
D Price comparison methodologies

In assessing the effects of Parallel Import Restrictions (PIRs) on prices in chapter 4, the Commission drew on a range of comparisons of the prices of current list trade books in Australia and in the United Kingdom (UK) and United States (US). They comprised:

- PSA/ACCC surveys, for the period 1989 to 2001
- Commission comparisons, for the financial years 2007-08 and 2008-09
- study participants' comparisons, for particular points during 2008-09.

While the methodologies employed had commonalities, they also differed in some important respects, as did the results obtained (box D.1).

This appendix discusses some methodological and interpretation issues that arise in relation to those price comparisons, and details the methodology used in the Commission's comparisons.

D.1 Methodological approaches and issues

Most price comparisons follow a broadly similar methodology: matching a selection of titles across countries (sometimes controlling for the particular edition); and then using some measure of price and/or cost to estimate the price difference. Within these broad parameters, studies can vary in a range of ways that have implications for the interpretation of their results. Some important considerations are:

- the titles sampled
- how retail prices are measured
- whether and how the format of compared editions is allowed to vary
- the time period to which a comparison applies.

This section discusses these considerations with reference to the approaches taken in the price comparisons drawn on in this report.

Box D.1 Price comparisons for trade titles in Australia, the UK and the US

PSA/ACCC surveys

Between 1989 and 2001, the Australian Competition and Consumer Commission (ACCC) and, before it, the Prices Surveillance Authority (PSA) conducted several surveys comparing the prices of titles in Australia to those of overseas editions.

The methodologies employed in each of these surveys are summarised in the ACCC's submission to this study (sub. 260).

Based on the collective results of these studies, the ACCC concluded that Australian consumers had generally paid more for books than their counterparts in the UK and the US for most of the period covered by its surveys. (The results for the ACCC's time series of price differentials for bestselling paperback fiction books are illustrated in the figure in box D.2).

The Commission's comparisons

The Commission conducted comparisons drawing on the extensive Nielsen BookScan databases for top 5000 sales in Australia, the UK and the US during 2007-08 and 2008-09.

The methodology used and results obtained were outlined in section 4.2, and are explained in more detail in section D.2 of this appendix.

In summary, the results suggest that, in 2007-08, when the Australian dollar was relatively strong, Australian consumers paid somewhat more for better selling trade titles than UK consumers and markedly more than US consumers. The estimated price-gap between Australia and the US was much narrower in 2008-09, whereas the price-gap between Australian and the UK was marginally wider.

Participants' comparisons

Several participants in this study, particularly booksellers and publishers, presented their own price comparisons. These typically involved comparisons of a handful of bestselling titles and were undertaken using prices (and exchange rates) in late 2008 or early 2009, after the large devaluation in the Australian dollar against the US dollar in the second half of 2008 (see figure D.1).

Some common aspects of the methodologies used were discussed in section 4.2. As foreshadowed there, this appendix outlines the methodologies and results of a number of the individual comparisons submitted by participants (see table D.3 at the end of this appendix).

Taken at face value, the results together suggest that prices of some titles in Australia can be competitive with, or lower than, the price of UK or US editions. At the same time, the comparisons suggest that there are also some titles available at a lower price in the UK and US.

Samples

Many price comparison studies for trade books, including those undertaken by the ACCC/PSA and by participants, have compared the price of a limited number (often less than a dozen, though up to 42 in one of the ACCC surveys) of bestselling titles in Australia to the UK and US price (with some publishers and booksellers basing their comparisons for this study on a selection of their own bestsellers).

For its comparisons, the Commission has been able to draw on the extensive data on trade titles contained in The Nielsen Company's BookScan database — which was not available at the time of the PSA/ACCC surveys — with a focus on 'top 5000' editions (in sales terms) in the different countries. Its 'like-with-like' price comparisons include over 900 matches between Australian and UK editions and more than 300 matches between Australian and US editions. Its 'lowest cost' comparisons entail well over 1000 matches in relation to both the UK and US (section D.2).

An advantage of a focus on better selling books is that they account for a large segment of total retail sales of books. Indeed, the top 500 editions sold in Australia in 2007-08 accounted for one quarter of the value of all trade sales, while the top 5000 editions accounted for over half of the value (55 per cent in 2007-08). Equally, a focus on bestselling or better selling trade titles may mean that the resulting sample is not representative of the trade sector as a whole — in particular, it does not necessarily provide a good indication of average price differentials on back list titles.

Disadvantages of comparisons that use small sample sizes, particularly where the samples are not drawn randomly, are that they are more susceptible to selection bias and can provide less statistically robust results.

Price

Recommended retail prices

The recommended retail price (RRP) is set by the publisher around the date of publication. It is a readily available measure of price that forms the basis of price comparisons undertaken by the ACCC/PSA, many participants and the Commission.

A note of caution for the interpretation of RRP-based comparisons is that, to the extent that discounting practices vary across countries, they may give a misleading indication of actual retail price differentials. That said, the Coalition for Cheaper Books (sub. 218) contended that discounting practices are common in all markets

and therefore the comparison of RRP in different countries is a reasonable methodological approach.

To help test this contention, the Commission estimated the level of discounting in Australia and the UK by comparing the RRP and average selling price (ASP) for each of the top 5000 trade sales captured in the Australian and UK Nielsen BookScan databases. While the Commission found some differences between the two markets¹, the average level of discounting was similar — around 20 per cent off the RRP. Since ASP data was not available in the US Nielsen BookScan database, the same analysis could not be undertaken in relation to that market. Nor was data available to allow the Commission to control for the effects that the differences in the market shares of retail channels between the countries might have on ASPs (see below).

Average selling prices

Several participants used the Australian ASP in their price comparisons (for example, Hachette Australia, sub. 232; and Allen & Unwin, sub. 214). The Commission also supplemented its RRP analyses with comparisons based on Australian and UK ASPs.

ASPs are likely to vary between retail channels within any country as the level of service and discounting varies. For example, discount department stores tend to focus on selling bestselling titles at a substantial discount to the RRP. Typically, little if any specialist in-store sales support is provided to book buyers. In contrast, independent book retailers typically provide a higher level of service but offer a lower level of discount from the RRP. In a sense, consumers who buy books through independent bookstores pay not just for the book but also for the additional service offered with it.

