

Strategic Position

Ad Rem



Challenges

Opportunity

Industry Transformation

The current Ad Rem system is still a lot full



Ad Rem Value Chain Analysis

Final Presentation

September, 2001

This document forms the deliverable of the Ad Rem value chain analysis. A final report on the Ad Rem project is due to be published in September 2001

- | | |
|--|---|
| <ul style="list-style-type: none">• This document forms the second of two major detailed deliverables of the Ad Rem project. A final report on the Ad Rem project is due to be published in September 2001• This document, and supporting materials developed as part of the project, can be found on: www.adrem-online.net• The scope of the Ad Rem value chain analysis has encompassed Australian book printers, publishers and booksellers with a particular focus on analysing and making recommendations for printers and publishers (book manufacturing). The value chain analysis is orientated around the industry's supply chain issues, rather than issues related to content generation, consumer reading preferences, etc.• The focus has been on analysis to provide a quantitative overview of the value and cost drivers in the book industry, rather than to develop solutions for specific problems• The stated improvement potentials are estimated at an industry level and require further investigation prior to gaining the commitment of investments and resources | <ul style="list-style-type: none">• This is not a statistical analysis. All calculations and recommendations are based on a consolidation of data from secondary and primary sources, with the latter reliant on the quality of financial and operational data provided by the organisations participating in the Ad Rem project• Certain data points in graphs and details of calculations have been omitted in this report to honour the confidentiality of data provided by Ad Rem participants• The value chain analysis is an industry wide study and thus data from different types of publishers (eg. trade and education), book segments and sales channels have been aggregated to form certain overviews. Where comparisons are made to draw conclusions, particular care has been taken to ensure that the 'reference' company is valid for this purpose• Given that this study was for a whole industry this document is not specifically tailored for any individual company• Anyone viewing this report must assess whether it is appropriate, in light of one's own particular circumstances, to act upon the relevant information |
|--|---|



- **The value chain analysis developed for the Australian book industry supports two key Ad Rem objectives and has actively engaged participants from across the industry**
- **The Australian book industry has an annual turnover of \$1.9 billion supported by three industry sectors with very different value structures**
- **The Ad Rem project has identified improvement opportunities estimated to be worth \$155 million annually for the Australian book industry, based on the value chain analysis**



The value chain analysis developed for the Australian book industry supports two key objectives of the Ad Rem project and has actively engaged participants from across the industry

The overall goal of Ad Rem:

To identify and evaluate the challenges and opportunities facing the book manufacturing and publishing industry and to provide insights as to how the industry and individual firms may achieve a sustainable strategic position in the future

Ad Rem objectives:

- **Determine the value chain drivers and the competitive situation**
- Determine possible industry scenarios and assess the implications
- **Determine how companies in different parts of the value chain can position themselves for the future**

- *A total of 27 printing, publishing and bookselling companies have contributed financial and operational data to the project*
- *150 interviews have been conducted with more than 120 industry representatives from over 50 different companies and industry associations¹*
- *Interviews were targeted at top management and the areas of finance, sales, purchasing, scheduling/planning, production, forecasting, order management, distribution and returns*

Notes:

1) Please refer to Appendix A for further detail



Booksellers, publishers, and printers from the Australian Book Industry have contributed valuable information to the value chain analysis through data collection and qualitative interviews

Booksellers:

- Angus & Robertson
- Big W
- David Jones
- Dymocks Booksellers
- Gleebooks
- Landmark School Supplies
- Monash University Bookshop
- SeekBOOKS.com.au
- Shearer's Bookshops
- University Co-Operative Bookshop

Publishers:

- Allen & Unwin
- Harlequin, Mills & Boon
- HarperCollins
- Hodder Headline
- John Wiley & Sons
- Lothian Books
- Macmillan Education Australia
- McGraw-Hill Book Co. Australia
- Pan Macmillan
- Penguin Australia
- Random House Australia
- Scholastic

Printers:

- The former Australian Print Group
- dbooks
- Griffin Press
- Ligare
- McPherson's Printing Group



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The Australian book industry has an annual turnover of \$1.9 billion supported by three industry sectors with very different value structures

Book sales are increasing in Australia with most books classified as trade, and book chains accounting for the highest volume

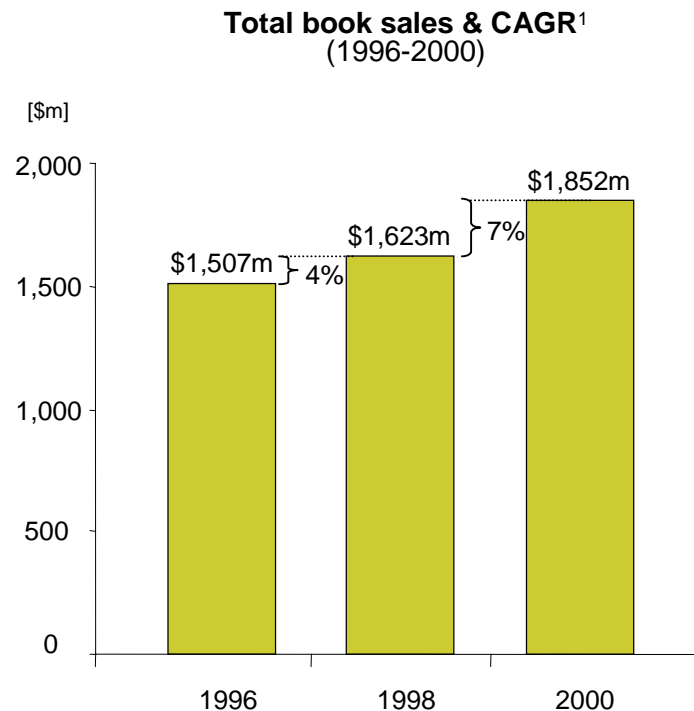
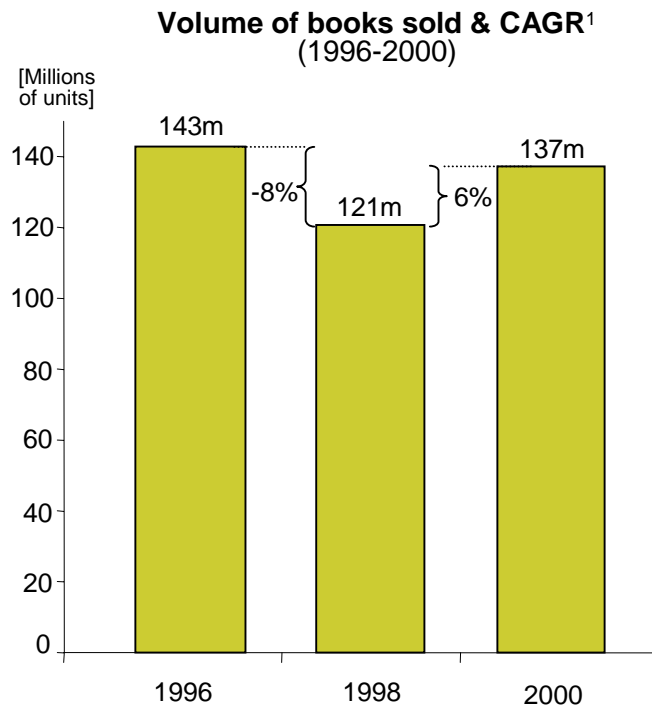
While revenues are growing steadily in the publishing sector, the book printing sector is experiencing a decline in revenues

The Australian book industry value chain highlights that the publishing sector is controlling most of the costs and obtains the highest level of profits

Overall value created in the industry is declining with all three industry sectors contributing to this loss through decreasing profitability

Please note that all sales/revenue figures listed in this report do not include GST

Volume is relatively flat, while revenues are growing steadily



- Book sales include:
- Retail
 - Direct to consumer from publishers
 - Export and re-export by publishers
 - Direct import by booksellers & consumers
- Not included:
- Books self-published by corporations or individuals

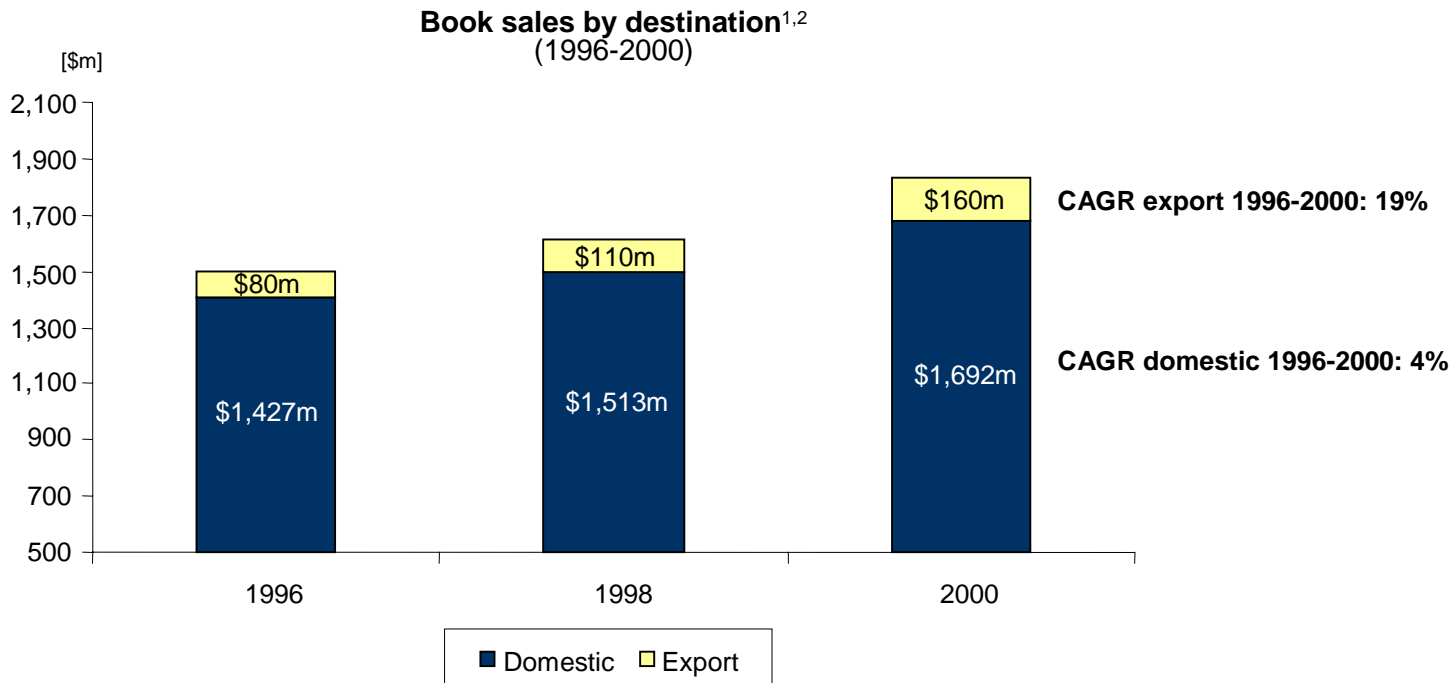
Notes:

- 1) Sources: - ABS, Australian Book Publishing, 1994-2000
 - WebsterAAP Pty Ltd, 2000
 - Ad Rem participant data
 - ABA, Economic Survey, 1995-98
 - Accenture analysis

Industry Situation

Book Sales by Destination

Export sales are growing at a much faster pace than domestic sales



Notes:

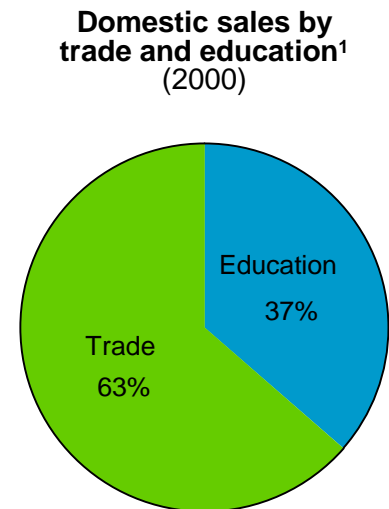
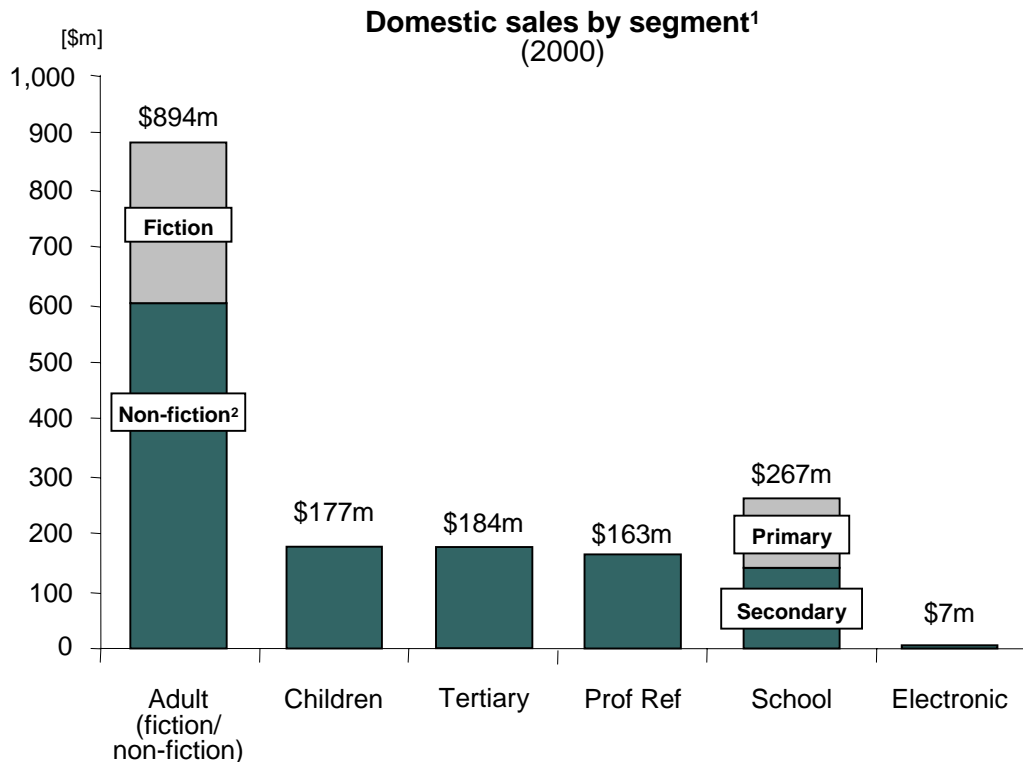
- 1) Sources: - ABS, Australian Book Publishing, 1994-2000
 - WebsterAAP Pty Ltd, 2000
 - Ad Rem participant data
 - ABA, Economic Survey, 1995-98
 - Accenture analysis

- 2) Book sales include: - Retail
 - Direct to consumer from publishers
 - Export and re-export by publishers
 - Direct import by booksellers & consumers
- Not included: - Books self-publishing by corporations or individuals

Industry Situation

Book Sales by Segment

The sale of trade books (measured by bookseller revenue) accounts for 63% of the domestic market, the majority of which are non-fiction



Trade books account for almost two thirds of all books sold in Australia

Notes:

1) Sources: - ABS, Australian Book Publishing, 1994-2000
 - WebsterAAP Pty Ltd, 2000
 - Ad Rem participant data
 - ABA, Economic Survey, 1995-98
 - Accenture analysis

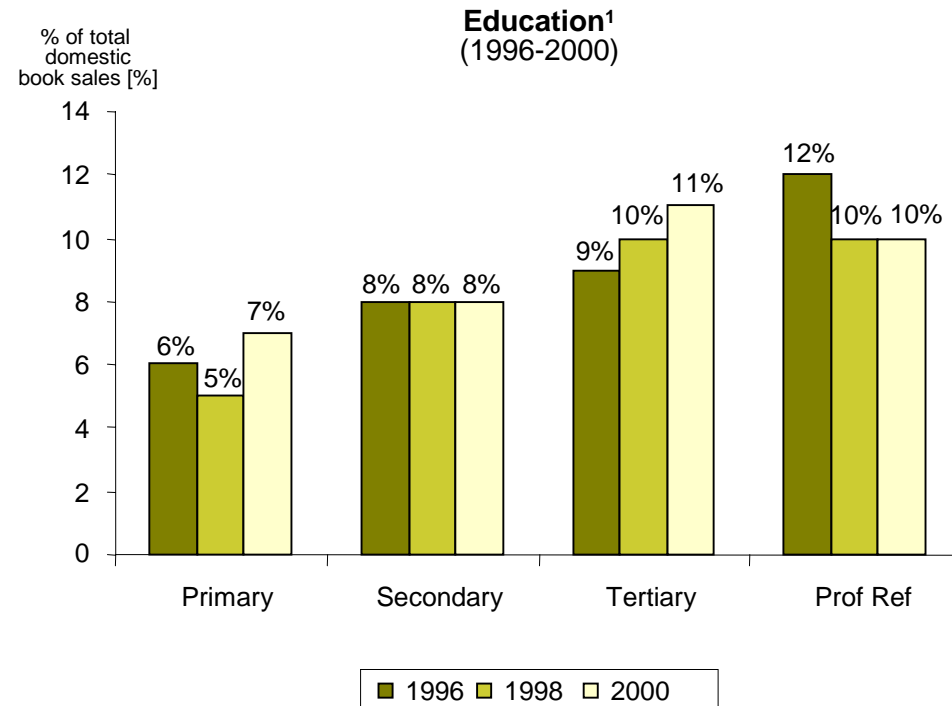
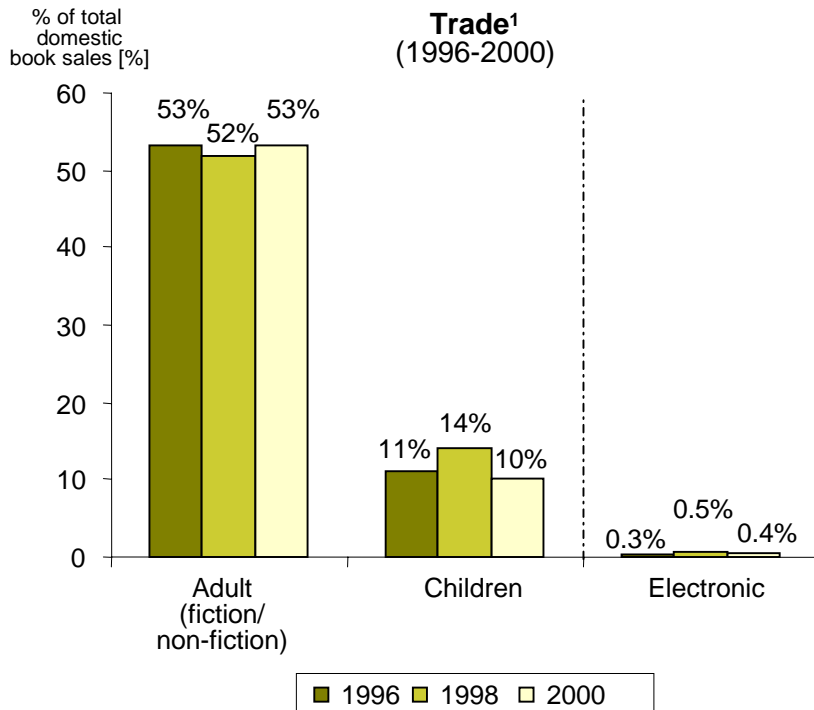
2) Non-fiction books include autobiographies, coffee table books, garden books, management books, recipe books etc. The share of this segment has increased from 31% in 1994 to 36% in 2000 (ABS, Australian Book Publishing, 1994-2000)

