



EARLY DAY MOTION 2246

NEWS AND MAGAZINE WHOLESALE REFORM

The Rural Shops Alliance is a trade association representing the views of 7,500 rural retailers. We are urging all MPs to sign this EDM. There are newsagents in all constituencies, urban as well as rural, affected by the issue. In this paper we have provided background information on the newspaper distribution industry and why a referral to the OFT is needed.

DETAILS OF THE EDM

- Date tabled: 13.10.2011
- Primary sponsor: Mr Adrian Sanders MP

That this House supports the call of the Association of News Retailers for the Office of Fair Trading (OFT) to undertake a full investigation into the supply of news and magazines to retailers; believes there is clear evidence that the OFT criteria for a market review, which include consumer harm, restricted and distorted competition between wholesalers due to absolute territorial protection and a high degree of publisher control over the industry have been met; and urges the OFT to recommend a full market review and for the issue to be debated in Parliament at the next available opportunity.

BACKGROUND INFORMATION

The distribution industry for newspapers is unique, getting product from regional depots to retailers in a very short time window in the early hours of the morning. The newspaper publishers appoint distributors to cover exclusive territories. This is termed "absolute territorial protection" (ATP) and excludes other wholesalers from selling to retailers. Hence, shopkeepers have no choice of supplier or any influence over the cost of the papers themselves or the delivery charges they pay.

Today, just two distribution companies, Smiths News and Menzies, have ATPs covering nearly all of the UK for most newspaper titles, each with their own separate regional monopolies. News International titles are subject to separate delivery arrangements from the other titles in some parts of the country.

These arrangements are clearly monopolistic and to operate they need an exemption from the Competition Act. The Office of Fair Trading (OFT) has looked at this industry several times, concluding in September 2009 (at a time when there were still three big distributors) not to refer it to the Competition Commission.

The OFT thought that although certain features of the sector meet the statutory test for making a reference, it should exercise its discretion not to do so. Given that the sector might evolve, it was seen to be difficult to assess the need for, or the likely impact of, any possible remedies.

This conclusion turned out to be as wet as a weekend in a hot tub. Almost immediately after this result was announced, the newspaper publishers re-awarded their distribution contracts. The third largest player in the market, Dawsons News, and a number of smaller local distributors lost their contracts and as a result closed down. This left just two major players, Smiths News and Menzies. So much for preserving competition!

However, the OFT did indicate in September 2009 that it would not rule out the possibility of another review of the sector in two years time.

A SMALL BUT TELLING EXAMPLE

In some parts of the country, Smiths News, for its own operational reasons, delivers News International titles to newsagents from one depot whilst all other newspapers come to them in a separate van from a different Smiths News depot. The Company then invoices the retailer for two separate delivery charges. For a typical retailer, this extra cost will amount to over £1,500 per year and makes a real difference to the profitability of selling newspapers. In no other industry where there is competition would a distributor even contemplate such blatant and arrogant practice.

RETAILERS' VIEWS

Newspaper sales are a vital part of their business for thousands of local retailers. Customers want to buy their paper very locally and it has one of the shortest shelf lives of any product. For some shops, a quarter or even a third of turnover comes from newspapers and magazines. They are important to profitability in their own right and their contribution to customer footfall is also considerable. Newspaper sales help to keep thousands of local shops viable as vital community assets.

Retailers often bitterly resent the fact that they have no control over which company they buy their newspapers from or any say in the trading terms they are offered. We know that Smiths News and Menzies operate a very difficult time-critical operation. However, many of their depots do really reflect the monopolies they are in terms of the service they offer retailers and their lack of response to queries or complaints. Issues from our retailers revolve around the following points:

Late or unpredictable deliveries

This is a time-critical operation and it is inevitable that on occasion things will go wrong. However, as local monopolies, there is no real incentive for the distributors to invest to improve their service or to build any slack into the system to improve customer service at the expense of some profitability. For example, if a delivery van breaks down then those deliveries will be effected very late – there is no incentive for the monopoly distributors to have a backup vehicle (at extra expense to themselves) to improve customer service.

Problems with sale or return arrangements

Our members often report continuing arguments and disagreements with their distributors over credits for their returned unsold papers. The very narrow time window allowed for returns is also a considerable operational nuisance.

Delivery charges

These can make a significant impact on the profitability of newspaper sales. Retailers have no say over the level of these charges that they have to pay to distributors.

Delivery quantities

The distributors allocate the numbers of each title sent to each retailer, only partly based on how many copies the retailer orders. In particular, small outlets which need to regularly amend their newspaper orders (e.g. if they supply a local hotel, where quantities need to change daily) have considerable difficulties. The whole system is not responsive to the needs of the small newsagent.

Poor customer service

There is a general consensus amongst newsagents that dealing with the distributors is often a nightmare – calls are not returned, instructions ignored and too many errors made. A culture of respecting the customer is lacking – typical of a monopoly supplier.

Preferential treatment for large accounts

Putting together the various sections of newspapers, particularly at the weekend, is a major labour-intensive undertaking for newsagents. Large accounts, such as Tesco, receive their papers made up, with all the sections together, in polythene wrappers. This puts smaller retailers at a distinct cost disadvantage.

CONCLUSION

A first response to the EDM could be that the OFT has looked at this industry fairly recently and that should suffice. It is easy to see why the OFT has tried not to get more involved.

However, this is not a straightforward issue. The key question is whether the ATP arrangements justify their current exemption from the Competition Act. The restructuring of the industry immediately after the last OFT review indicates that there has been sufficient change to warrant further investigations.

Although it is difficult to compare them directly because of geographical and cultural differences, other European countries do have very different newspaper distribution models that work well for them. The ATP system is not the only way of doing things. We really would hope that by looking at foreign systems the OFT could find a solution that balances the needs of newspaper publishers, retailers and the two big newspaper distributors.

We do understand that many MPs do not sign EDMs as a matter of principle. Even if this is the case, then we would request that you consider a more direct approach to the Minister on this issue.

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