Price comparisons based on ASPs may therefore be affected if there are significant variations in the composition of the book retail sector across countries. In this regard, the market share held by independent book retailers in Australia is around double that held by independent retailers in the US (chapter 2). Therefore, any measured gap between Australian and US ASPs may partly reflect the cost of the higher overall level of service provided to Australian consumers through its relatively large number of independent bookstores. Similarly, independents have a smaller market share in the UK relative to Australia (Tim Winton, sub. 204). This could also affect Australia-UK comparisons based on ASPs.

¹ The average discount that applied to the UK's top 50 trade sales was slightly higher than the average discount that applied to Australia's top 50 trade sales — 35 per cent in the UK compared to 30 per cent in Australia.

Adjustments to prices

A number of adjustments to overseas prices (RRPs and ASPs) are needed to estimate an ‘equivalent’ Australian price. In particular, prices need to be converted into a common currency and adjusted for differences in taxes.

Some participants added to the UK and US price an estimate of the cost of freight from the comparison country to Australia. Where adjustments for freight are made, several issues arise in determining an appropriate adjustment — particularly if the comparisons are to be used for assessing the effects of allowing parallel importation — as freight costs would be dependent on: where books are printed (which may be outside the UK/US); the number of books imported at any one time; and whether they are shipped by air or sea.

Timing

Exchange rate fluctuations

Changes in the value of the Australian dollar can markedly affect measured price differentials (see box D.2). Price comparisons undertaken at a point in time, by themselves, fail to reveal longer-term shifts and trends. As noted in chapter 4, it is the effects of PIRs over time that is of most relevance to future policy settings. The ACCC created a time series of price differentials, stretching to 12 years, for certain segments of the market (box D.2).

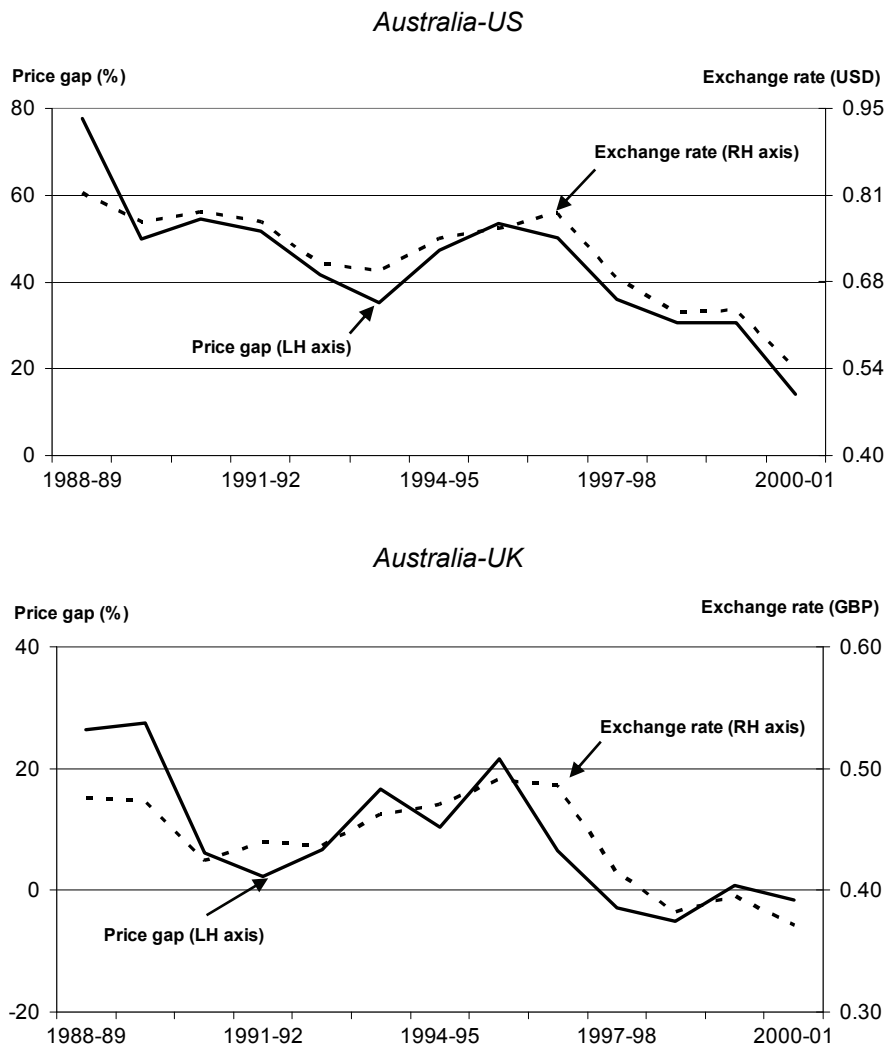
However, the Commission’s comparisons and those submitted by participants relate to specific time periods:

- The Commission’s analysis in the discussion draft was based on data only for 2007-08 — the latest financial year for which data was available. This was a period in which the Australian dollar was relatively strong, especially against the US dollar (figure D.1). The 2007-08 average Australian exchange rate was around US dollar (USD) 0.90 (17 per cent higher than the average between July 2003 and May 2009) and UK pound (GBP) 0.45 (6 per cent higher than the average between July 2003 and May 2009).
- The price comparisons submitted to the study by participants were generally undertaken for the period subsequent to the depreciation in the Australian dollar in the second half of 2008 (although, the Australian dollar recovered somewhat against the UK pound in late 2008 (figure D.1)). For instance, price comparisons by Leading Edge Books (sub. 254) were based on exchange rates in late 2008 — USD 0.69 and GBP 0.42. For comparisons with the US, Hachette Australia (sub. 232) used the 20 January 2009 exchange rate (USD 0.68).