Industry Situation

Book Sales by Segment



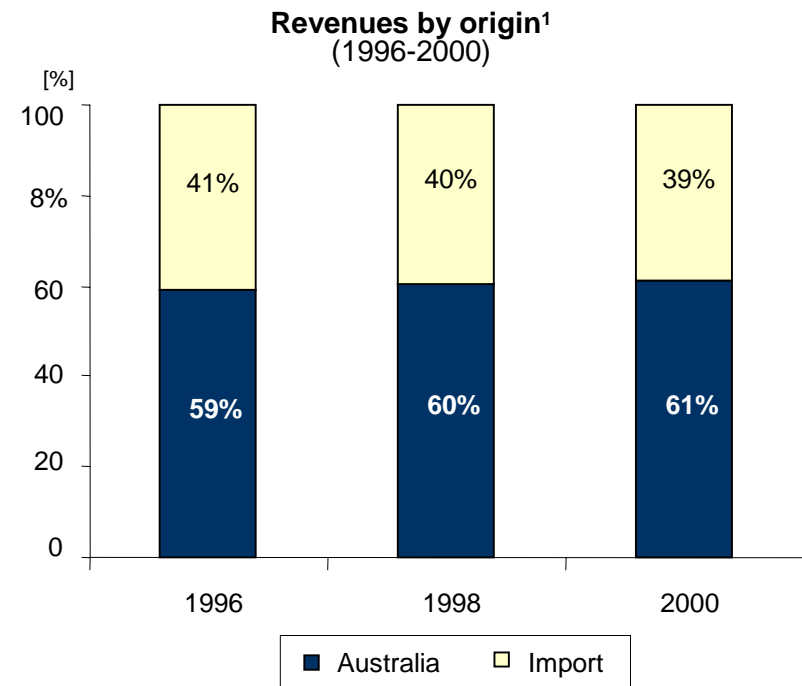
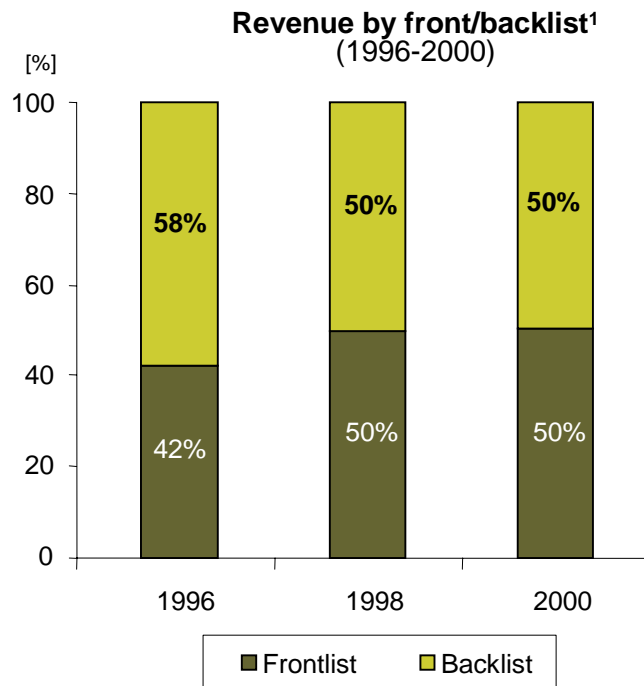
Trade and educational publishers maintained fairly constant market shares of domestic book sales, respectively, from 1996-2000



Notes:

- 1) Sources: - ABS, Australian Book Publishing, 1994-2000
- WebsterAAP Pty Ltd, 2000
- Ad Rem participant data
- ABA, Economic Survey, 1995-98
- Accenture analysis

Book titles have an increased frontlist share, and books originating in Australia are increasing slightly



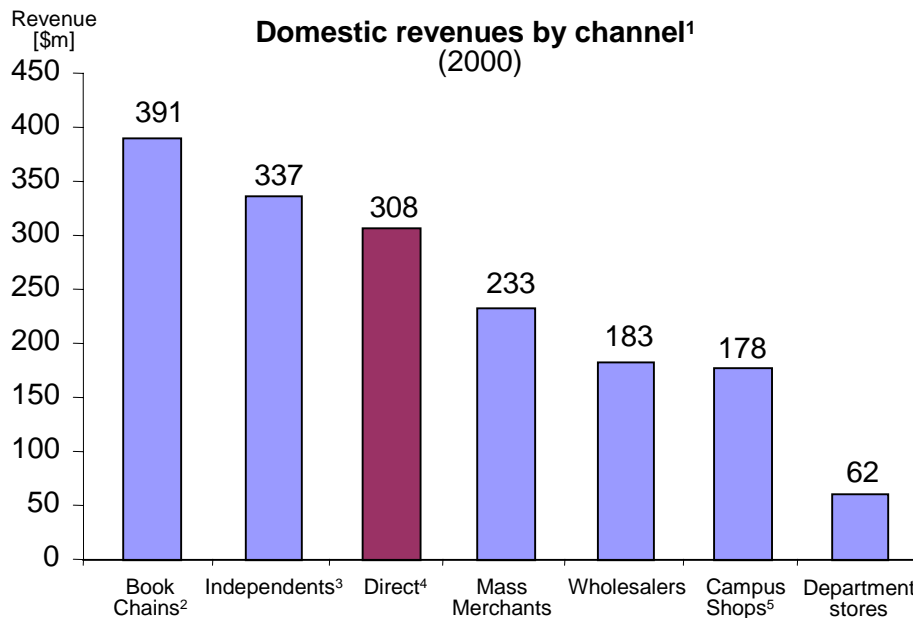
Notes:

1) Source: ABS, Australian Book Publishing, 1994-2000

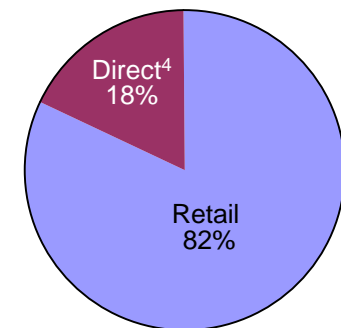
Industry Situation

Book Sales by Channel

Retail sales account for 82% of domestic book sales in Australia with book chains being the main channel



Share of domestic retail and direct⁴ revenues
(2000)



Notes:

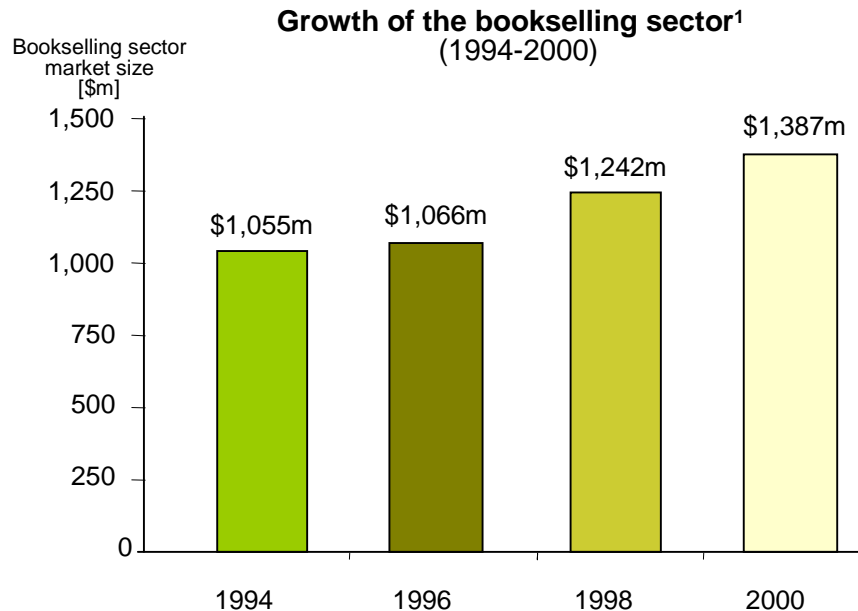
- 1) Sources: - ABS, Australian Book Publishing, 1994-2000
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 - Ad Rem participant data
 - ABA, Economic Survey, 1995-98
 - Accenture analysis

- 2) Chains are booksellers with more than 3 outlets
- 3) Booksellers with 2-3 outlets are classified 'independents' rather than 'chains'
- 4) Mainly educational sales and book clubs
- 5) Campus shops are booksellers that sell education and trade books at a TAFE or University

Industry Situation

Book Sales by Channel

The bookselling sector grew at 4.7% p.a. from 1994 to 2000



The bookselling sector is defined as the domestic retail market, including the following distribution channels:

- Book chains
- Independents
- Mass merchants
- Wholesalers
- Campus shops
- Department stores

Channels not included:

- Direct sales to end-customers from publishers or other entities

(please also refer to page 13 of this report)

Notes:

- 1) Sources: - ABS, Australian Book Publishing, 1994-2000
- WebsterAAP Pty Ltd, 2000
- Ad Rem participant data
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Industry Situation

The Australian book industry has an annual turnover of \$1.9 billion supported by three industry sectors with very different value structures

Book sales are increasing in Australia with most books classified as trade, and book chains accounting for the highest volume

While revenues are growing steadily in the publishing sector, the book printing sector is experiencing a decline in revenues

The Australian book industry value chain highlights that the publishing sector is controlling most of the costs and obtains the highest level of profits

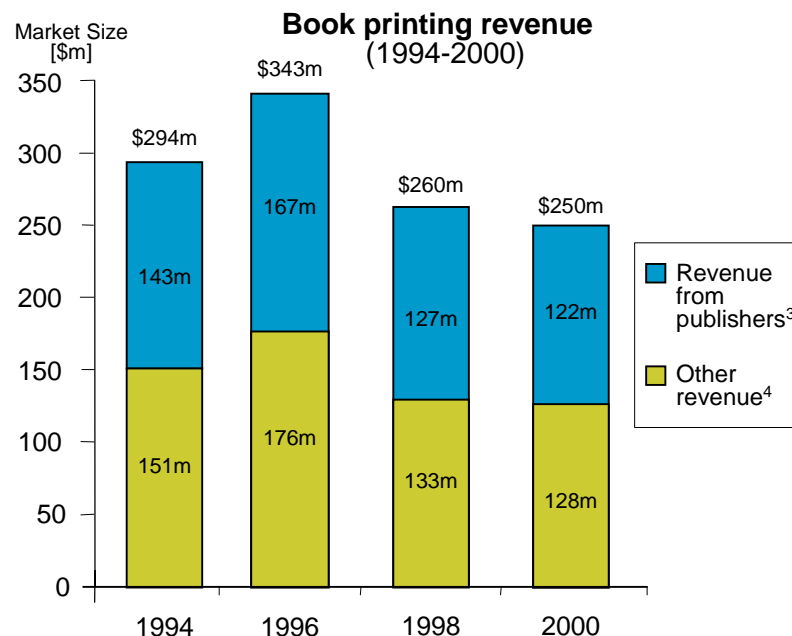
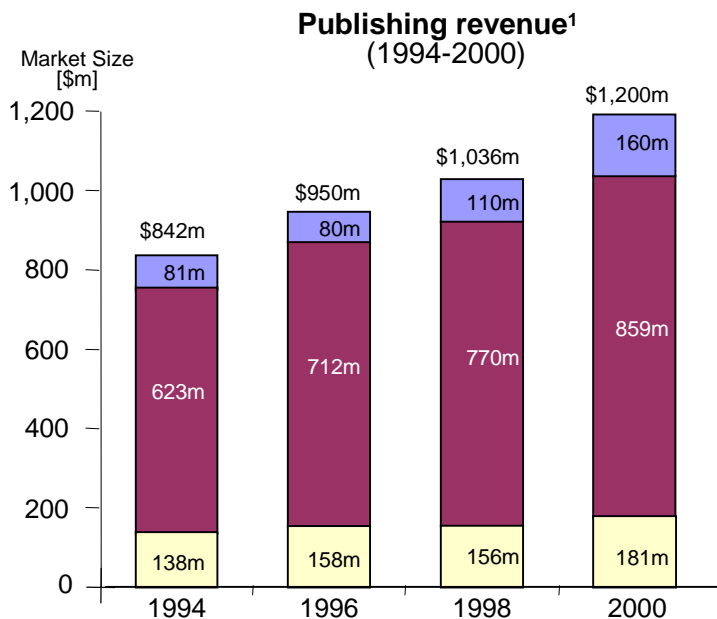
Overall value created in the industry is declining with all three industry sectors contributing to this loss through decreasing profitability

Industry Situation

The Publishing & Printing Sectors – Size



While revenues are growing steadily in the publishing sector, the book printing sector is experiencing a decline in revenues



Notes:

- 1) Sources: - ABS, Australian Book Publishing, 1994-2000
 - WebsterAAP Pty Ltd, 2000
 - Ad Rem participant data
 - ABA, Economic Survey, 1995-98
 - Accenture analysis

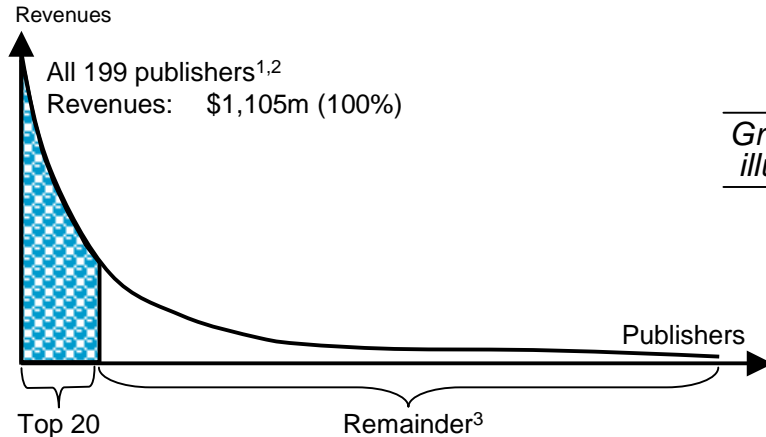
- 2) Domestic publisher revenue is made up of revenue from booksellers and direct revenue
 Direct revenue includes sales directly to schools, universities, businesses and book clubs
- 3) Source: ABS, Australian Book Publishing, 1994-2000 : Domestic printing cost
- 4) Other revenue covers self-publishing and income from publishers not recorded by ABS
 Please refer to Appendix B

Industry Situation

The Publishing & Printing Sectors – Structure

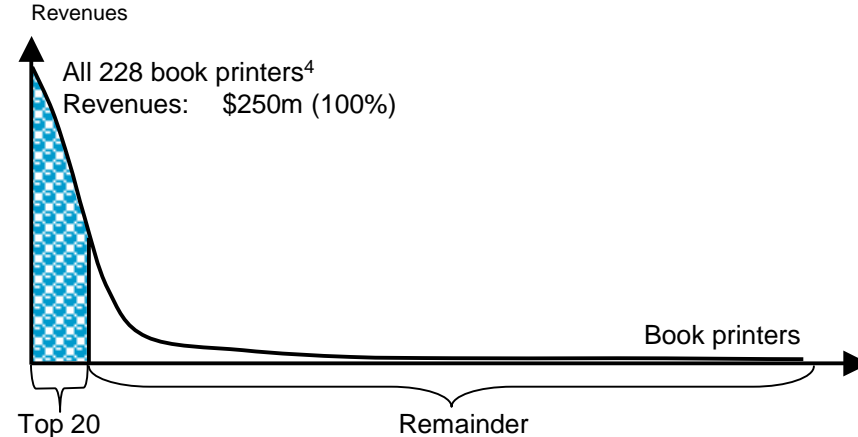
Compared to the publishing sector, the book printing sector has a slightly higher concentration of revenue, and a longer ‘tail’ of small companies

Concentration of the publishing sector



Graphs are illustrative

Concentration of the book printing sector



The top 20 publishers account for 71% (\$783m) of the publishing sector’s revenues

The top 20 printers account for 81% (\$202m) of the book printing sector’s revenues

Notes:

- 1) ABS, Australian Book Publishing, 1999-2000. The structure and numbers are based only on the companies in the ABS survey covering businesses which either had book publishing as their main activity or generated \$2.0m or more in income from book publishing
- 2) 8 ‘other major contributors’ (businesses for which the predominant activity is not book publishing, but book publishing income is \$2m or more) were omitted from the industry structure overview. They account for a total of \$94.6m in revenue
- 3) Of these 179 publishers, 159 (80% of total) have fewer than 20 employees and account for only 12% of sector revenue
- 4) The market concentration is estimated based on Bounty Scheme claims for 1996-97 (the most recent data available), and adjusted for subsequent mergers and acquisitions



Industry Situation

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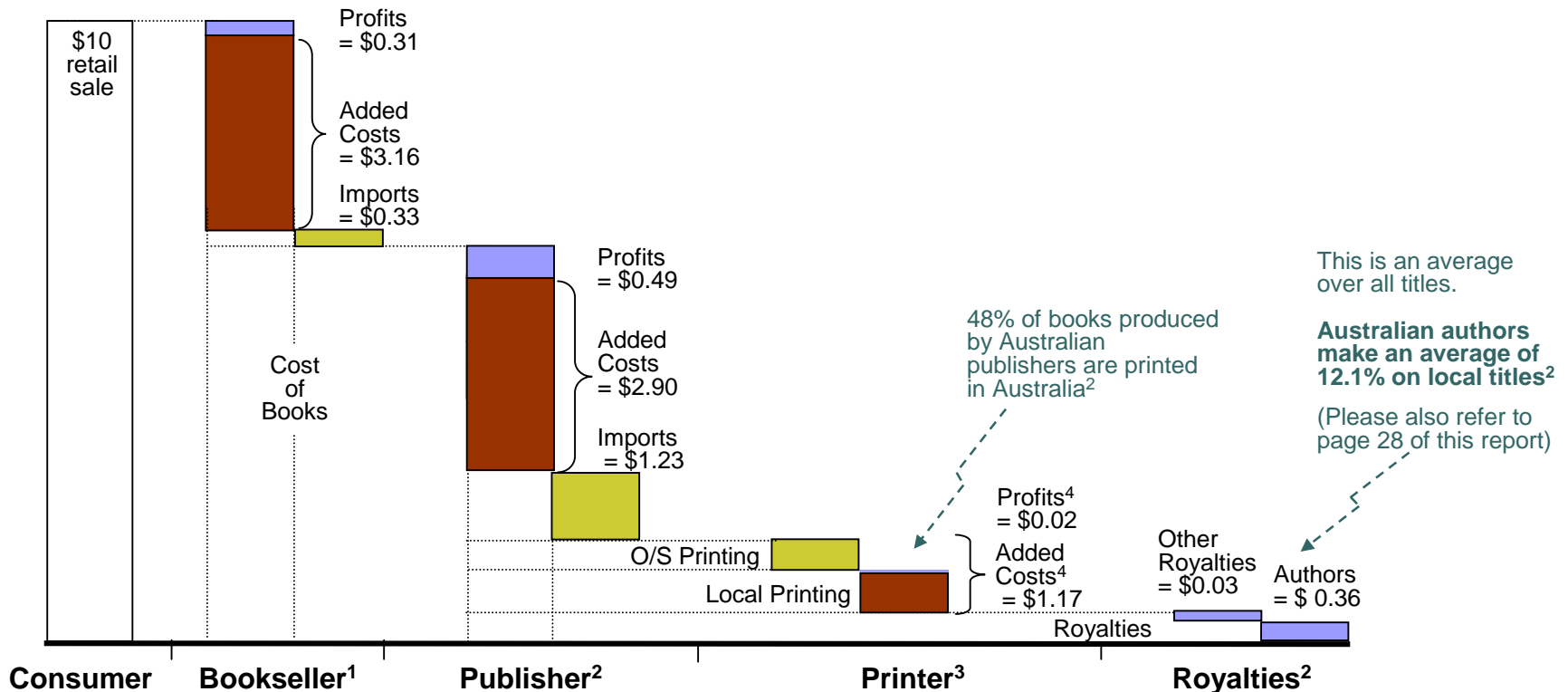
The Australian book industry value chain highlights that the publishing sector is controlling most of the costs and obtains the highest level of profits

