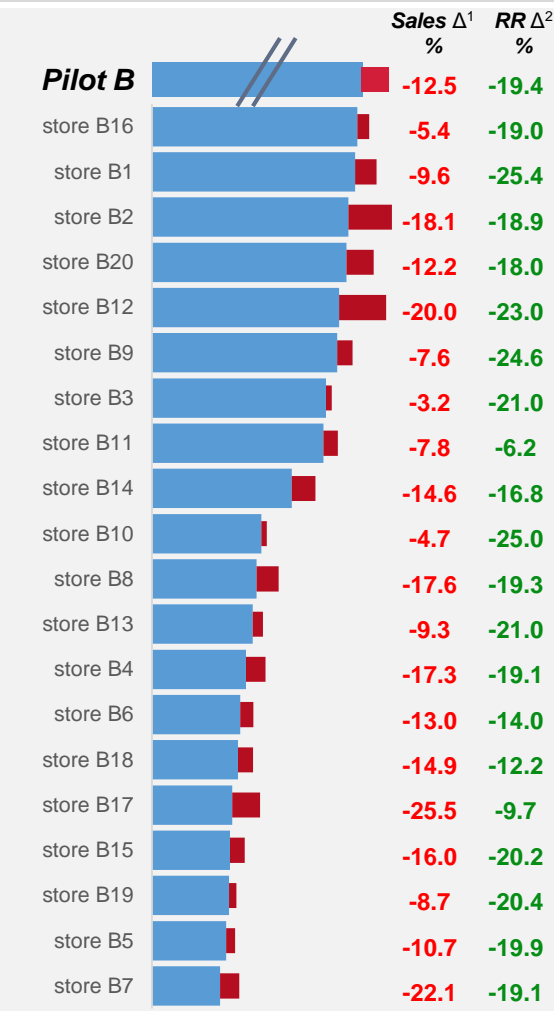
## Pilot A (19 stores)

2x stores with sales increased  
All decreased RR (improved efficiency)



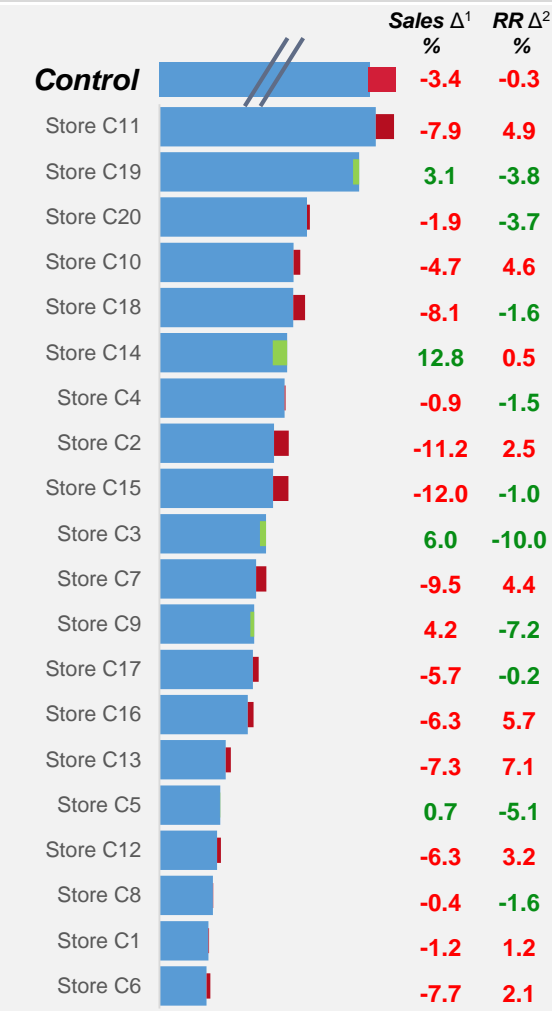
## Pilot B (20 stores)

All stores experienced decline in sales  
All decreased RR (improved efficiency)



## Pilot C (20 stores)

4x stores with sales increase  
13x decreased RR & 9x increased RR



\* Store acquired sub-agents in 2015

Sales  $\Delta^1$  2014-15 % Sales (2015) Decrease since 2014 Increase since 2014

RR  $\Delta^2$  2014-15 % Increase RR Decreased Efficiency Decrease in RR Improved Efficiency



# 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

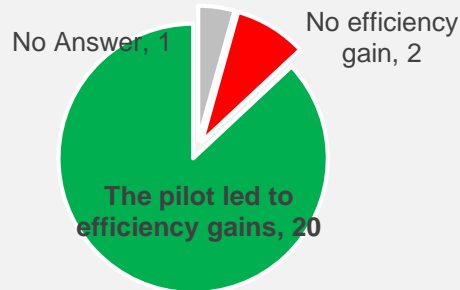
## Survey Results

## Respondents Comments

## Finding

### Efficiency Gains

Pilot A + B (23 responses)



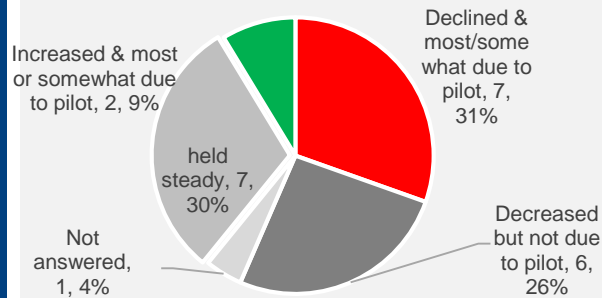
***“time reduced on labelling, processing and placing on shelf” (Pilot A)***  
***“we are returning less as we are getting less of what is not selling” (Pilot A)***  
***“yes, but at a cost to sales at this period” (Pilot B)***



**Across all aspects of newsagents’ business, improvement in efficiency was the most consistent benefit of the pilot.**

### Sales Trends

Pilot A + B (23 responses)



***“It has improved early returns but cost us significant sales due to supply errors.” (Pilot A)***  
***“Sales have decreased slightly but I suspect that this is the result of economic conditions rather than the pilot program” (Pilot B)***

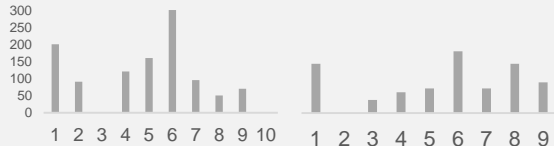


**The limitations on supply were seen by some to add to sales declines while others saw no link.**

### Labour costs

Pilot A + B (19 responses)

Average reduction of \$110 per week in direct labour cost



***“Returns don’t take as long and I don’t have to pay staff extra to return copious amounts” (Pilot B)***  
***“Slight decrease in sales but offset by reduced costs” (Pilot A)***



**Efficiency gains translated into limited direct cost savings.**