Box D.2 Price differentials and exchange rate movements

The Commission mapped the results of the ACCC's time series of price differentials (based on RRP) for 'like' bestselling paperback fiction books (the unbroken lines in the figure below) against the annual average exchange rates (shown by dashed lines) over the period 1988-89 to 2000-01. The figure suggests a correlation between movements in estimated price differentials and exchange rates. Over the period, the price of books as measured by the PSA/ACCC tended to be higher in Australia than in the UK and US. However, the depreciation of the Australian dollar from the latter half of the 1990s contributed to a narrowing of these price gaps and, in the case of the Australia-UK gap, to a reversal of the direction in some years.

Exchange rates and price gaps, bestselling paperback fiction 1988-89 to 2000-01



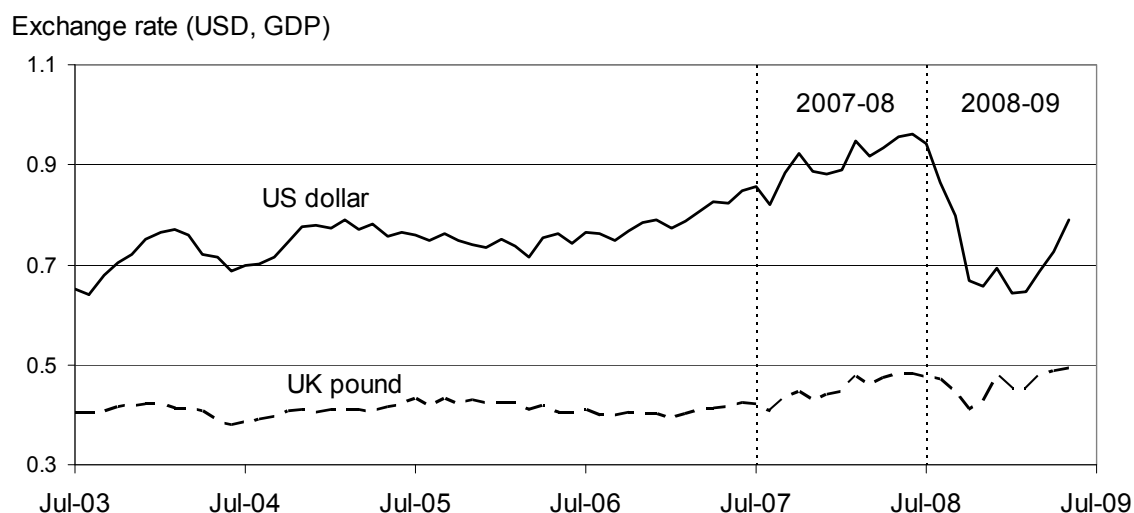
Exchange rates are the annual average for the financial year. Price differentials for 2000-01 are based on data for the six months to the end of December 2000.

Data sources: ACCC (2001) and RBA (2009).

- For this final report, the Commission has extended its price comparisons using BookScan data for (the first eleven months of) 2008-09. This period covers the time for which most participants undertook price comparisons. The average Australian exchange rate for the period was around USD 0.74 (5 per cent lower than the average between July 2003 and May 2009) and GBP 0.46 (9 per cent higher than the average between July 2003 and May 2009).

The potential for price gaps to change over time needs to be recognised when interpreting the results of comparisons, particularly when attempting to derive lessons from them in relation to the effects of PIRs. In this context, what matters in assessing whether PIRs have price impacts is not whether the average price of books is higher or lower in Australia compared to other markets, either at a point in time or over time, but rather whether there would be opportunities, from time to time, for the importation and sale of at least a subset of books at lower prices from abroad.

Figure D.1 Australian dollar exchange rates, July 2003 to May 2009



Data source: RBA (2009).

Seasonal differences

Seasonal differences in sales patterns across countries may to some degree affect the results of comparisons undertaken during a particular month. For example, as Mother's day is not celebrated in the same month in Australia and the UK, price comparisons undertaken in May (when the demand, and actual selling prices, for books in Australia may be somewhat higher due to Mother's day) may not be representative of the underlying price differential. There could also be seasonal differences in demand for particular types of books between northern and southern

hemisphere markets. Using a full year of sales data, and/or using RRPs (which are unlikely to be very responsive to seasonal sales patterns) may reduce any such seasonal bias.

Format

Titles can be published in more than one edition, both within the one country and across countries. Editions may vary in terms of internal layout, paper quality, size, cover material and sometimes content.

For analytical purposes, comparisons of equivalent editions (see box 4.1) in principle provide the best means of ascertaining price differences between markets. Such comparisons attempt to hold the ‘quality’ of the product constant, so that any price differences do not simply reflect that higher quality products are typically more expensive than lower quality products, in whatever market they are sold. Such ‘apples with apples’ comparisons formed the basis of the bestseller surveys undertaken by the ACCC, the main comparisons undertaken by the Commission and some comparisons submitted by participants.

In addition, some participants compared the prices of the ‘first available’ edition in each country (and others did not control for differences in editions at all). The format in which the Australian edition of a title is first available is sometimes different from the format(s) available overseas. For instance, unlike the UK and the US where titles are frequently first released in a hardback edition, titles tend to be first released in Australia as a large C format trade paperback. Such comparisons effectively compare the price of a higher quality item (a hardcover edition of a book) with a lower quality item (a paperback edition). In a similar vein, the Commission undertook a supplementary analysis that compared the price of the ‘lowest cost’ edition of particular titles available in the different markets (see below).

D.2 Details of the Commission’s price comparisons

Data

The Commission’s price comparisons use data from The Nielsen Company’s BookScan database, which contains extensive retail data for trade sales (see box D.3). Specifically, the price comparisons are based on the top 5000 trade sales captured in the Australian BookScan database, the top 5000 captured in the UK database and the top 5000 (for each of the fiction, non-fiction and children’s categories) in the US database.

The following variables are available in the BookScan database for each edition:

- identification variables — including title, author, imprint, publisher and ISBN
- sales and price variables — the total volume and value of books sold, as well as the RRP and the ASP
- category variables — including the broad format (ie hardback or paperback) and the product class (fiction, non-fiction or children's)
- the publication date and country.²

While the Australian and UK BookScan databases are limited to the binary (hardback or paperback) classification of editions, the US BookScan database uses a somewhat different and more detailed format classification system (including categories such as mass market paperback, trade paperback and hardcover). However, detailed information on the format of each edition (such as A format, B format, trade paperback or hardback) was obtained from the Nielsen BookData database (see box D.3) for Australia and the UK. (The same detailed format information was not available from the BookData database for the US.)