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Industry Situation

Current Value Chain

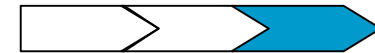
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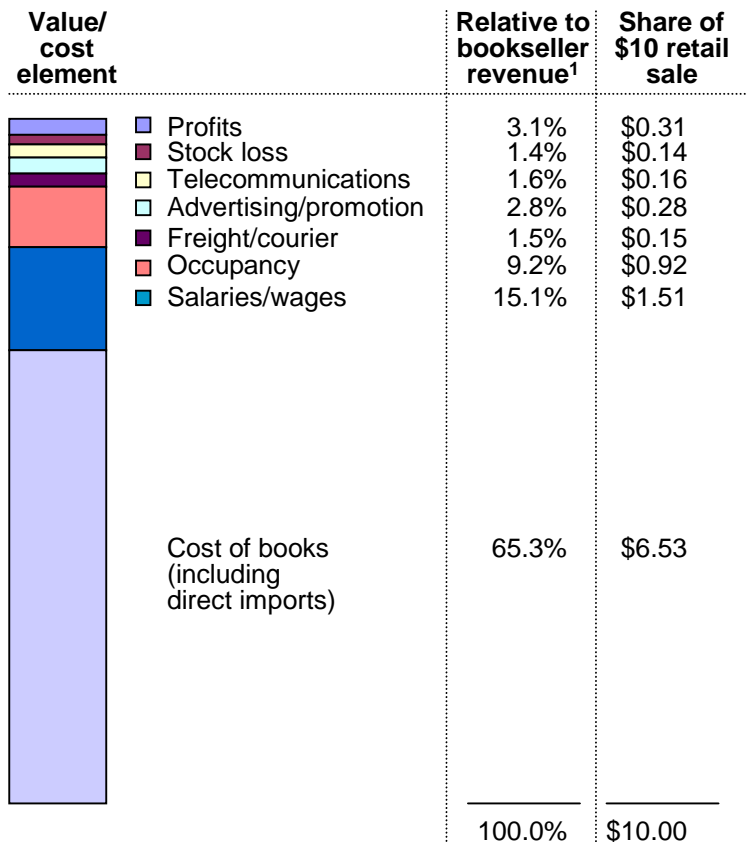
Notes:

- 1) Sources: - ABS, Australian Book Publishing, 1994-2000
- WebsterAAP Pty Ltd, 2000
- Ad Rem participant data
- ABA, Economic Survey, 1995-98
- Accenture analysis

- 2) Source: ABS, Australian Book Publishing, 1999-2000
- 3) Participant data for the year 2000
- 4) Based on local printers



Australian booksellers make 31 cents of every \$10 retail sale



- The bookselling sector is defined as the domestic retail market, including the following distribution channels:
 - Book chains
 - Independents
 - Mass merchants
 - Wholesalers
 - Campus shops
 - Department stores
 (please also refer to page 13 of this report)
- The value stack averages the cost elements across the distribution channels listed above
- The difference between total revenues and the 'cost of books' reflects booksellers' *gross margin* (100% - 65.3% = 34.7%). This is an average gross margin that accounts for the cost of all books purchased, including the cost of those books not sold, as well as the fact that certain books are sold below the Recommended Retail Price (markdowns)²

Notes:

1) Sources: - ABS, Australian Book Publishing, 1994-2000
 - WebsterAAP Pty Ltd, 2000
 - Ad Rem participant data
 - ABA, Economic Survey, 1995-98
 - Accenture analysis

2) Booksellers typically purchase books from publishers with discounts (on RRP) varying from 30-35% for educational books to more than 40% for most trade books

Industry Situation

Current Value Chain

Australian publishers make 49 cents of every \$10 retail sale



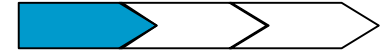
Value/ cost element	Relative to publisher revenue ¹	Share of \$10 retail sale
Profits	7.9%	\$0.49
Wages and salaries	18.2%	\$1.13
Distribution	6.8%	\$0.42
Sales and marketing	6.5%	\$0.40
Other costs	19.2%	\$0.95
Imports	15.3%	\$1.23
Printing	19.8%	\$1.19
Royalties - others	0.5%	\$0.03
Royalties - authors	5.8%	\$0.36
	100.0%	\$6.20

- Australian publishers account for an average of \$6.20 of each \$10 retail sale (after any consumer discounts on the RRP)
- The publishing segment has the highest profitability (7.9%) in the Australian book industry
- Royalties to local authors account for 5.8% of the publishers' cost base. However, this amount does *not* include royalties paid (indirectly) to authors of imported books. Australian authors make an average of 12.1% on local titles (2000 figure)¹

Notes:

1) Source: ABS, Australian Book Publishing, 1999 – 2000

Australian printers make 2 cents of every \$10 retail sale of books printed in Australia



Value/ cost element	Relative to printer revenue ¹	Share of \$10 retail sale
Profits	1.3%	\$0.02
Packaging	1.1%	\$0.01
Printing & binding	59.2%	\$0.70
Prepress	6.2%	\$0.07
Production preparation	9.2%	\$0.11
Distribution	3.0%	\$0.04
Overhead	20.0%	\$0.24
	100.0%	\$1.19

- Printers are operating on wafer thin margins around an (weighted) average of 1.3%¹
- The main cost elements within 'Printing & binding' are paper and labour
- 52% of books produced by Australian publishers are printed overseas²

Notes:

- 1) Ad Rem participant data for the year 2000. Since the printing sector is capital intensive, many printers do not measure themselves against profit margin but against return on capital. Also note that some privately owned companies absorb surplus in salaries and superannuation
- 2) Source: ABS, Australian Book Publishing, 1999-2000



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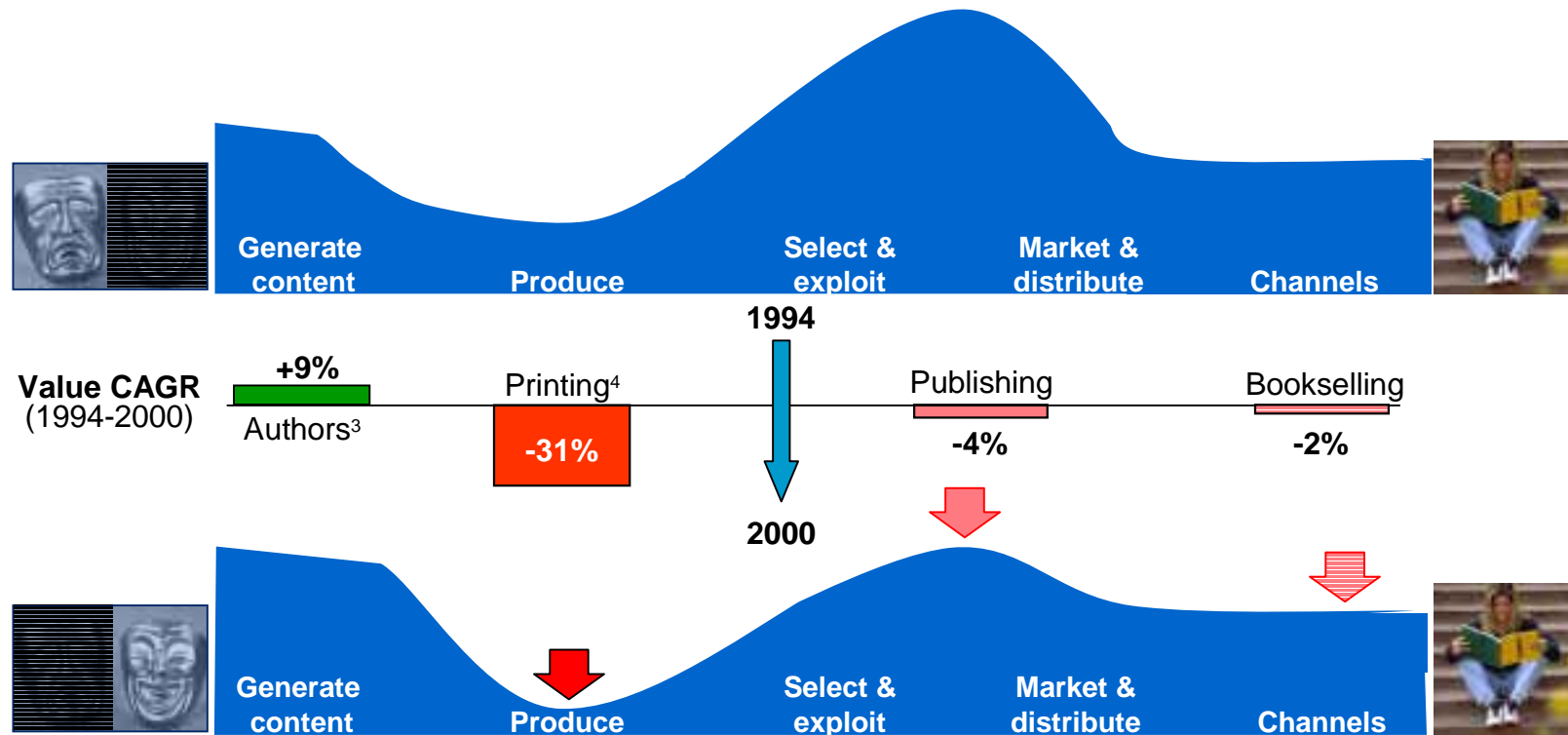
While revenues are growing steadily in the publishing sector, the book printing sector is experiencing a decline in revenues

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Overall value created in the industry is declining with all three industry sectors contributing to this loss through decreasing profitability

Industry Situation Value Migration

Overall value created in the Australian book industry is declining with printers and publishers losing more value than authors and booksellers^{1,2}

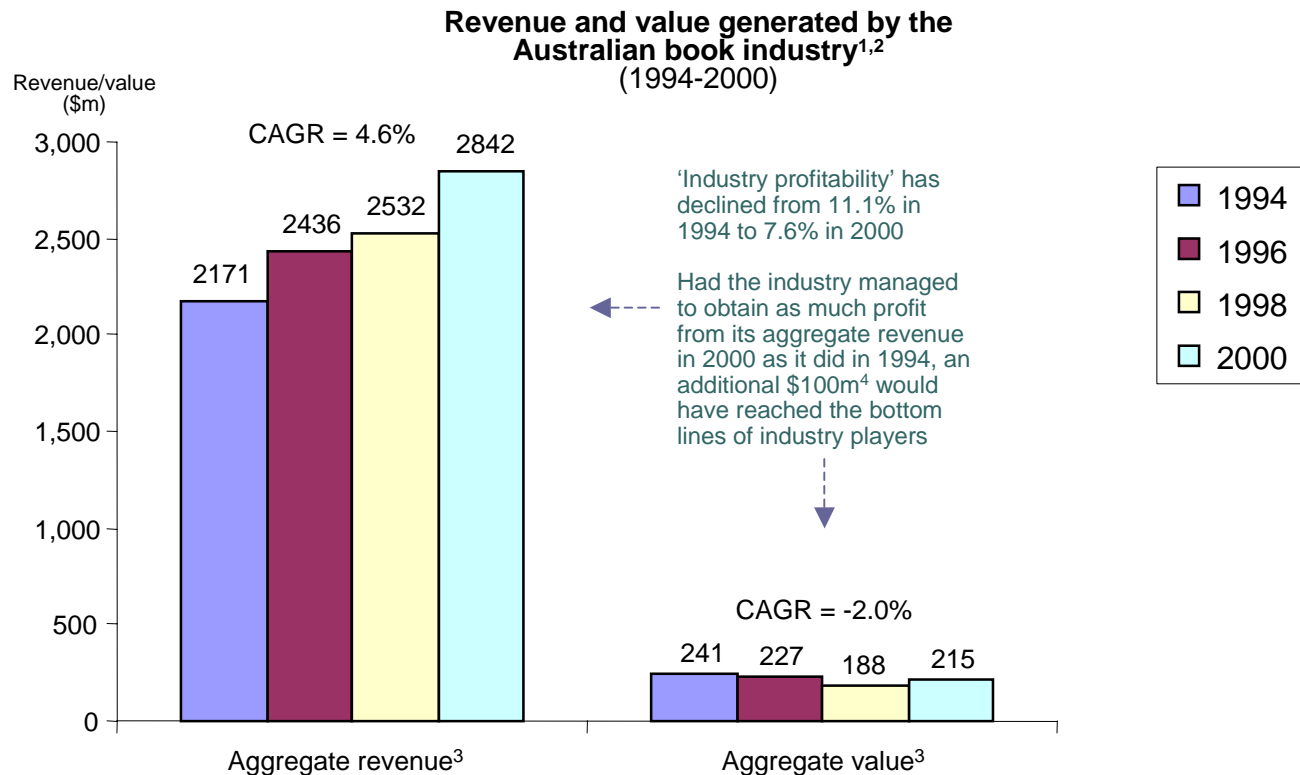


Notes:

- 1) Sources: - ABS, Australian Book Publishing, 1994-2000
- WebsterAAP Pty Ltd, 2000
- Ad Rem participant data
- ABA, Economic Survey, 1995-98
- Accenture analysis

- 2) The “graphs” show the distribution of value between authors, printers, publishers and booksellers. The graphs are illustrative
- 3) Value of royalties paid to Australian authors
- 4) Value of printing performed in Australia

The aggregate revenue for authors, printers, publishers and booksellers in Australia has grown steadily over the last six years, however the total value generated by the industry has decreased slightly



Notes:

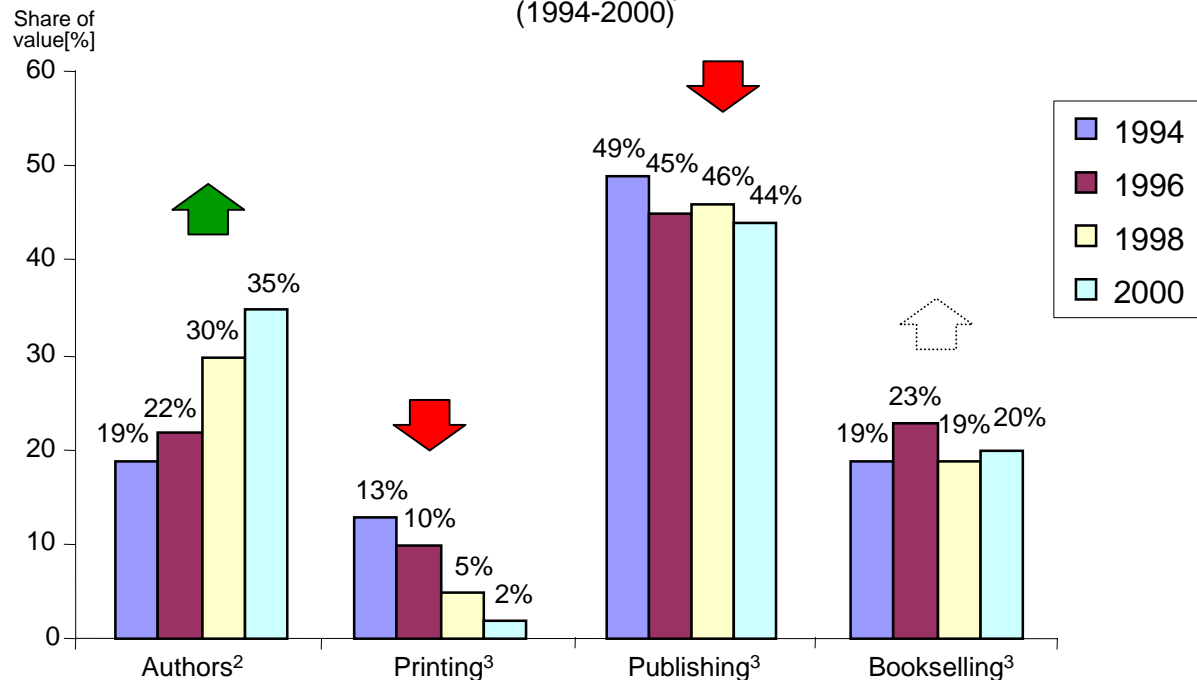
- 1) Sources: - ABS, Australian Book Publishing, 1994-2000
 - WebsterAAP Pty Ltd, 2000
 - Ad Rem participant data
 - ABA, Economic Survey, 1995-98
 - Accenture analysis

- 2) Value is expressed as 'absolute profits': Revenue (\$) x Profit margin (%)
- 3) Revenue and value are aggregated across:
 - Authors
 - Printers
 - Publishers
 - Booksellers

4) $\$2842m \times (11.1\% - 7.6\%) = \$100m$

Both ends of the value chain have managed to increase or at least maintain their share of the value created, while the share of value in printing and publishing has declined steadily

Share of value for sectors in the Australian book industry¹ (1994-2000)



Notes:

- 1) Sources: - ABS, Australian Book Publishing, 1994-2000
- WebsterAAP Pty Ltd, 2000
- Ad Rem participant data
- ABA, Economic Survey, 1995-98
- Accenture analysis