Box D.3 The Nielsen databases

Nielsen BookScan

Nielsen BookScan is a continuous retail monitoring service for English-language trade books in several countries including Australia, the UK and the US. It collects transaction data at the point of sale directly from tills and despatch systems. (Similar data is not available in the Nielsen BookScan database for education sales.)

The panel of retailers includes chains, independent retailers, discount departments stores and some online retailers. The retail panel accounts for the majority of trade sales in each country — the BookScan database is estimated to capture around 90 per cent of all retail trade sales to consumers in Australia and the UK and around 75 per cent of all retail trade sales to US consumers.

Nielsen BookData

Nielsen BookData is a global bibliographic database that holds records for more than 7.5 million titles, including detailed information relating to the various local and foreign editions of an individual book title, such as its format, country of publication, publisher, distributors and publication date. Information is collected from publishers and other data providers from over 70 countries (including Australia, Europe, Ireland, New Zealand, South Africa, the UK and the US).

Sources: Nielsen BookScan (2008a, 2008b, 2009) and Nielsen BookData Online (nd).

² The country of publication is not available in the US BookScan database

Method

The Commission estimated price differentials using the following approaches:

- Australian RRPs were compared to (a) UK RRPs and (b) US RRPs for ‘like’ editions of the same title
- Australian (point-of-sale) ASPs were compared to UK ASPs for ‘like’ editions of the same title. (ASP data is not available for US sales.)

The Commission supplemented these like-with-like comparisons by comparing the RRP (and, for Australia and the UK, the ASP) of the lowest cost Australian edition of a title to (a) the price of the lowest cost UK edition and (b) the lowest cost US edition.

Matching books

For all comparisons, Australian and overseas editions were first matched by title and author. To aid this process, the Commission standardised the ‘title’ and ‘author’ fields between the Australian, UK and US databases. For instance, records were standardised in the case where only the author’s initial and surname was recorded in one database, but their full name was recorded in another.

For the like-with-like comparisons, editions were then matched on the basis of the ISBN and/or (detailed) format details in the databases.³ To aid in matching by format, ‘hardcover’ in the US database was standardised with ‘hardback’ in the Australian database, and ‘trade paperback’ in the US database was matched with ‘trade paperback (US)’ and ‘B format paperback’ in the Australian database.⁴ Matches where the Australian and overseas editions were published more than two years apart were excluded from the analysis (though sensitivity analysis revealed that this constraint had little impact on the results). These processes resulted in 916 and 974 matches of editions in Australia and the UK, for 2007-08 and 2008-09

³ Detailed format information, obtained from the Nielsen BookData database, was available for around one quarter of the top 5000 books in the Australian BookScan database.

⁴ For the comparisons in the discussion draft, ‘trade paperback’ in the US database was standardised with ‘trade paperback (US)’ in the Australian database. Five US editions matched with Australian editions on this basis. All other ‘trade paperbacks’ in the US database were not included in the analysis.

As discussed in chapter 4, for the comparisons in this final report, the Commission has additionally matched editions listed as ‘trade paperbacks’ in the US BookScan database with those labelled as ‘B format paperbacks’ in the Australian database. There can be some size and quality differences between these books but, in general, they are sufficiently comparable in the Commission’s view to be included in the like-with-like comparisons. This change expands the sample size in the Australia-US like-with-like comparisons by 117 matches for 2007-08.

respectively, and 347 and 320 matches of editions in Australian and the US. The sample size in the Australia-US comparisons was limited by the absence of format detail for some editions. As well, as noted in chapter 4, the Commission opted not to match ‘mass market paperbacks’ in the US database with A format paperbacks in the Australian database.⁵

For the lowest cost comparisons, the format and publication date were allowed to vary. Relaxing these constraints meant that the number of matches increased to almost 1400 for the Australia-UK exercise and to more than 1100 for the Australia-US exercise.

Adjustments and other issues

The following adjustments were applied to RRP and ASPs in all comparisons:

- Sale taxes were removed from all prices. Accordingly, the 10 per cent Goods and Services Tax (GST) was excluded from the Australian price. Since no Value Added Tax (VAT) is applied to books in the UK and no federal tax is applied to books in the US, these prices were not adjusted for taxes. While a sales tax is applied to books in some states in the US, unlike the GST this tax is applied on top of the RRP (Nick Earls, sub. 17) and therefore should not impact on the analysis.
- Overseas prices were converted into Australian dollars using the average of the daily exchange rate over the period to which the comparisons related. This method follows that used in the earlier ACCC/PSA price comparisons and avoids the use of particular extreme (high or low) exchange rates that may have prevailed at particular times during an assessment period.
- Both the unweighted (or simple) and weighted averages are reported below. The simple average gives equal weight to all estimated price gaps in the sample. In contrast, the weighted average scales each price gap according to the total volume (or value) of sales of the Australian edition. That is, high selling Australian editions are given a greater weight compared to low selling Australian editions. The following discussion of the results focuses on simple averages.

⁵ US mass market paperbacks and A format paperbacks are of similar dimensions, but the US mass market paperbacks tend to be printed on lower quality paper and have a lower quality appearance. While there is a case for their inclusion in the like-with-like comparisons (possibly with an adjustment to reflect quality differences), the Commission has taken a more conservative approach and omitted these matches. (For the 2007-08 Australia-US like-with-like comparisons, inclusion of these matches would increase the estimated average price gap, on a like-with-like basis, from 35 per cent to 48 per cent.)

Results

Like-with-like price comparisons

For like editions in 2007-08, Australian prices are estimated, on average, to have exceeded UK prices for like editions by 9 per cent (on an RRP basis) and 18 per cent (on an ASP basis), and US prices (on an RRP basis) by 35 per cent.

For 2008-09, the equivalent estimates are 12 per cent (UK: RRP basis), 25 per cent (UK: ASP basis) and 12 per cent (US: RRP basis) (see table D.1).

Table D.1 Like-with-like price comparisons, 2007-08 and 2008-09

The extent to which the Australian price exceeds the UK/US price.

	<i>Australia – UK</i>			<i>Australia – US</i>		
	<i>Mean (%)</i>	<i>Median (%)</i>	<i>N^a</i>	<i>Mean (%)</i>	<i>Median (%)</i>	<i>N^a</i>
2007-08:						
RRP basis						
Unweighted price difference	9	10	910 ^b	35	31	347
Weighted (by volume)	10	12	910	35	31	347
Weighted (by value)	11	12	910	35	34	347
ASP basis						
Unweighted price difference	18	15	916			
Weighted (by volume)	17	17	916			
Weighted (by value)	19	19	916			
2008-09^c:						
RRP basis						
Unweighted price difference	12	11	961 ^b	12	12	320
Weighted (by volume)	10	10	961	11	12	320
Weighted (by value)	12	11	961	12	12	320
ASP basis						
Unweighted price difference	25	23	974			
Weighted (by volume)	19	16	974			
Weighted (by value)	22	18	974			

^a N is the number of like-with-like matches. ^b The RRP was missing from the Nielsen BookScan database for six books in 2007-08 and 13 books in 2008-09, as a result these matches could not be included in the RRP analysis. ^c Data was only available for the 11 month period from 1 July 2008 to 31 May 2009.

Source: Productivity Commission estimates based on the Nielsen BookScan and BookData databases.

The estimated price differences for the matched editions in the sample varied around these averages (figure D.2). For instance, while the average price (RRP) in Australia was 9 per cent higher than in the UK in 2007-08, the price differentials for the middle two thirds of the sample ranged from between 7 per cent lower to 25 per cent higher. The Australian RRP exceeded the UK and US RRPs for a like edition in around 80 per cent and 95 per cent of cases respectively in 2007-08, and in around 80 per cent of cases with the UK and the US in 2008-09.

To help test whether the ‘average’ results reported above are sensitive to outliers in the sample, the Commission also calculated ‘median’ price differentials. The median price gaps were found to be similar to the average price gaps (table D.1).

The Commission also undertook an exercise to illustrate how such results can vary depending on the exchange rate used. It found that the estimated average price gap (based on RRPs for 2007-08) of like editions between Australia and the UK and US, respectively, would have been eliminated had exchange rates of GBP 0.41 and USD 0.67 been used. Using ASPs, the Australian-UK estimated average price gap for like editions in 2007-08 would have been eliminated had an exchange rate of GBP 0.38 been used.⁶ This demonstrates that, *all else equal*, a depreciation of the Australian dollar increases the price competitiveness of locally published books and reduces the incentive to import books (as is the case with all products).

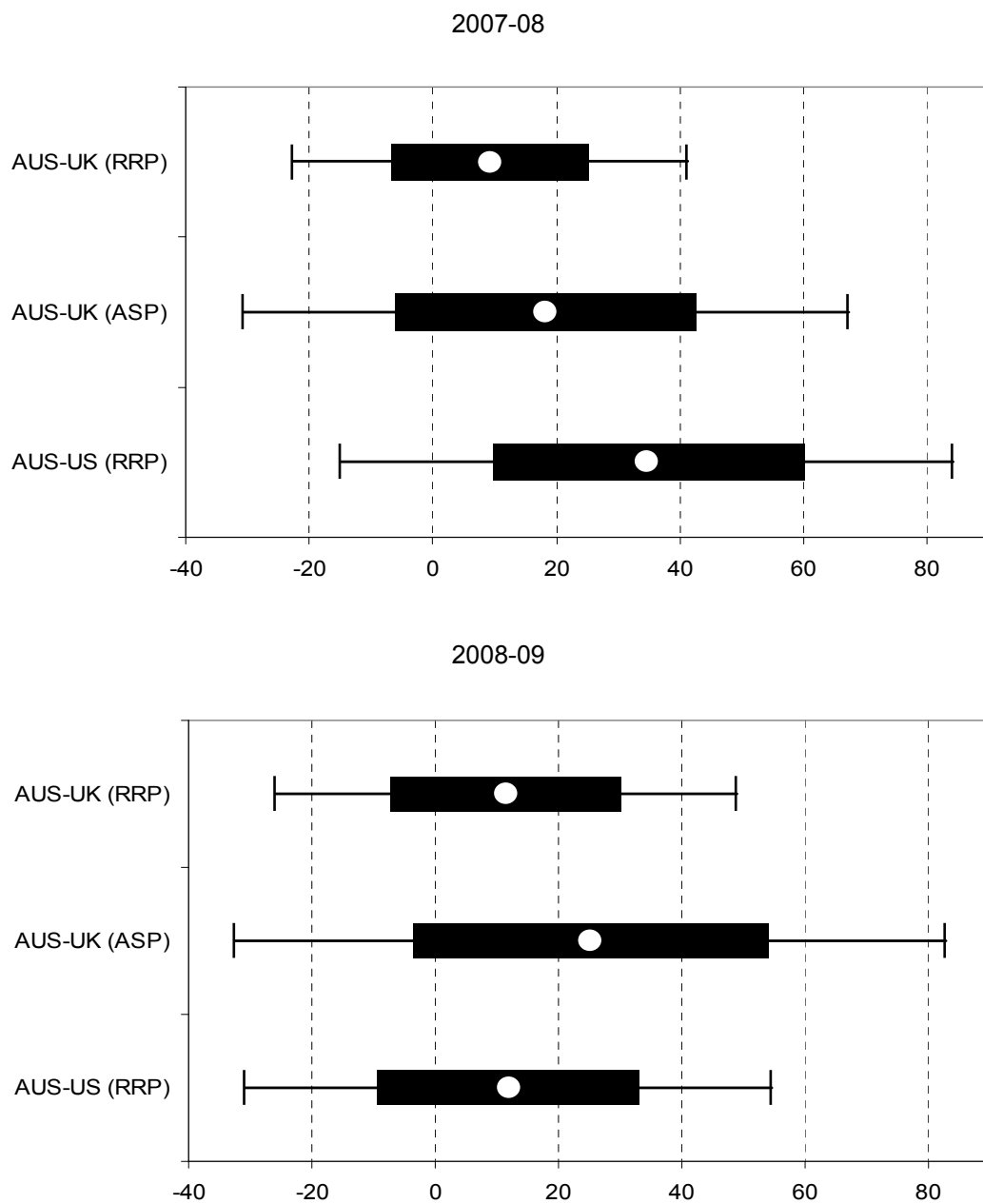
Importantly, for the purposes of this simple illustration, prices in Australia were held constant, rather than being adjusted to reflect the effects of the imposed exchange rate movements. In practice, it is likely that domestic book prices will respond over time to movements in the Australian dollar, especially those as large as the recent movements against the US currency. This is one reason why it should not be assumed that the price of Australian books will be equal to or lower than the price of like books in the UK or US whenever the Australian dollar is at or below the exchange rates (GBP 0.41 and USD 0.67) reported above for the RRP comparisons, as was suggested by some participants (see, for example, subs. DR334, DR387 and DR442) and more recently in a study released by the Australian Publishers Association (2009b).⁷