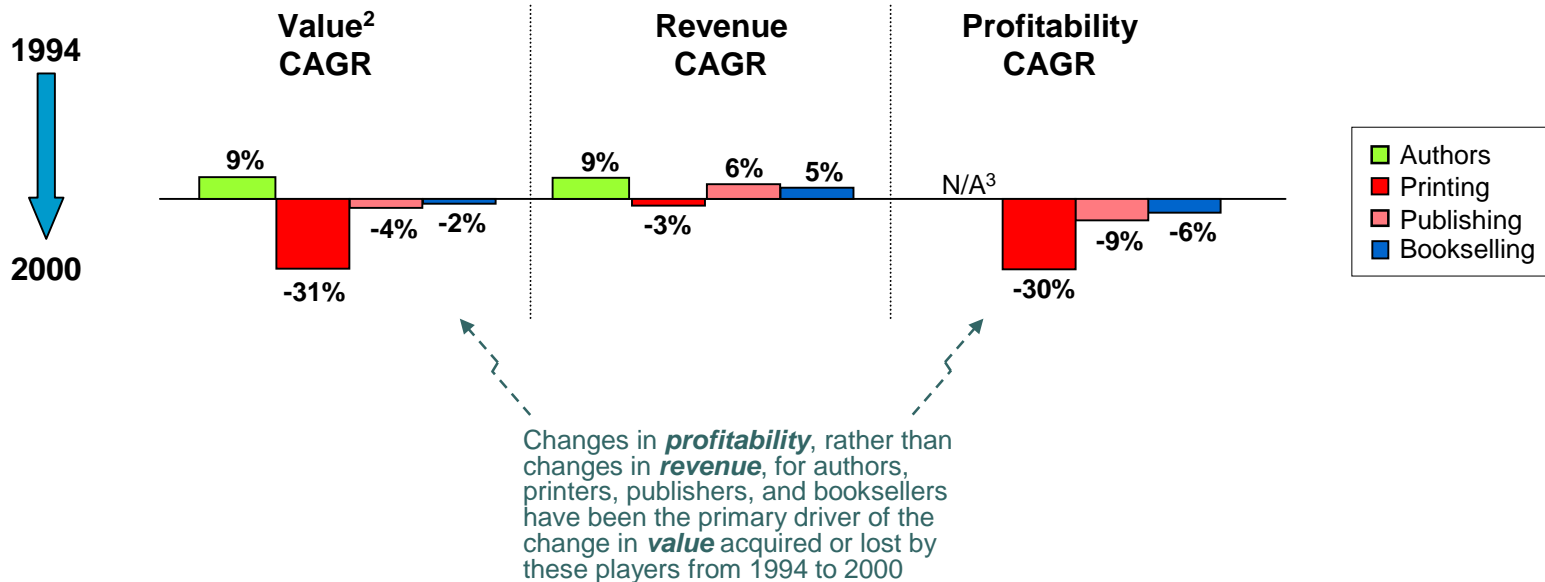
- 2) Royalties paid to Australian authors
- 3) Value is expressed as 'absolute profits': Revenue (\$) x Profit Margin (%)
- 4) Although the bookselling sector has maintained a fairly stable *share* of industry value over the six-year period, the actual value generated by the bookselling sector has decreased, similar to that in printing and publishing. However, the value has declined less in the bookselling sector than in the other two sectors (please also refer to page 24 and 27)

Industry Situation Value Migration

Ad Rem

The value migration is driven by changes in *profitability* rather than changes in revenue¹

Profitability	
Authors	-
Printing	↓
Publishing	↓
Bookselling	↓



Notes:

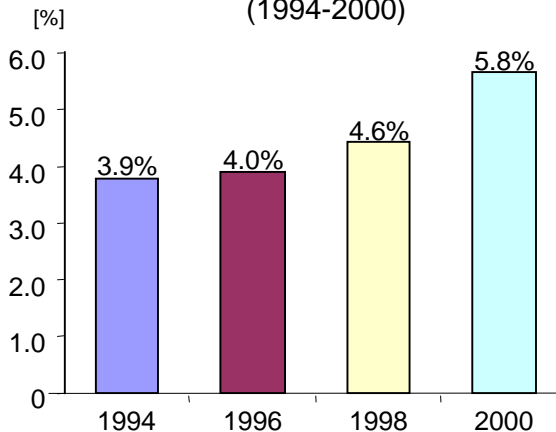
- Sources: - ABS, Australian Book Publishing, 1994-2000
- WebsterAAP Pty Ltd, 2000
- Ad Rem participant data
- ABA, Economic Survey, 1995-98
- Accenture analysis

- Value is expressed as 'absolute profits': Revenue (\$) x Profit Margin (%). See also footnote 3
- Profitability for authors is not measured. Value for authors is expressed as royalties received from publishers

Total revenues for Australian authors are increasing as publishers source more content locally, but the individual author is paid slightly less per title

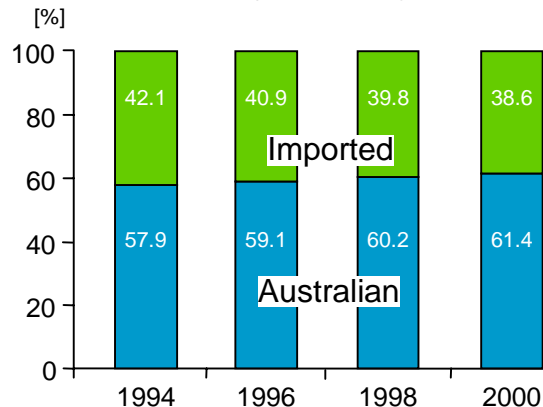
Profitability	
Authors	-
Printing	↓
Publishing	↓
Bookselling	↓

Australian authors' royalties as a percentage of publishers' revenue^{1,2}
(1994-2000)



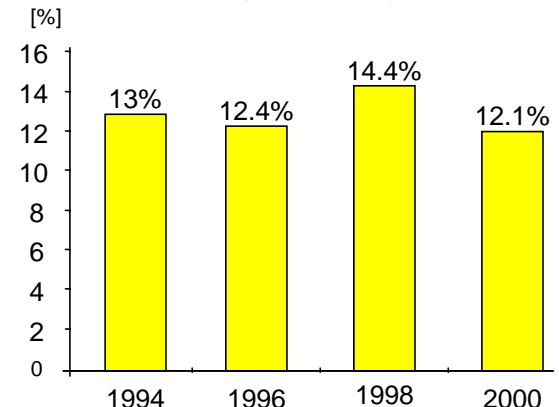
Australian authors are increasing their share of publishers' revenues³...

Percentage of titles published according to country of origin¹
(1994-2000)



...mainly because publishers are increasingly sourcing content locally rather than importing books from overseas...

Royalties and fees paid per Australian book sale¹
(1994-2000)



...but Australian authors are actually being paid slightly less per title

Notes:

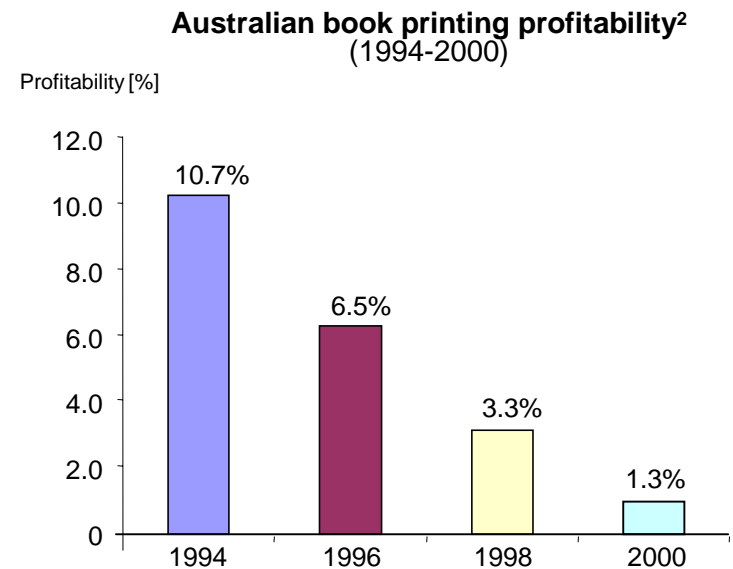
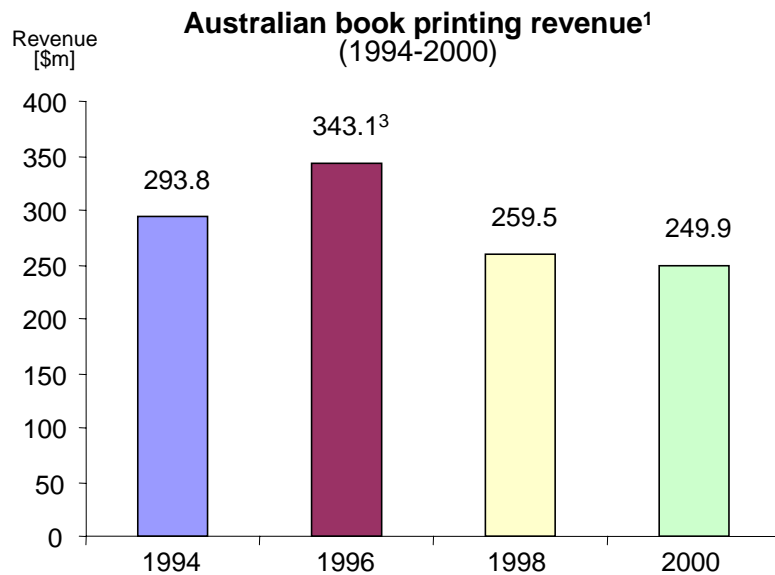
- 1) Source: ABS, Australian Book Publishing, 1994-2000
- 2) Note that royalties paid (indirectly) to authors of *imported* books are not included (also refer to page 21 of this report)
- 3) The simultaneous growth in publishers' revenues served to exacerbate the trend of increasing authors' revenues (also refer to page 16 of this report)

Industry Situation Value Migration

Ad Rem

The Australian book *printing* market has experienced some reduction in revenue and steep decline in profitability

	Profitability
Authors	-
Printing	↓
Publishing	↓
Bookselling	↓



Notes:

- 1) Please refer to page 16 of this report
- 2) Profit margins (using EBITDA) for 1996, 1998 and 2000 are based on extrapolations from primary data. 1994 number is based on ANSIC 24 data from PIAA
- 3) While this revenue level looks abnormal, it is consistent with the variation in domestic printing cost for publishers recorded by the ABS (ABS, Australian Book Publishing, 1994-2000)

Industry Situation Value Migration

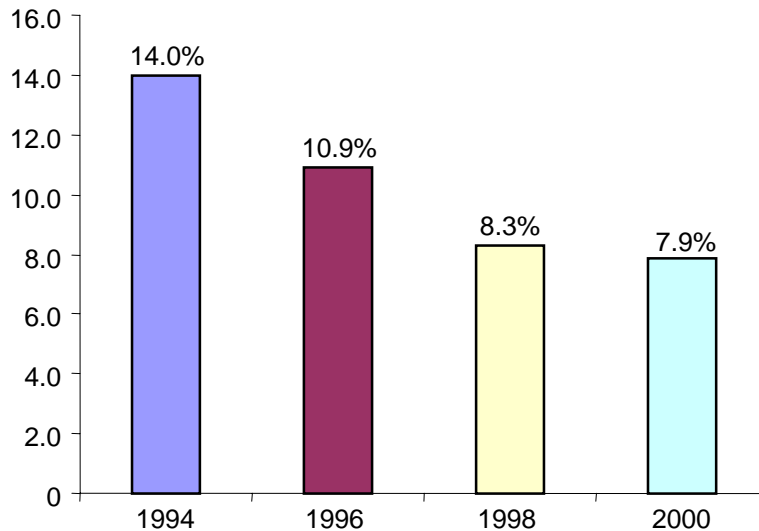
Ad Rem

Overall *publishing* profitability has declined steadily since 1994. The largest publishers have managed to retain more value than the remainder

Profitability	
Authors	-
Printing	↓
Publishing	↓
Bookselling	↓

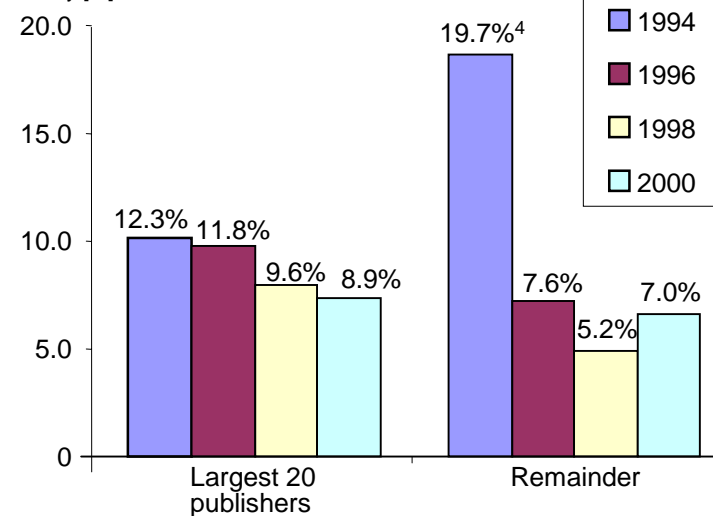
Australian book publishing profitability^{1,2}
(1994-2000)

Profitability [%]



Australian book publishing profitability by company size^{1,2,3}
(1994-2000)

Profitability [%]

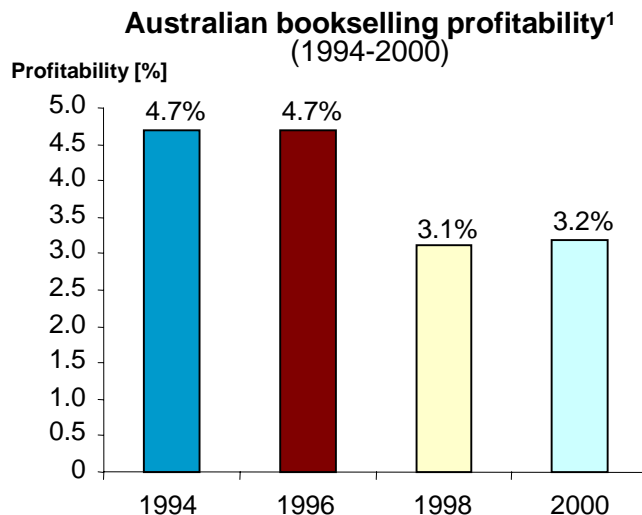


Notes:

- 1) Source: ABS, Australian Book Publishing, 1994-2000
- 2) Profitability numbers reported by publishers are influenced by different transfer pricing systems between the local publishers and their parent companies
- 3) Companies ranked in terms of total income
- 4) While this profitability level looks abnormal, this was the average recorded by the ABS for the 'remainder' group of publishers in 1994

Available data indicates that bookselling profitability has declined over the period, but more research into this sector is required to fully understand the underlying dynamics

Profitability	
Authors	-
Printing	↓
Publishing	↓
Bookselling	↓



- Increased occupancy cost has been one contributor to decreased bookselling profitability from 1996 to 1998: ABA data shows an increase from 8.5% in 1995/96 to 9.2% in 1998
- The slight increase in profitability from 1998 to 2000 can be explained by relatively more sales through book chains compared to independents (according to primary data from publishers)

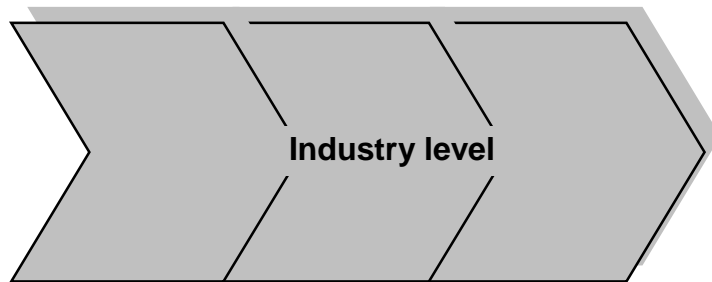
Notes:

- 1) Sources: - ABS, Australian Book Publishing, 1994-2000
 - WebsterAAP Pty Ltd, 2000
 - Ad Rem participant data
 - ABA, Economic Survey, 1995-98
 - Accenture analysis

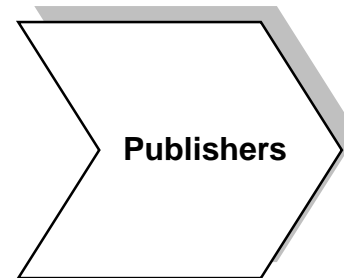


- **The value chain analysis developed for the Australian book industry supports two key Ad Rem objectives and has actively engaged participants from across the industry**
- **The Australian book industry has an annual turnover of \$1.9 billion supported by three industry sectors with very different value structures**
- **The Ad Rem project has identified improvement opportunities estimated to be worth \$155 million annually for the Australian book industry, based on the value chain analysis**

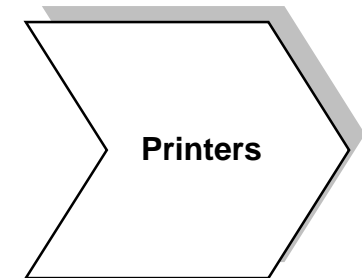
The Ad Rem project has identified improvement opportunities estimated to be worth \$155 million annually for the Australian book industry, based on the value chain analysis



- ¶ **Better and collaborative demand planning practices could reduce the cost of returns by \$47m p.a. in the Australian book industry**
- ¶ Improved inventory management practices could reduce the cost of inventory by \$48m p.a. in the Australian book industry



- ¶ Consolidation of book distribution could reduce cost of distribution by at least \$50m p.a.



- ¶ Australian book printers could save \$10m p.a. through better and collaborative paper sourcing practices
- ¶ Closer collaboration with publishers and better internal planning practices are key to increasing supply chain efficiencies in the printing sector
- ¶ Further consolidation of the printing sector could improve Australian printers' competitiveness

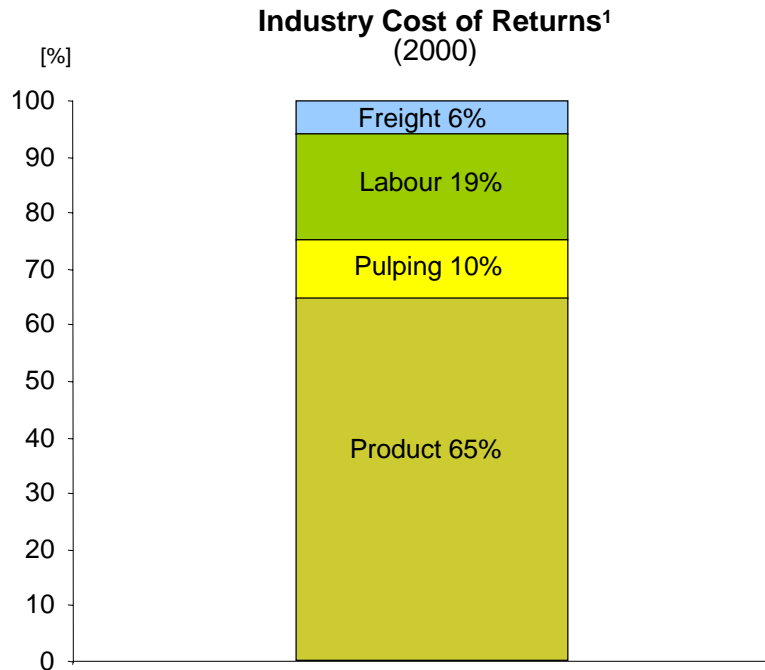
Better and collaborative demand planning practices could reduce the cost of returns by \$47m p.a. in the Australian book industry

¶ Returns cost the industry \$101m p.a., with a quarter of all returnable books being returned

¶ Returns could be reduced from 13% to industry leading practice of 7%

¶ Better and collaborative demand planning practices is the key to reducing returns

Returns cost the industry \$101m p.a., with a quarter of all returnable books being returned



Returns cost the industry \$101m p.a.

- Returns cost the Australian industry approximately \$101m a year, with a product component of \$65.5m and a process component of \$35.5m
- Retailers can only return books that are purchased from publishers on 'sale or return' conditions. These books represent approximately 54% of total books distributed, with the remaining 46% sold on 'firm sale' conditions²
- Calculating returns by considering only books sold on 'sale or return' bases, brings the level of returns to a rate of approximately 24% (2000)
- If returns were to be calculated with consideration for all books distributed, including those sold on 'firm sale' bases, the level of returns would be approximately 13% (2000)

Notes:

- 1) Accenture analysis of Ad Rem participant data
Miscellaneous costs of approximately 0.2% are also incurred, but not depicted on the graph
- 2) Most backlist books are now sold on 'firm sale' conditions (a trading term that has emerged mainly over the last two years)



Better and collaborative demand planning practices could reduce the cost of returns by \$47m p.a. in the Australian book industry

¶ Returns cost the industry \$101m p.a., with a quarter of all returnable books being returned

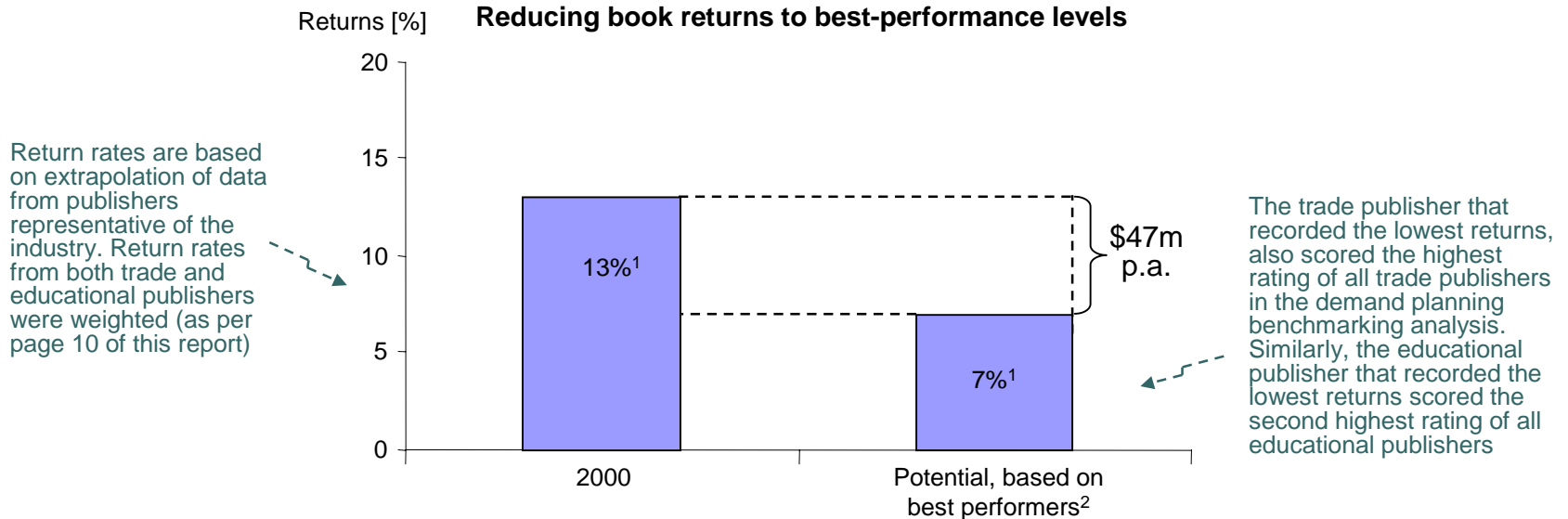
¶ Returns could be reduced from 13% to industry leading practice of 7%

- The industry has a potential cost saving of approximately \$47m p.a.
- Publishers have adopted only basic demand planning practices
- Continuous sales data is not accessible to publishers

¶ Better and collaborative demand planning practices is the key to reducing returns



The industry has a potential cost saving of approximately \$47m p.a.



- Reducing return rates to the level recorded by the industry’s best performers within the trade and educational segments, equates to a potential cost saving of \$47m p.a. for the industry
- Publishers’ demand planning practices represent the greatest contributing factor to the industry’s high return levels
 - There is an apparent relationship between the degree to which a publisher adopts demand panning practices and its level of returns. That is, the greater the adoption of demand planning practices, the lower the level of returns
 - One aspect of demand planning is the use of appropriate data sources, including continuous point of sale data. Such information assists publishers in commissioning projects and making decisions on print runs and replenishment

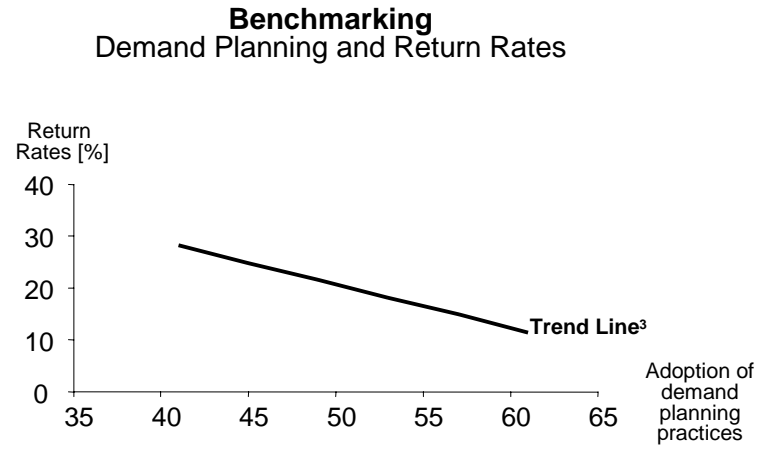
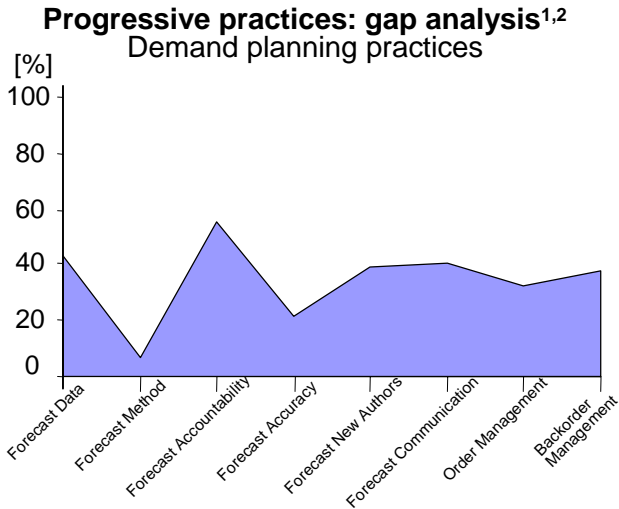
These points are discussed on the subsequent pages

Notes:

- 1) Accenture analysis of Ad Rem participant data
- 2) ‘Best performers’ are here defined as the trade and educational publishers that recorded the lowest return rates in 2000 (of the Ad Rem participating companies)



Publishers have adopted only basic demand planning practices



- Publishers' demand planning practices have been benchmarked³ against recommended:
 - Basic practices, most of which have been adopted
 - Progressive practices, some of which have been adopted (reflected in the above graph)
 - Leading practices, few of which have been adopted
- Demand planning is not just about publishers' internal practices, but also about the degree to which they collaborate with booksellers on forecasting and order management (please also refer to Appendix C)

- There is an apparent relationship between publishers' adoption of demand planning practices and their return rates
- The greater a publisher's adoption of demand planning practices, the lower its return levels

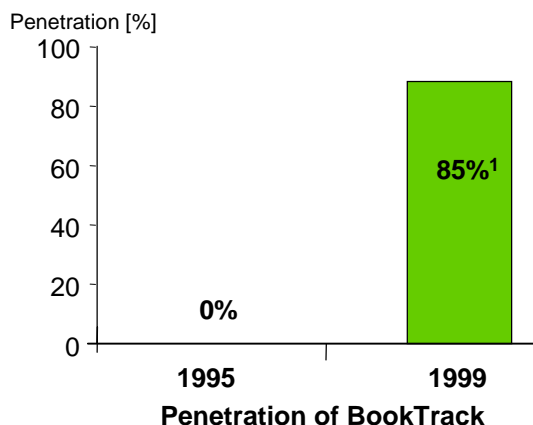
Notes:

- 1) Accenture analysis of Ad Rem participant data
- 2) Please refer to Appendix C for further details
- 3) This trend line reflect actual Ad Rem participant data (2000). Data points have been omitted to disguise company specific information

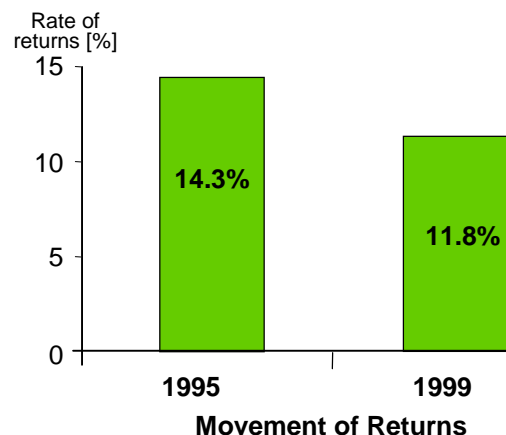


Continuous sales data is not accessible to publishers

**BookTrack
United Kingdom (UK)¹**



**Returns
United Kingdom (UK)²**



- The introduction of BookTrack in the UK contributed to a substantial decrease in return levels
- Australia is not yet capitalising on the true potential that a system such as BookTrack can provide
- Approximately 45% of Australian book retail sales are presently captured by BookTrack
- To lower returns, a system like BookTrack needs to be not only adopted, but effectively used. With the commitment of time and resources, continuous sales data can help publishers make decisions both on commissioning first print runs and on replenishment

Notes:

- 1) Ad Rem interview of BookTrack Australia
The proportion of book sales (by value) that are captured by BookTrack in the UK
- 2) Publishers Association – www.publishers.org.uk
According to UK market experts, BookTrack is a major initiative accounting for this decline



Better and collaborative demand planning practices could reduce the cost of returns by \$47m p.a. in the Australian book industry

- ¶ Returns cost the industry \$101m p.a., with a quarter of all returnable books being returned
- ¶ Returns could be reduced from 13% to industry leading practice of 7%

¶ **Better and collaborative demand planning practices is the key to reducing returns**



Better and collaborative demand planning practices is the key to reducing returns

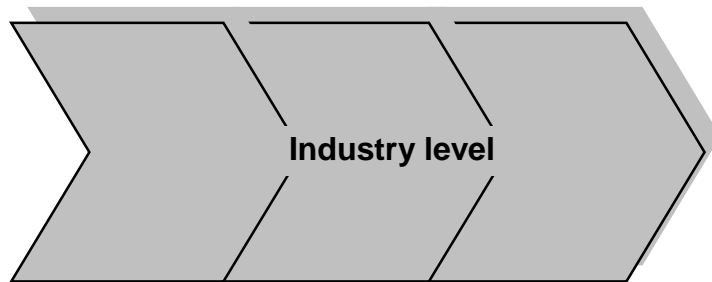
Recommendation ¹	Description	Relevance
<ul style="list-style-type: none"> • Improve demand planning practices • Develop collaborative demand planning processes 	<ul style="list-style-type: none"> • Use a wider range of data sources for deriving more statistically-driven baseline forecasts, and monitor the accuracy of final forecasts in alignment with staff incentives • Adopt a cooperative industry approach to demand planning with the sharing of market information and title forecasts, beginning at the early stages of product development 	<ul style="list-style-type: none"> • Publishers and booksellers • Publishers and booksellers
<ul style="list-style-type: none"> • Adopt and exploit BookTrack • Develop a shared industry approach to returns • Offer 'print on demand' services 	<ul style="list-style-type: none"> • Make point of sale information available to BookTrack so channel information can be made transparent to publishers that, in turn, invest the time and resources into exploiting the data to assist in commissioning first-run print jobs and replenishment decisions • Adopt joint strategies and policies for managing returns, including industry-wide agreement on a set of standard procedures for processing returns, aided by, and managed on, a shared platform • Offer print on demand (POD) services to publishers, with the use of POD capabilities based at a centralised printing site, or, through management of a POD facility based in publishers' warehouses 	<ul style="list-style-type: none"> • Publishers and booksellers • Publishers and booksellers • Printers

Notes:

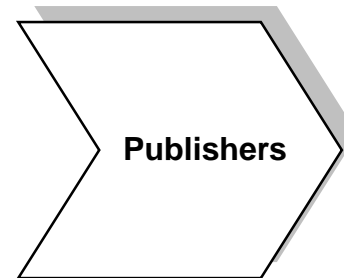
1) Some recommendations may be mutually exclusive

= Key recommendation(s)

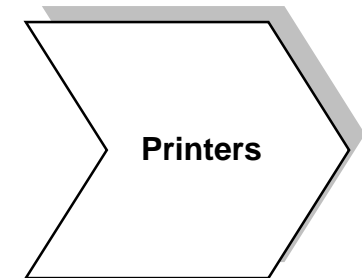
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- ¶ Better and collaborative demand planning practices could reduce the cost of returns by \$47m p.a. in the Australian book industry
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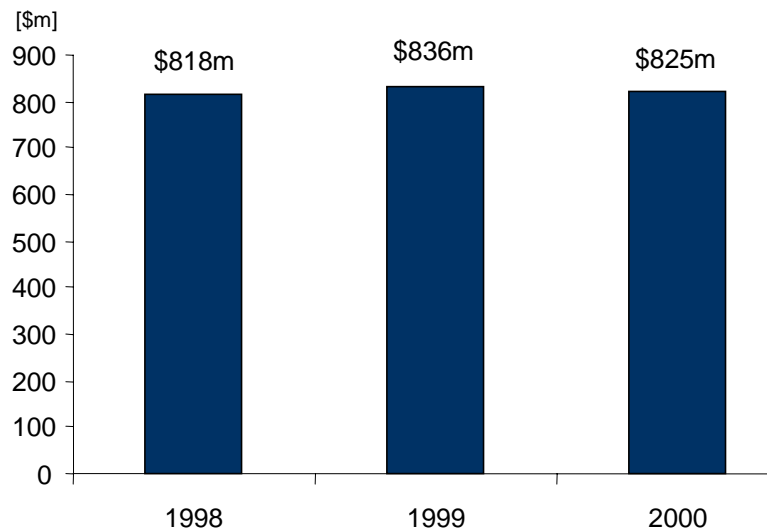
Improved inventory management practices could reduce the cost of inventory by \$48m p.a. in the Australian book industry

- ¶ The Australian book industry has stock levels of \$825m p.a. in the supply chain, equivalent to 317 days of supply, without significant change over the last three years**
- ¶ The Australian book industry currently loses \$39m p.a. through existing inventory management systems**
- ¶ Publishers' stock supplies are growing, writing off \$9m - \$27m p.a. in excess, whilst booksellers' stock supplies are reducing**
- ¶ Improving inventory management practices is the key to reducing inventory levels**



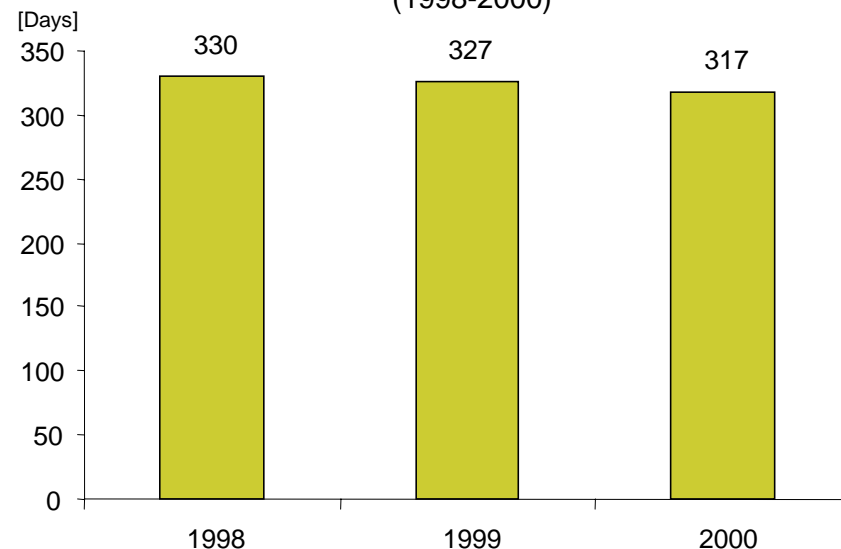
The Australian book industry has stock levels of \$825m p.a. in the supply chain, equivalent to 317 days of supply, without significant improvement over the last three years

Total industry inventory¹
(1998-2000)



Interviews with industry representatives confirm that the number of SKUs in warehouses has remained fairly stable, whilst stock levels per title have increased slightly

Total industry days of supply¹
(1998-2000)



Although total inventory levels remain stable, days of supply are reducing slightly which is caused by booksellers' diminishing stock levels

Notes:

- 1) Sources: - Ad Rem participant data
- ABS, Australian Book Publishing, 1997-2000
- ABA, Economic Survey, 1997-1998
- Accenture Analysis



Improved inventory management practices could reduce the cost of inventory by \$48m p.a. in the Australian book industry

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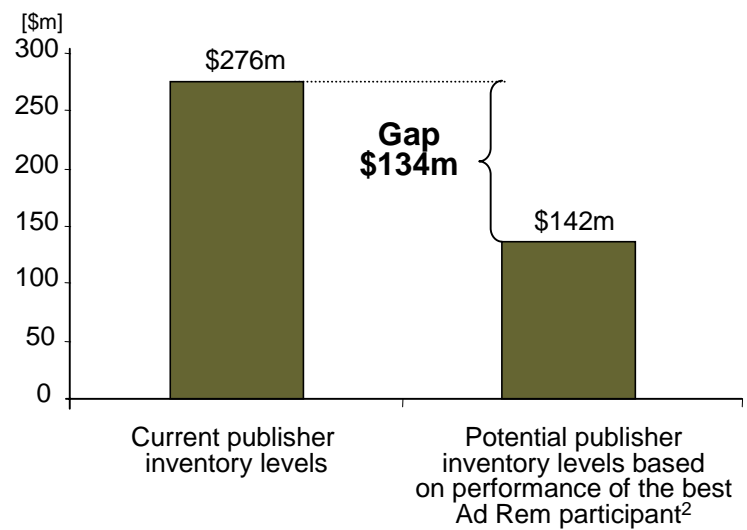
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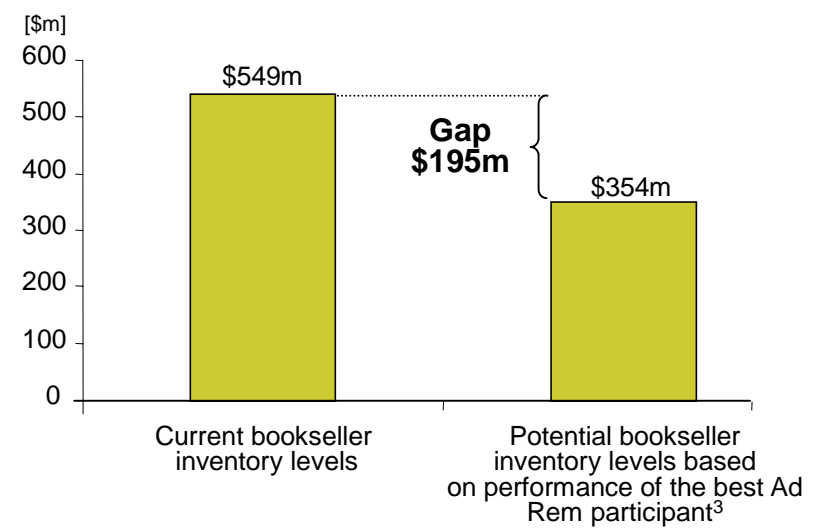


The Australian book industry currently loses \$39m p.a. through existing inventory management systems

Publishers' value potential¹



Booksellers' value potential¹



- If the industry was to manage its inventory at the level of the best Ad Rem participant (being representative of the industry in terms of the ratio between local and imported titles, size and mix of products), inventory levels could be reduced by \$134m for publishers and \$195m for booksellers - a total of \$329m
- Assuming a cost of capital of 12%⁴, a \$329m reduction results in a saving of \$39m p.a.