⁶ The exchange rates at which the estimated average price gap would be eliminated in the lowest cost analysis were GBP 0.40 and USD 0.57 on an RRP basis, and GBP 0.37 on an ASP basis.

⁷ In their submissions, participants used the exchange rate of USD 0.69 as the ‘switch point’ for a reversal of the direction of price gaps between Australia and the US. This was based on the estimates presented in the discussion draft of an average book price difference between Australia and the US of 30 per cent. For this final report, the Commission has expanded its sample size by matching US trade paperbacks with B format paperbacks (see above), which has resulted in an estimated average price difference to 35 per cent. Accordingly, the illustrative switch point presented in this final report, of USD 0.67, is slightly lower than that presented in the discussion draft, and cited by participants.

Figure D.2 The range of price gaps for like-with-like comparisons, 2007-08 and 2008-09^a

Per cent



^a The 'white dots' represent the average value, the 'black boxes' represent the range of price gaps for two thirds of the sample and the 'whiskers' represent the range of price gaps for 95 per cent (or two standard deviations away from the mean) of the sample.

Data source: Productivity Commission estimates based on the Nielsen BookScan and BookData databases.

Lowest cost price comparisons

The results of lowest cost price comparisons indicate that, where different editions of titles are available in the these markets, the price of the cheapest available edition of titles in Australia is typically higher (table D.2). On average, the cheapest available edition of a title in Australia was estimated to be:

- 13 per cent higher in RRP terms and 22 per cent higher in ASP terms, compared to lowest cost UK edition in 2007-08, and 13 per cent and 27 per cent, respectively, in 2008-09
- over 50 per cent higher in RRP terms compared to the lowest cost US edition in 2007-08, and 27 per cent higher in 2008-09.

Table D.2 Lowest cost price comparisons, 2007-08 and 2008-09

The extent to which the Australian price exceeds the UK/US price.

	<i>Australia – UK</i>			<i>Australia – US</i>		
	<i>Mean (%)</i>	<i>Median (%)</i>	<i>N^a</i>	<i>Mean (%)</i>	<i>Median (%)</i>	<i>N^a</i>
2007-08:						
RRP basis						
Unweighted price difference	13	8	1376	58	45	1201
Weighted (by volume)	16	13	1376	49	36	1201
Weighted (by value)	21	13	1376	48	31	1201
ASP basis						
Unweighted price difference	22	14	1384			
Weighted (by volume)	25	19	1384			
Weighted (by value)	34	26	1384			
2008-09^b:						
RRP basis						
Unweighted price difference	13	8	1379	27	16	1115
Weighted (by volume)	15	11	1379	21	12	1115
Weighted (by value)	21	14	1379	22	12	1115
ASP basis						
Unweighted price difference	27	21	1396			
Weighted (by volume)	31	20	1396			
Weighted (by value)	40	26	1396			

^a N is the number of title matches. ^b Data was only available for the 11 month period from 1 July 2008 to 31 May 2009.

Source: Productivity Commission estimates based on the Nielsen BookScan and BookData databases.

Some interpretation issues

As the Commission noted in chapter 4, even with the methodological safeguards built into its comparisons, a number of specific aspects of the approaches adopted mean that caution is needed in interpreting the results.

To reiterate, first, the Commission's comparisons relate only to two one-year time periods and as such do not indicate how price differentials respond to changes in the competitiveness of the local book sector over longer periods. That said, the Commission's comparisons were for the financial year immediately prior to the recent fall in the value of the Australian dollar against the US currency, and the year since, and so provide a useful indication of the (short term) effects of exchange rate change on measured price gaps.

Second, as the comparisons are based on RRP and ASP data, they suffer from the inherent limitations (as well as advantages) of such exercises (see section D.1). While the Commission considers that use of RRPs is a reasonable approach for comparisons with the UK, it has not been able to test the average discount from RRPs offered in the US. Nevertheless, the Commission notes the views of the Coalition for Cheaper Books (sub. 218), and the use of RRP-based comparisons with the US by other participants, suggesting that such comparisons, although imperfect, are still a reasonable basis to draw some conclusions about price relativities between the markets. In addition, there are potential biases associated with the use of ASP data, due to variations in the importance of different retail channels across markets.

Third, for its like-with-like comparisons, the Commission sought to match trade books sold in Australia to like editions sold in the UK or the US. Although the Commission sought to control for format, and restricted the comparisons to editions that were published within two years of one another, there are complexities in ensuring the comparison of editions that are sufficiently similar to be considered 'like editions'. Among other things, any cross-country variations in content, such as cultural re-editing, would remain in the matched editions, as would any differences in production quality and general content not picked up in the format data.

Finally, while making allowance for the levying of GST on books in Australia, the Commission has not sought to adjust retail prices to reflect differences in freight costs. As noted in chapter 4, for this and a range of other reasons, the results of these comparisons are at best an indication of gaps between the observed retail prices of books in the different countries; they do not of themselves attempt to indicate the price at which the books sold in other countries *could* have been sold in Australia.

Concerns raised by participants

A small number of supplementary submissions queried aspects of the methodologies underlying the Commission's price comparisons, as presented in the discussion draft.