Notes:

- 1) Accenture analysis of Ad Rem participant data and ABS, Australian Book Publishing, 1999-2000
- 2) Best performing Ad Rem publisher used to calculate industry potential has inventory turns of 4.1 (average over three years) and is representative for the industry with respect to the ratio between local and imported titles, size and mix of products (industry avg. is 2.1 according to the ABS)
- 3) Best performing Ad Rem bookseller used to calculate industry potential has inventory turns of 4.0 and is representative for the industry (industry avg. is 2.5 according to the ABA)
- 4) Ad Rem participants do not use this method, hence the number used is typical for a number of industries



Improved inventory management practices could reduce the cost of inventory by \$48m p.a. in the Australian book industry

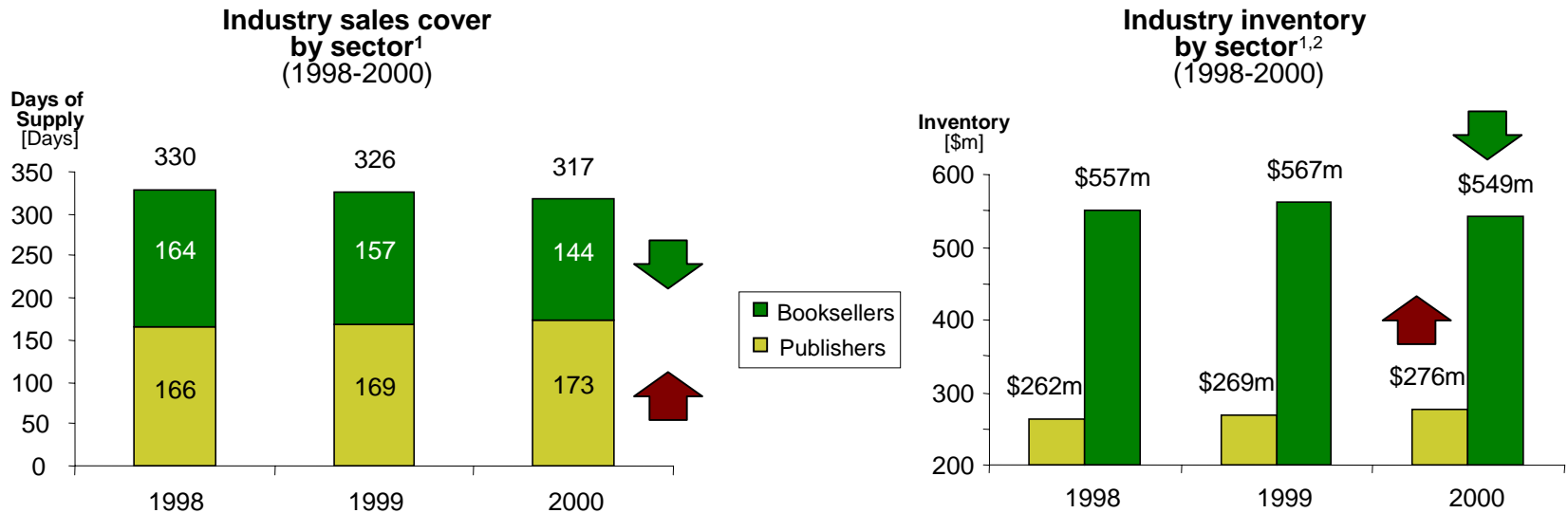
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- ¶ **Publishers' stock supplies are growing, writing off \$9m - \$27m p.a. in excess, whilst booksellers' stock supplies are reducing**
 - Publishers' inventory management practices are far below leading practice, adopting only 34% of progressive practices
 - Publishers' write-offs are decreasing, with potential for further reductions worth \$9m - \$27m p.a.
 - The disparity between inventory turns is lessening between the best and worst performing publishers
 - The inventory turns gap is shrinking between trade and education publishers
 - Children's books have low inventory turns and their growing share of the overall market is dragging down the industry's average inventory turns

¶ Improving inventory management practices is the key to reducing inventory levels



Publishers' stock supplies are growing whilst booksellers' stock supplies are reducing¹



- Although total inventory sales cover is fairly constant, publishers have high and increasing inventory levels and days of supply
- Possible explanations as to why booksellers are reducing stock is the increasing occupancy cost (i.e. cost of space), emergence of 'firm sale' terms for backlist titles, and a changing mix of retailers. New entrants such as mass merchants have less diversified but faster selling stock, and use more advanced inventory management techniques such as category management

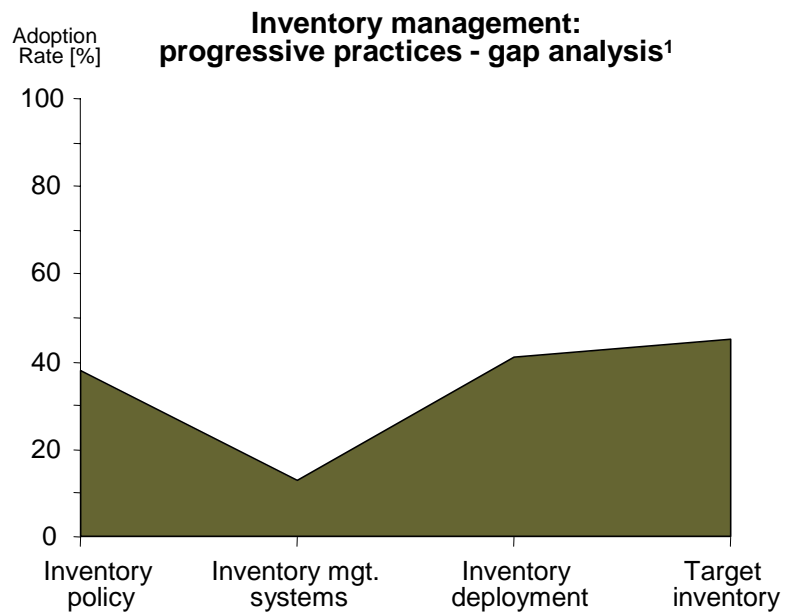
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1) Sources: - Ad Rem participant data
 - ABS, Australian Book Publishing, 1997-2000
 - ABA, Economic Survey, 1997-1998
 - Accenture Analysis

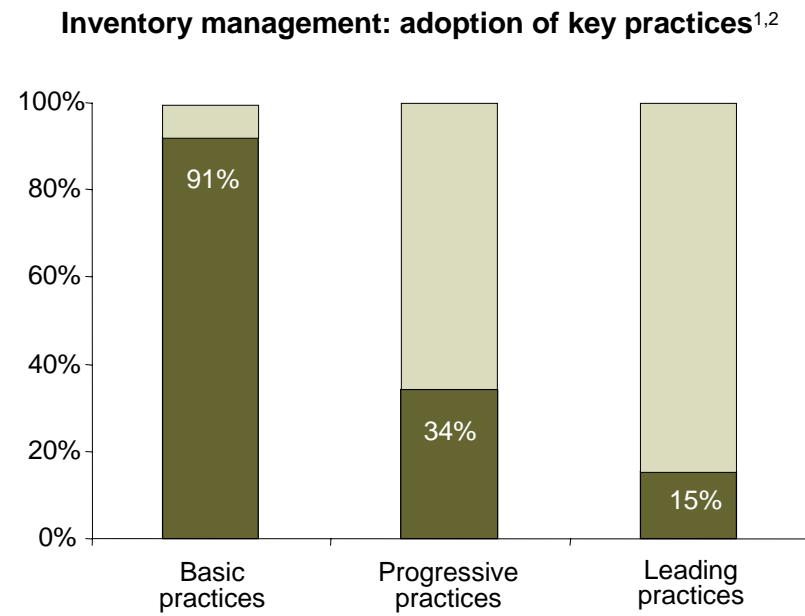
2) Inventory levels are measured at cost price, explaining the differences in values of booksellers and publishers on buying cost



Publishers' inventory management practices are far below leading practice, adopting only 34% of progressive practices



Inventory management systems are the main area of weakness; the industry lacks automation and supplier-management of inventory replenishment processes



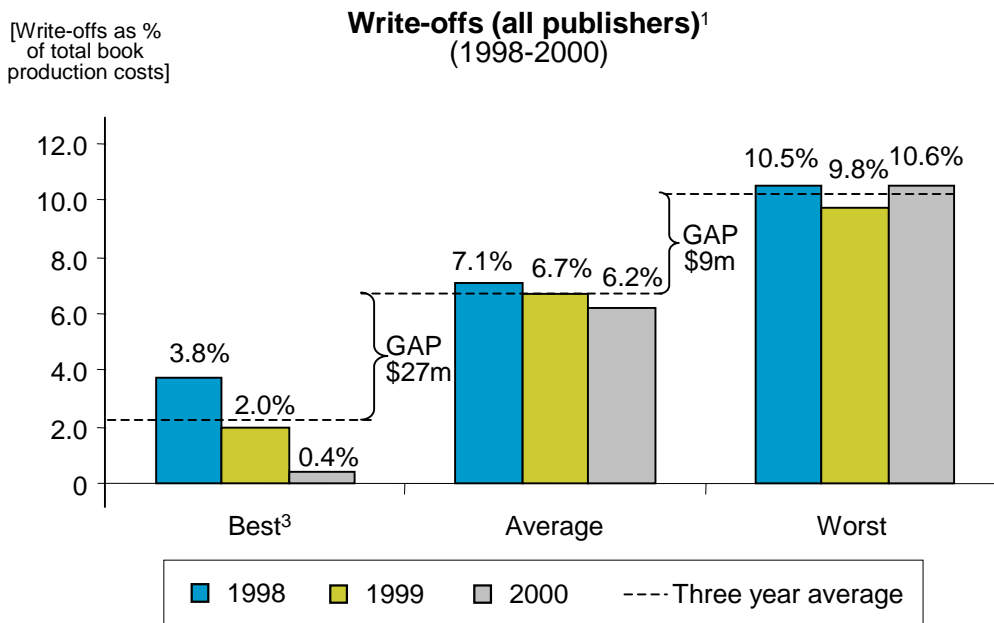
The industry adopts a high level of basic inventory management practices (91%), less progressive practices (34%) and few leading practices (15%)

Notes:

- 1) Based on 12 interviews with inventory management executives from Ad Rem participating organisations
- 2) See appendix D for details



Publishers' write-offs are decreasing, with potential for further reductions worth \$9m - \$27m p.a.



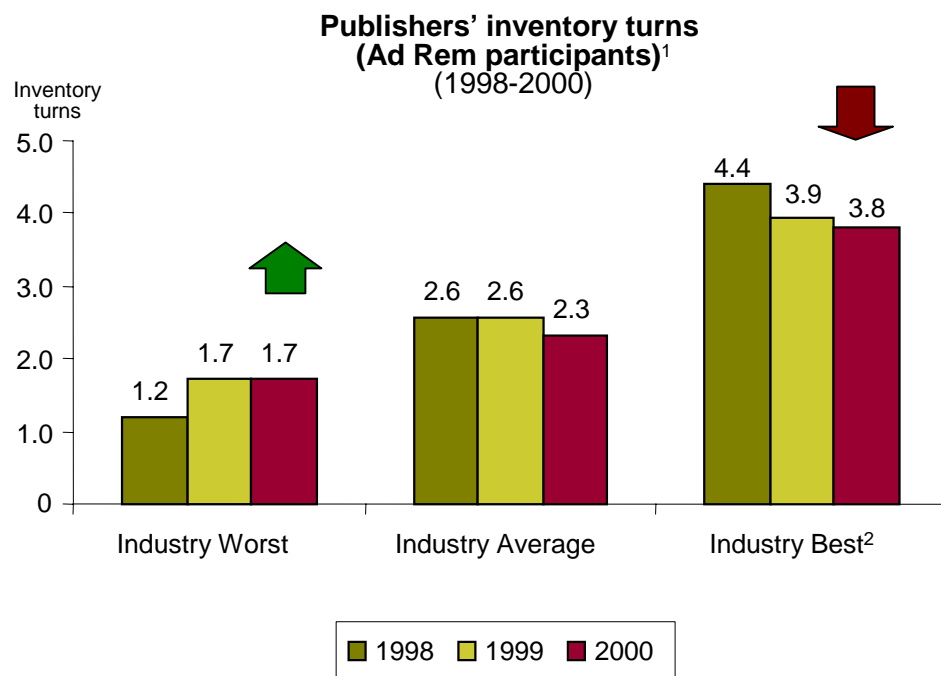
- Total industry write-offs are \$39m p.a. (based on a three year average). This could be reduced by \$9m p.a. if the publishers performing below the average could improve their performance to the industry's average level².
- If all publishers improved their performance to the level of the best Ad Rem participant (based on a three year average), a total of \$27m p.a. could be saved
- Reasons why the best companies are performing better:
 - employ better range management
 - analyse and make decisions by measuring profitability by category
 - utilise better screening processes for commissioning decisions

Notes:

- 1) Accenture analysis of Ad Rem participant data extrapolated for the industry (Write-offs are measured as % of 'cost of goods sold' valued in year 2000)
- 2) Our data indicates that write-off percentages are distributed normally across our sample
- 3) Participant also has above average inventory turns



The disparity between inventory turns is lessening between the best and worst performing publishers



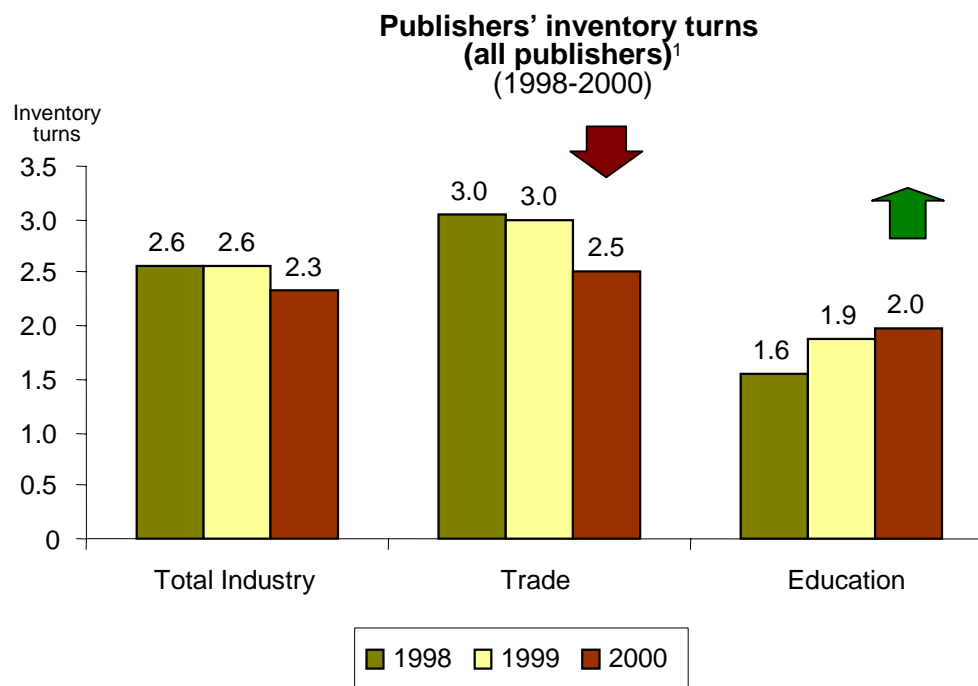
- The data indicates that the worst performing companies – with respect to inventory turns – are getting better, and the best performing companies are getting worse
- The improvement of the worst performers can be explained by an increased adoption of (at least) basic inventory management practices
- The better companies may experience difficulties in maintaining better inventory turns, based on current inventory management practices, as a result of their increasing drive to higher fulfilment levels, shift to off-shore printing and shorter product life-cycles

Notes:

- 1) Accenture analysis of Ad Rem participant data
- 2) Best performing Ad Rem publisher has inventory turns of 4.1 (average over three years) and is representative for the industry with respect to a ratio is between local and imported titles, size and mix of products (industry avg. is 2.1 according to the ABS)



The inventory turns gap is shrinking between trade and education publishers



Educational publishers have recorded increasing inventory turns, which is explained by:

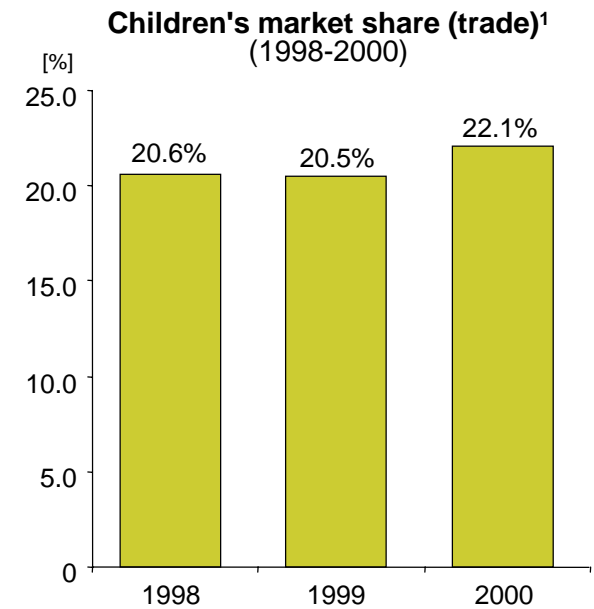
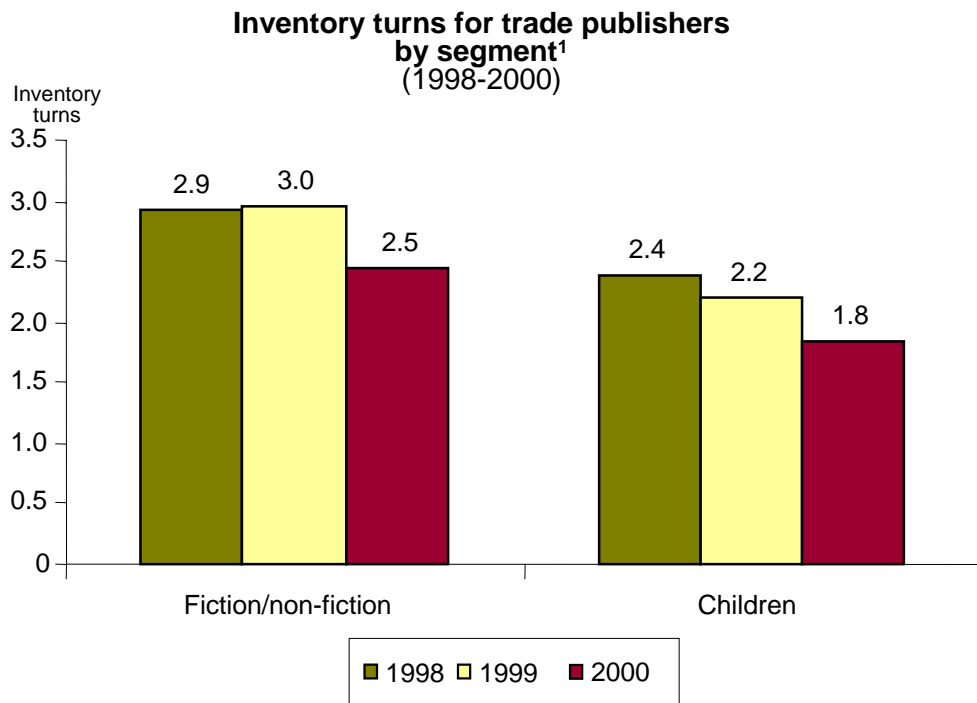
- Declining rates of return for educational publishers
- Increasing 'cost of goods sold' without simultaneous increases in stock levels

Notes:

1) Accenture analysis of Ad Rem participant data extrapolated for the industry



Books within the 'children' segment have low inventory turns and their growing share of the overall market is dragging down the industry's average inventory turns



Increased children's revenues but even faster growing stock levels lead to overall reduced stock turns for trade publishers

Notes:
1) Accenture analysis of Ad Rem participant data



Improved inventory management practices could reduce the cost of inventory by \$48m p.a. in the Australian book industry

- ¶ **The Australian book industry has stock levels of \$825m p.a. in the supply chain, equivalent to 317 days of supply, without significant change over the last three years**
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¶ Improving inventory management practices is the key to reducing inventory level



Improving inventory management practices is the key to reducing inventory levels

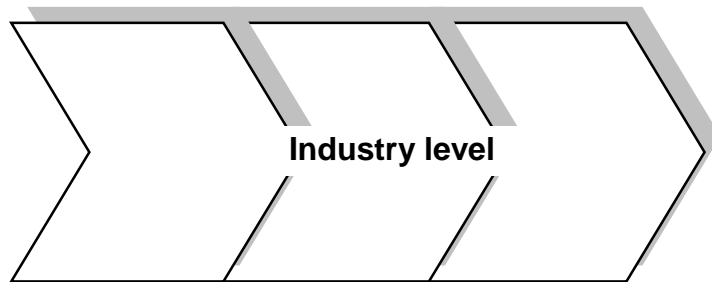
Recommendation ¹	Description	Relevance
<ul style="list-style-type: none"> • Adopt progressive and leading inventory management practices 	<ul style="list-style-type: none"> • Adopt progressive and leading practices, including automated inventory management processing systems to drive actual sales and model stocks, with target stock levels based on total supply chain variability and safety stock levels based on service level and forecast accuracy, both at product level • Employ automated capabilities to handle order enquiries, maintenance and status and commit inventory orders on client priority 	<ul style="list-style-type: none"> • Publishers
<ul style="list-style-type: none"> • Develop network wide inventory visibility 	<ul style="list-style-type: none"> • Develop greater network wide visibility through collaboration between booksellers and publishers on establishing visibility of: <ol style="list-style-type: none"> 1. internal warehouse inventories 2. customers warehouse, store inventories, and returns channel inventories 3. end-customer demand and sales (POS) to support replenishment, print decisions and possible stock reallocation 	<ul style="list-style-type: none"> • Publishers and booksellers
<ul style="list-style-type: none"> • Implement concept of vendor-managed-inventory 	<ul style="list-style-type: none"> • Enable publishers to manage inventory throughout the chain including point-of-sale (for combinations of titles and channels), through greater collaboration between booksellers and publishers 	<ul style="list-style-type: none"> • Publishers and booksellers

Notes:

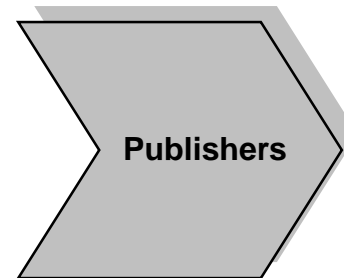
1) Some recommendations may be mutually exclusive

= Key recommendation(s)

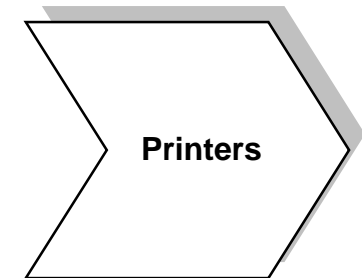
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- ¶ **Consolidation of book distribution could reduce cost of distribution by at least \$50m p.a.**



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Consolidation of book distribution could reduce cost of distribution by at least \$50m p.a.

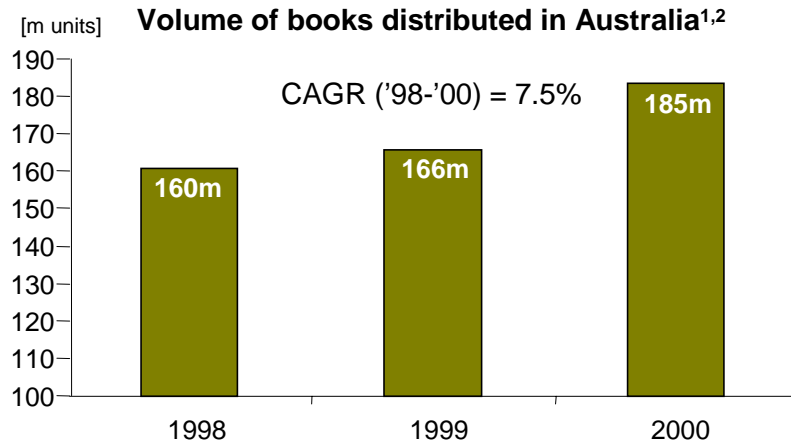
¶ Unit distribution costs for publishers have risen slightly over the last three years

¶ Fragmentation of Australian book distribution leads to more than \$50m p.a. in excess cost

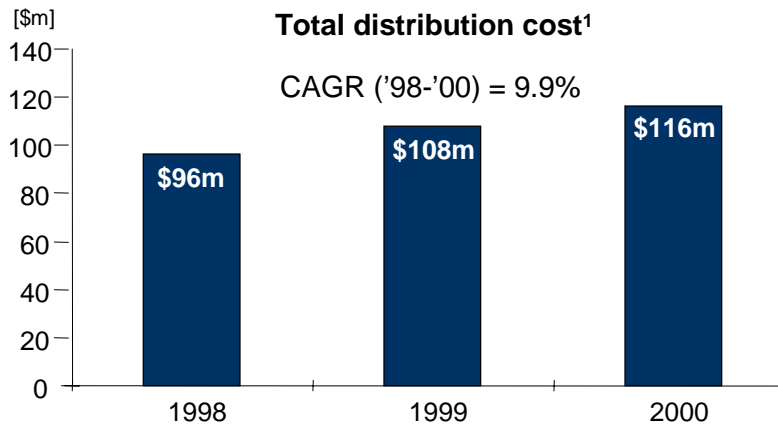
¶ Consolidation is the key to drive cost out of distribution in the Australian book industry



Unit distribution costs for publishers have risen slightly over the last three years



- Despite some publishers' investments in new and improved warehouse and distribution infrastructure, the gains to which these investments gave rise, seem to have failed to offset the increasing cost, totalling \$116m in 2000 for the Australian book industry
- Average industry distribution cost per unit has risen from \$0.60 to \$0.63 during the period 1998 to 2000



Notes:

- 1) Accenture analysis of Ad Rem participant data, and ABS, Australian Book Publishing, 1998-2000
- 2) These volume numbers are different from the 'volume of books sold' stated on page 8 as they are generated based on extrapolations of Ad Rem participant data and include books that are subsequently returned to enable a more accurate calculation of average distribution cost per unit



Consolidation of book distribution could reduce cost of distribution by at least \$50m p.a.

¶ Unit distribution costs for publishers have risen slightly over the last three years

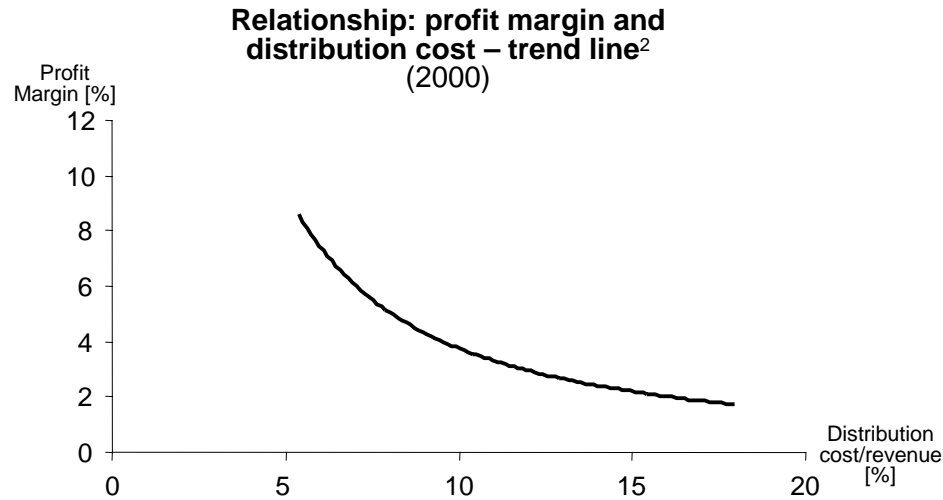
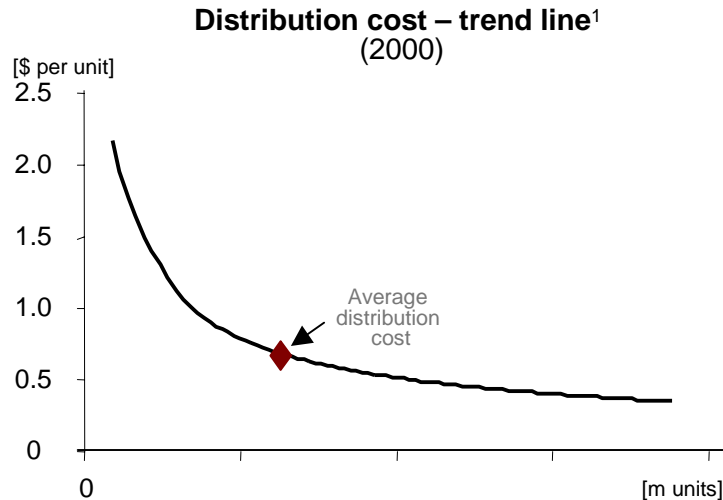
¶ Fragmentation of Australian book distribution leads to more than \$50m p.a. in excess cost

- Potential economies of scale and scope are not exploited, leading to high industry wide opportunity costs with wide disparity between the costs incurred by different players
- Most publishers' current distribution strategies fail to account for segmentation

¶ Consolidation is the key to drive cost out of distribution in the Australian book industry



Potential economies of scale and scope are not exploited, leading to high industry wide opportunity costs with wide disparity between the costs incurred by different players



- Economies of scale apply to Australian book distribution
- Smaller publishers are incurring significantly higher distribution costs than larger players

- The more profitable publishers have lower distribution costs as a percentage of their revenues

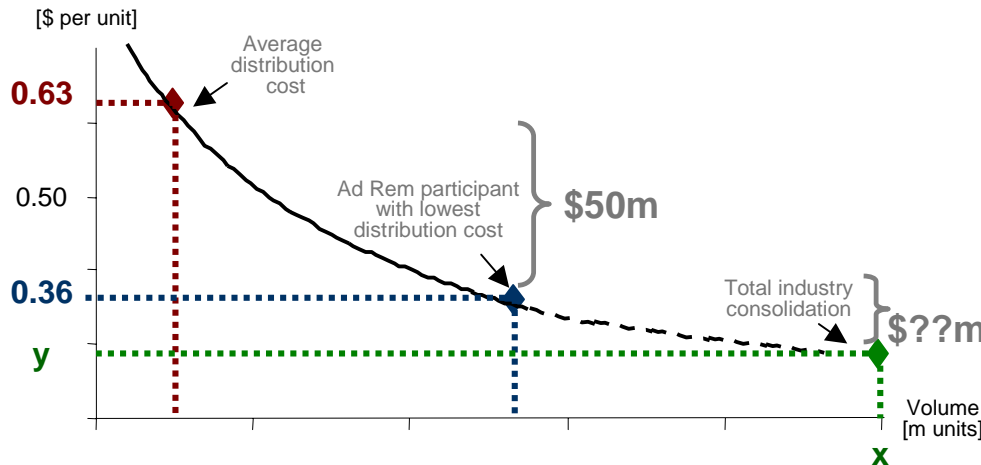
Notes:

- 1) Accenture analysis of Ad Rem participant data
The data points and volumes on the horizontal axis are omitted to disguise company specific information
- 2) Accenture analysis of Ad Rem participant data
The data points are omitted to disguise company specific information



Fragmentation of Australian book distribution leads to more than \$50m p.a. in excess cost

Distribution cost per unit¹
(2000)



- The opportunity cost of not moving down the distribution cost curve² from the average to the best industry performance is \$50m p.a.
- E.g. medium sized players could combine volumes to achieve the same economies as the largest distributor. Additional benefits can be expected if several of the large players were to combine their volumes (point x,y)
- The cost curve is not fixed. If the underlying infrastructure was improved through advanced strategic supply chain management, the curve itself would lower and overall costs would decrease further (see subsequent page)

Notes:

1) Source: Accenture analysis of Ad Rem participant data

2) This curve is a trend line reflecting participant data.

The data points and values on the horizontal axis are omitted to disguise company specific information



Most publishers' current distribution strategies fail to account for segmentation

A key principle of excellence in supply chain management, is segmentation of the supply chain to distribute different products to different customers in the most efficient way, whilst meeting different service levels

Customer segmentation

The concept of customer segmentation is seldom reflected in the way books are currently distributed in Australia. For example, little use is made of mode shifting (transport selection) strategies to vary service levels for different channels or customers

Product segmentation

- Although a small number of titles represent the majority of volume¹, little difference in the supply chain is evident between bestsellers and minor titles
- Flow-through distribution strategies could generate significant efficiencies for high volume products

Example of product segmentation

One Australian publisher recently set up a pilot program to segment products by distributing front list titles directly from the printer (bypassing the warehouse), which resulted in significant reduction in lead time of 7 days.

If this were implemented on a larger scale it would require additional distribution skills for printers and enhance the need to consolidate backlist distribution

Notes:

1) Based on interviews, it is estimated that 5% of titles represent 50% of revenue



Consolidation of book distribution could reduce cost of distribution by at least \$50m p.a.

¶ **Unit distribution costs for publishers have risen slightly the last three years**

¶ **Fragmentation of Australian book distribution leads to more than \$50m p.a. in excess cost**

¶ **Consolidation is the key to drive cost out of distribution in the Australian book industry**



Consolidation is the key to drive cost out of distribution in the Australian book industry

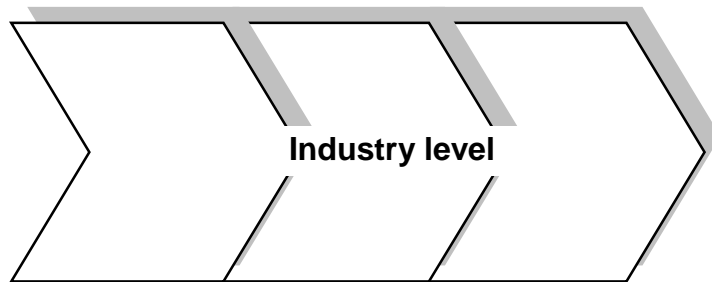
Recommendation ¹	Description	Relevance
<ul style="list-style-type: none"> • Consolidate book distribution 	<ul style="list-style-type: none"> • Capitalise on the demonstrated economies of scale effect² in distribution, both within and outside the publishing sector (e.g. through 3rd or 4th party logistics providers³) 	<ul style="list-style-type: none"> • Publishers
<ul style="list-style-type: none"> • Segment distribution network 	<ul style="list-style-type: none"> • Develop distribution channel strategy based on: <ul style="list-style-type: none"> – Customer driven market segmentation – Defined customer service requirements – Quantified cost-to-serve • Optimise transportation by using alternate modes to meet different customer requirements, e.g. intermodal, consolidated LTL ('less than truck loads') • Use product segmentation to drive distribution design (e.g. high volume front list flow-through or direct distribution, slow moving low volume back list consolidation) • Encourage printers to expand offerings to provide distribution capabilities for e.g. direct front list distribution 	<ul style="list-style-type: none"> • Publishers
<ul style="list-style-type: none"> • Consortium approach to negotiate freight agreements 	<ul style="list-style-type: none"> • Engage with other publisher as well as printers and booksellers to optimise transportation management by procuring freight through a consortium approach 	<ul style="list-style-type: none"> • Publishers/ printers/ booksellers

Notes:

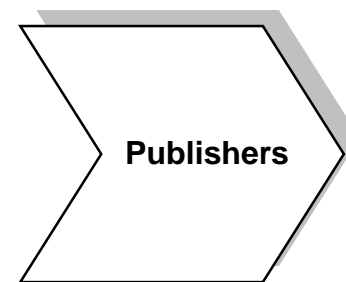
- 1) Some recommendations may be mutually exclusive
- 2) See page 61 on economies of scale
- 3) A report from Lehman Brothers (March 2001), indicates that companies that have redesigned their supply chain to incorporate a 4PL, have EBITDA multiples 3-5 times higher than those who don't

= Key recommendation(s)

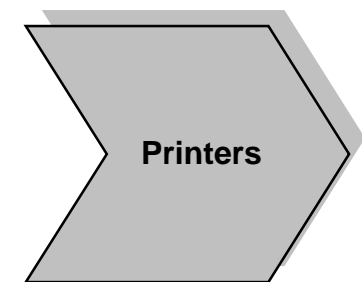
The Ad Rem project has identified improvement opportunities estimated to be worth \$155 million annually for the Australian book industry, based on the value chain analysis



- ¶ Better and collaborative demand planning practices could reduce the cost of returns by \$47m p.a. in the Australian book industry
- ¶ Improved inventory management practices could reduce the cost of inventory by \$48m p.a. in the Australian book industry



- ¶ Consolidation of book distribution could reduce cost of distribution by at least \$50m p.a.