Among others, Hachette Australia stated:

In Appendix D, the Commission has gone to commendable lengths in explaining its methodology in establishing if book prices are higher in Australia. However, the methodology is fundamentally flawed, in three respects:

- a) A "trade paperback" in the US is a completely different format to a "trade paperback" in Australia, or the UK, and yet a matching of the two were performed by the Commission. This distorts the results, as they are not like for like.
- b) An average exchange rate of GBP 0.45 and USD 0.90 has been used, on the basis that the ACCC and PSA used the same methodology in earlier cases. As is well known, both the ACCC and PSA reports were the subject of considerable rebuttal by various agencies at the time of their publication. No other reason is given by the Productivity Commission for the selection of an average exchange rate in 2007/08 (in the case of the USA, the highest level in living memory), rather than a more realistic period.

The Productivity Commission then goes on to point out that, had GBP 0.41 and USD 0.69 been used, then the price gap "*would have been eliminated*". A more realistic average exchange rate is the ten year average, which is quoted at GBP 0.40 and USD 0.69, and would thus eliminate any price gap, which the Productivity Commission perceived.

- c) No freight element has been factored in, and thus, assumes that an Australian consumer can access a book from the US and UK, with no cost of delivery. This is a fanciful notion.

It is for the above reasons that Hachette contends, along with many other submissions, that it is not proven that prices in Australia are generally more expensive than the US or UK. Furthermore, to the extent that any perceived difference "*might exist*", it would fall into a reasonable margin of error. (sub. DR480, p. 2)

On another matter, Daniele Clode submitted:

The report correctly notes that comparing first editions across countries may introduce systematic errors, given the higher proportion of hardback first editions overseas. The report then compares "like-with-like" versions of titles, which presumably compares similar paperback editions ... however it appears that this would compare first edition Australian paperbacks (marketed at a premium price) with later edition overseas paperbacks (which are likely to be lower in price). The report thus replaces one potential source of error with another, possibly greater, source. Clearly this data requires an analysis of covariance, which could control for variance due to factors like format and time since publication, clearly identifying that variance in price that is due to country of origin. (sub. DR276, p. 2)

The Commission has reviewed its methodologies and conclusions in the light of the comments received and considers them to be appropriate. To elaborate:

- a) The format data provided in the Nielsen Company's BookScan databases for both Australia and the UK classify trade paperbacks as either a 'trade paperback UK' or a 'trade paperback US'. The use of the same terms allowed direct matches. As mentioned above, however, the format classification system in the US database was somewhat different. In particular, in the US database, trade paperbacks were not separated into US and UK trade paperbacks. For the price comparisons reported in the discussion draft, 'trade paperback' in the US database was standardised to 'trade paperback US' and matches between Australia and the US were made accordingly. This standardisation procedure did not result in many additional matches (as there were only 5 such matches in total and, in most cases, the matched editions also exhibited the same ISBN). As noted earlier, for the Australia-US like-with-like comparisons in the final report, the Commission has expanded its sample to include matches of trade paperbacks in the US with B format paperbacks in Australia. At no time, however, has the Commission matched US trade paperbacks with Australian or UK (C format) trade paperbacks.
- b) The Commission used the average exchange rate over 2007-08 for the price comparisons in the discussion draft as this matched the sales period for which BookScan data was obtained. 2007-08 was the latest financial year data available when the Commission obtained the data. The use of the average daily exchange rate over a financial year avoids the effects of using any particular, extreme (high or low) exchange rates that may have prevailed at particular times during the year. The Commission is unaware of any (robust) criticisms of the method used for calculating average exchange rates.

In reporting the results of its comparisons, both in the discussion draft and in this final report, the Commission has been careful to highlight that the comparisons were for one year periods only and that changes in the exchange rate would affect the comparisons subsequently. The Commission also provided an illustration of the effects of using a different exchange rate on estimated price differentials calculated using 2007-08 data. However, as discussed above, it should not be concluded from that illustration that, *in practice*, the average price gap between Australia and the UK or US would be zero at the 'switch point' exchange rate calculated as part of that illustration. As the Australian exchange rate falls relative to the UK and US, the Commission would expect Australian RRP's to increase over time relative to those abroad, thus limiting the narrowing of the price gaps.

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- c) The Commission did not assume that Australian consumers can access books from the UK or US at zero freight cost. Rather, in chapter 4, the Commission noted the difficulties in determining an appropriate adjustment for freight costs and stated:

[W]hile making allowance for the levying of GST on books in Australia, the Commission has not sought to adjust retail prices to reflect differences in freight costs.

For this and a range of other reasons, the results of these comparisons are at best an indication of gaps between the retail prices of books in the different countries; they do not attempt to indicate the price at which the books sold in other countries *could* have been sold in Australia.

- d) The Commission did not claim in the discussion draft to have proven on the basis of its price comparisons that prices in Australia ‘are generally more expensive than the US or UK’. Rather, the aim of the Commission’s analysis in chapter 4 was to determine whether there would be opportunities, in the absence of PIRs, for the parallel importation of cheaper or better value books into Australia.

As explained earlier, what matters in assessing whether PIRs have price impacts is not whether the average price of books is higher or lower in Australia compared to other markets, either at a point in time or over time, but rather whether there would be opportunities, from time to time, for the importation and sale of at least a subset of books at lower prices from abroad. Thus, it is pertinent for assessing the effects of PIRs to recognise that movements in the currency would, in the absence of those restrictions, occasionally provide opportunities for Australian booksellers to source some stock quite cheaply from markets such as the US.

Further, the Commission’s comparisons were only one of a number of pieces of evidence that the Commission used to form a judgment on this matter. Other evidence drawn on included price comparisons submitted by participants (including Hachette Australia), undertaken using much lower exchange rates, and in some cases incorporating adjustments for assumed freight costs.

- e) In relation to Dr Clode’s submission, as noted above, what is relevant for gauging the price effects of the PIRs is whether there would be opportunities to source some books at lower cost from the UK or US (or elsewhere) than from a local publisher in the absence of the restrictions. From this perspective, the reason that such opportunities might exist — whether it be lower production costs or different release strategies in other markets — does not impact the analysis.

Table D.3 Selected participants' price comparisons

<i>Participant</i>	<i>Methodology</i>	<i>Results</i>
Australian Publishers Association (sub. 244, 2009a)	<p>The Australian Publishers Association surveyed 11 bestselling trade titles in Australia in December 2008 and 10 bestsellers in January 2009. On both occasions it compared the RRP in Australia to the:</p> <ul style="list-style-type: none"> • US and UK RRP (based on data from booksellers' websites) • discounted Amazon.com price plus shipping. <p>Overseas prices were converted into Australian dollars using the average monthly exchange rate — around USD 0.68 and GBP 0.47 in January 2009. The comparisons were based on the first released edition in each country, regardless of format.</p>	<p>In the December 2008 comparison, based on RRP and the Amazon-plus-shipping price, across all 3 countries, the Australian RRP was:</p> <ul style="list-style-type: none"> • highest for 3-out-of-11 titles; and • lowest for 3-out-of-11 titles. <p>In the January 2009 comparison, the Australian RRP was:</p> <ul style="list-style-type: none"> • highest for 1-out-of-10 titles; and • lowest for 3-out-of-10 titles. <p>Across the two time periods, the Australian RRP was higher than the UK RRP for 9-out-of-16 unique titles, and higher than the US RRP for 6-out-of-16 titles.</p>
Australian Society of Authors (sub. 70)	<p>In November 2008, the Australian Society of Authors selected 5 titles and compared the Australian RRP (and discounted Dymocks price) to the 'list' price in four other English language markets — the US, UK, New Zealand and Canada (allowing formats to vary).</p> <p>Overseas prices were converted into Australian dollars at a rate of around USD 0.64 and GBP 0.43.</p>	<p>Prices were found to vary across countries, with Australian prices sometimes higher and at other times lower than the overseas price. For instance, the data suggest that the Australian RRP was higher than the UK list price for 3 titles and lower than the UK list price for 2 titles.</p>
Coalition for Cheaper Books (sub. 218)	<p>The Coalition for Cheaper Books compared the Australian RRP (excluding GST) to the US RRP and the UK RRP for a selection of 11 international bestselling titles at the end 2008. (The format of the editions compared was not identified.)</p> <p>Overseas prices were converted into Australian dollars at the rate of USD 0.70 and GBP 0.48.</p>	<p>In most cases, the Coalition found that the RRP of the Australian edition was higher than the RRP of the equivalent UK and US edition. The average price gap of the sample was around 30%.</p>
Hachette Australia (sub. 232)	<p>For their top 20 bestselling titles in 2008, Hachette compared the:</p> <ul style="list-style-type: none"> • Australian RRP to the US RRP • Australian average selling price (excluding GST, sourced from Nielsen BookScan) with the Amazon.com price. <p>The US RRP was converted into Australian dollars using the 20 January 2009 exchange rate (USD 0.68).</p>	<p>Around three quarters of the top 20 selling titles sampled were cheaper in RRP terms in Australia than in the US, and one quarter were more expensive in Australia.</p> <p>After accounting for an individual postage and packing charge of \$15.44 per book, none of the titles could be obtained more cheaply from Amazon.^a</p>

(Continued next page)

Table D.3 continued

<i>Participant</i>	<i>Methodology</i>	<i>Results</i>
Harlequin Enterprises (Australia) (sub. 239)	Harlequin compared the Australian RRP of 4 of its leading titles (also available in the US in 2008/2009) to the 'equivalent' US RRP. The Australian dollar equivalent of the US RRP was estimated by: (1) grossing up the US RRP by 30% for freight (2) adding 10% for GST (3) converting the prices at the average exchange rate of USD 0.85.	Harlequin found that the Australian RRP was lower than the equivalent US RRP for all 4 titles. Based on Harlequin's sample, on average, the Australian RRP was 28% lower than the 'equivalent' US RRP.
Leading Edge Books (sub. 254)	For 16 international bestselling titles sold by its members, Leading Edge Books compared the Australian RRP and ASP to the 'equivalent Australian sell price' in the US and UK in November 2008 (allowing formats to vary in some cases). The UK/US 'equivalent Australian sale' price was estimated by: (1) discounting the UK RRP (from Amazon.co.uk) and the US RRP (from Amazon.com) by roughly 40% to estimate the wholesale price (2) adding estimated air freight (3) grossing up the 'wholesale price plus air freight' by 45% (4) converting into Australian dollars using the November 2008 exchange rates (USD 0.69 and GBP 0.423).	By comparing the Australian and overseas publication date, 8 internationally published titles that retained territorial copyright (ie complied with the 30 day rule) were identified. Of these, the Australian price was less than the equivalent US price in all cases, and the Australian price was less than the equivalent UK price in all but one case. Of the 8 internationally published titles that did not retain territorial copyright, the price in Australia was somewhat more expensive than the equivalent US price for 5 books and the equivalent UK price for 3 books.
Random House Australia (sub. 193)	Focusing on their top 10 bestselling books in 2008, Random House Australia compared the RRP for the first available (trade paperback) Australian edition against the 'equivalent' RRP for the first available (hardcover) US edition. The 'equivalent' US RRP was estimated by: (1) grossing up the US RRP by 30% for freight (2) adding 10% for GST (3) converting the prices at the average exchange rate of USD 0.85.	For the 7 best selling books available in Australia and the US, the survey results imply that the RRP of the first available Australian edition was between 24% and 30% lower compared to that of the first available US edition.
Walker Books Australia (sub. 256)	Walker Books compared the Australian RRP to the US and UK RRP for 14 of their bestselling children's titles. Overseas prices were converted into Australian dollars at the rate of USD 0.70 and GBP 0.49.	Of the 14 titles considered, the Australian RRP (excluding GST) was higher than the UK RRP for 8 titles for both the US and UK. However, these price gaps were 12% or less for 6 out of 8 titles in the Australia-UK comparisons and for 4 out of 8 titles in the Australia-US comparisons. Based on Walker Books' sample, the Australian price was, on average, 2% lower than the UK and US RRP.

^a While the Amazon.com price plus (individual) freight may act as a bound on the price currently available to Australian consumers, if the PIRs were removed, retailers could most likely import bulk copies at a lower freight cost per book.