- ¶ **Australian book printers could save \$10m p.a. through better and collaborative paper sourcing practices**
- ¶ Closer collaboration with publishers and better internal planning practices are key to increasing supply chain efficiencies in the printing sector
- ¶ Further consolidation of the printing sector could improve Australian printers' competitiveness



Australian book printers could save \$10m p.a. through better and collaborative paper sourcing practices

¶ Australian printers use many different suppliers to source one type of paper

- Total annual paper spend for the book printing sector is estimated to be \$83m
- The vast majority of paper sourced is uncoated mechanical paper weighing less than 100gsm
- Australian book printers use a large number of different suppliers to source their paper, but most printers use the same suppliers

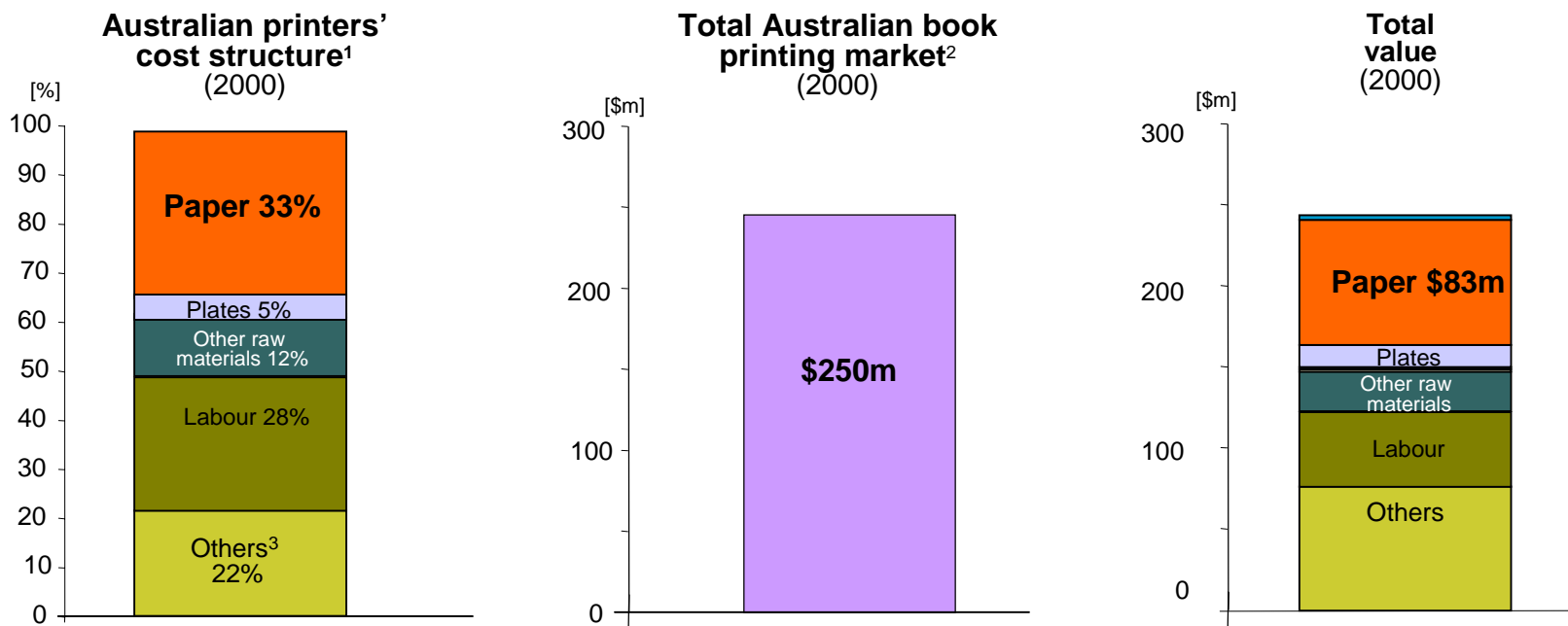
¶ Australian book printers adopt only basic procurement practices

¶ Australian book printers do not have a collaborative approach to paper sourcing which hold a potential saving of up to \$10m p.a.

¶ Aggregating paper demand at industry level has the biggest potential to drive down overall material costs for the Australian book printing sector



Total annual paper spend for the book printing sector is estimated to be \$83m



Notes:

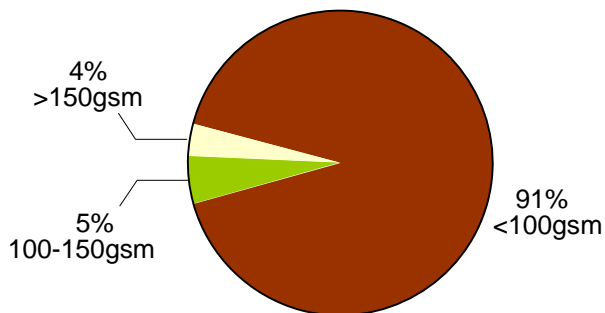
- 1) Source: Accenture analysis of Ad Rem participant data
- 2) Refer to page 16 of this report (Industry Situation: The Publishing & Printing Sectors – Size)

- 3) Consists of:
 - 'Other' overheads 11%
 - 'Other' printing & binding costs 8%
 - 'Other' sales & marketing costs 1%
 - 'Other' distribution costs 2%

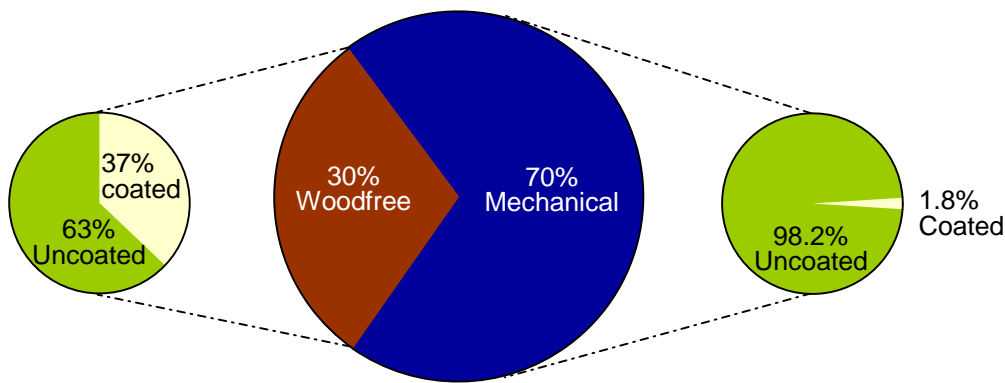


The vast majority of paper sourced is uncoated mechanical paper weighing less than 100gsm

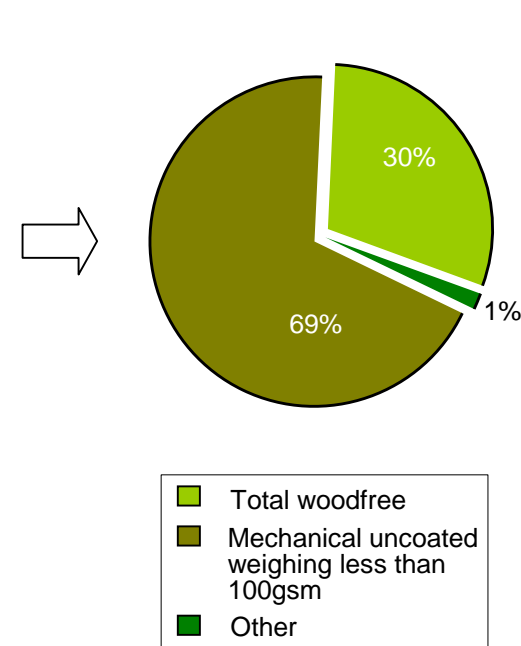
Total paper sourced according to weight¹



Total paper sourced according to grade & coating¹



Key types of paper used according to grade, coating and weight¹

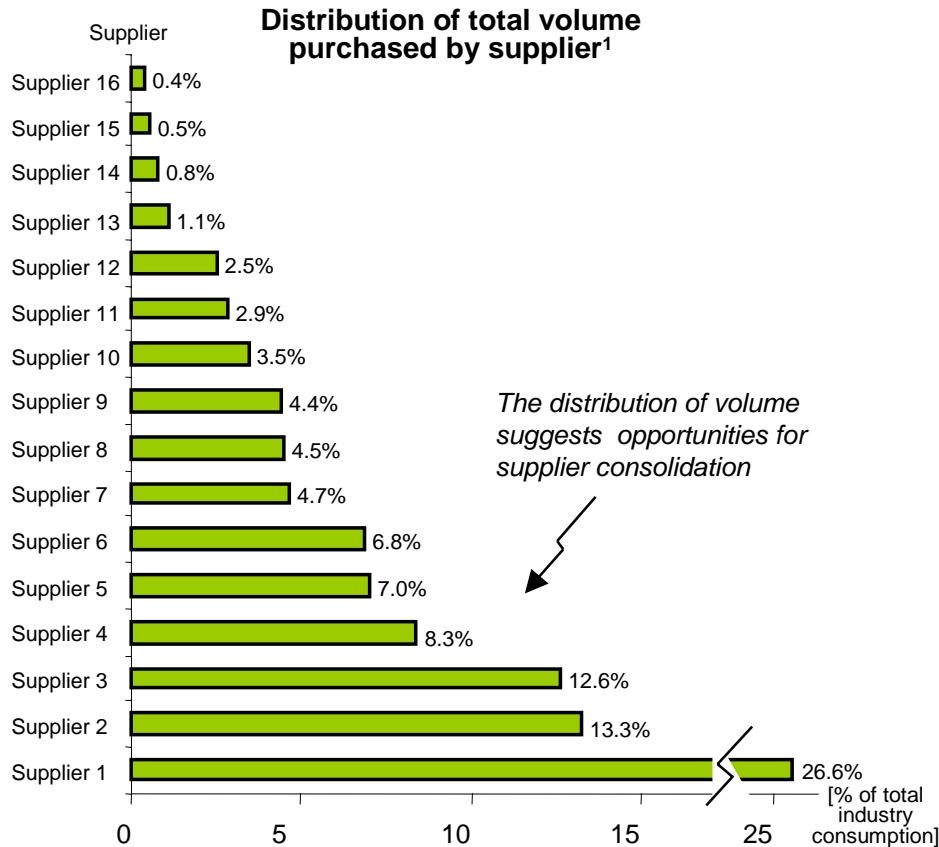


Notes:

1) Source: Accenture analysis of Ad Rem participant data
Further analysis indicates that 85% of all paper sourcing is of web feed type



Australian book printers use a large number of different suppliers to source their paper, but most printers used the same suppliers

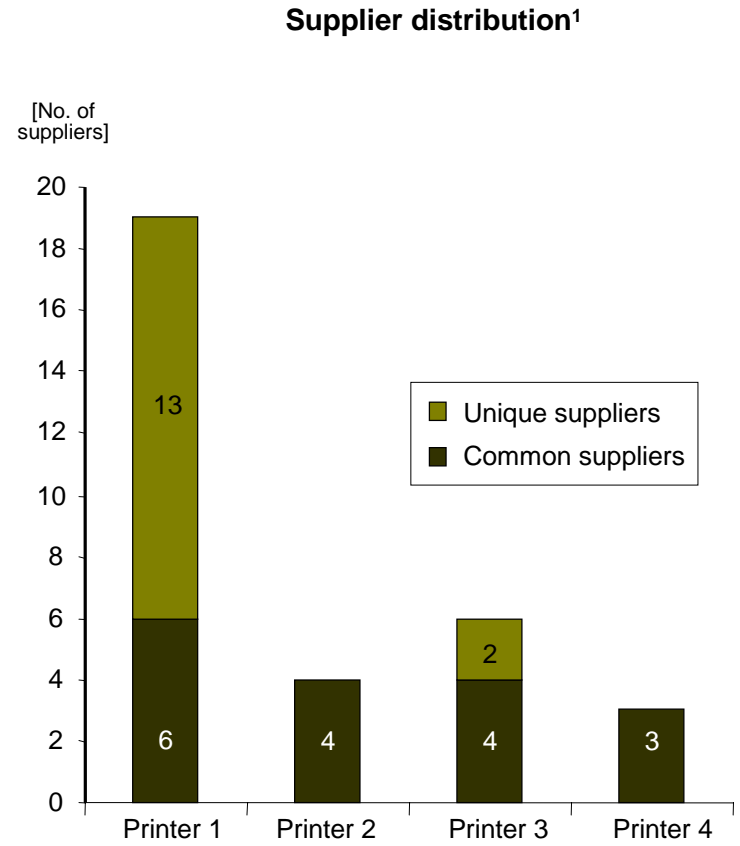


Every printer and supplier carries stock of different paper types increasing the cost in the overall supply chain

Notes:

1) Accenture analysis of Ad Rem participant data

'Common suppliers' refers to paper companies that also supply at least one other printer. 'Unique suppliers' refers to paper companies that supply only that printer



The number of paper suppliers varies between 3 and 19 amongst the different printers



Australian book printers could save \$10m p.a. through better and collaborative paper sourcing practices

¶ **Australian printers use many different suppliers to source one type of paper**

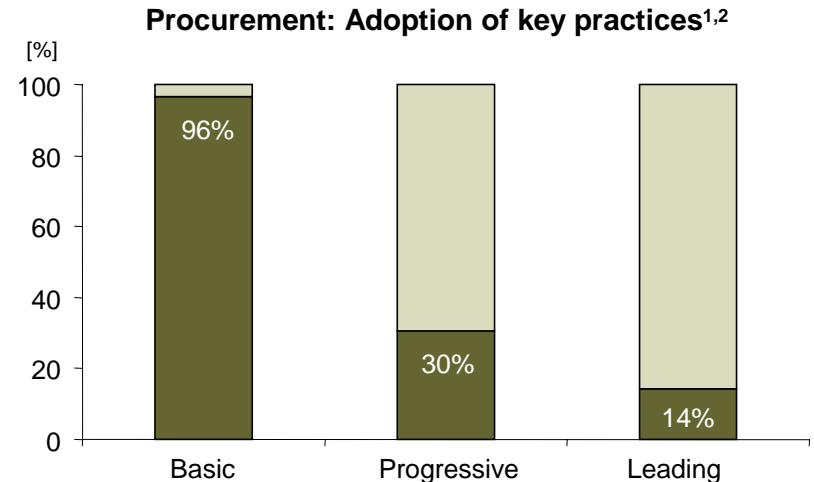
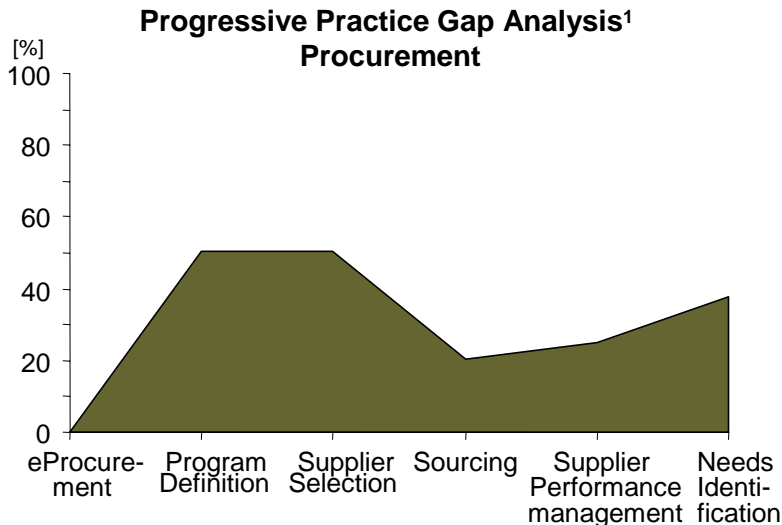
¶ **Australian book printers adopt only basic procurement practices**

¶ **Australian book printers do not have a collaborative approach to paper sourcing which hold a potential saving of up to \$10m p.a.**

¶ **Aggregating paper demand at industry level has the biggest potential to drive down overall material costs for the Australian book printing sector**



Individual printers are adopting less than 34% of progressive procurement practices causing high paper spend



- To negotiate the final transaction price procurement professionals target unit price, rather than leverage Total Cost of Ownership (TCO), which includes usage, administrative and process costs
- eProcurement is only used to perform basic research on potential suppliers. Electronic auctioning or sourcing paper via electronic market places is not exploited

- The industry adopts a high level of basic procurement practices (96%)
- The industry adopts 30% of progressive-level procurement practices
- The industry adopts hardly any leading-edge procurement practices (14%)

Notes:

- 1) Accenture analysis of Ad Rem participant interviews
- 2) See Appendix E for more detail



Australian book printers could save \$10m p.a. through better and collaborative paper sourcing practices

¶ **Australian printers use many different suppliers to source one type of paper**

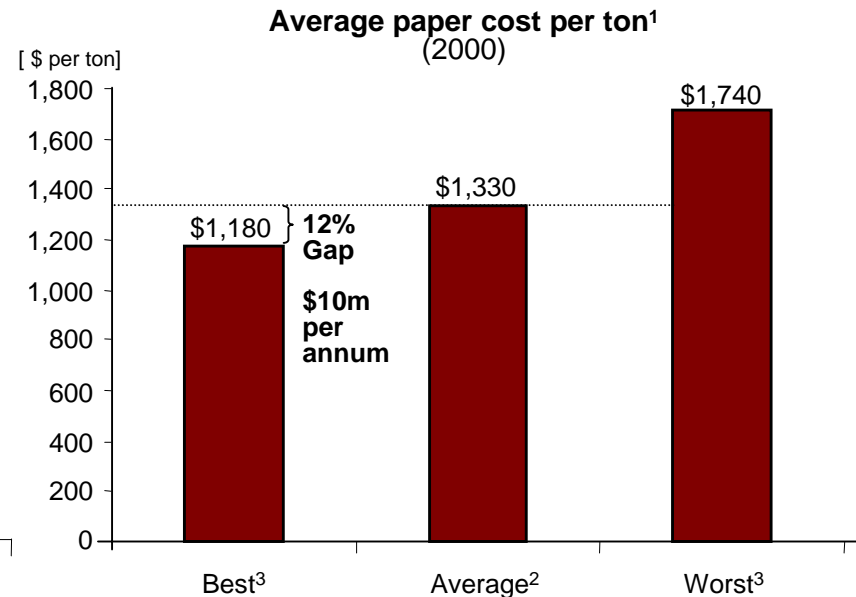
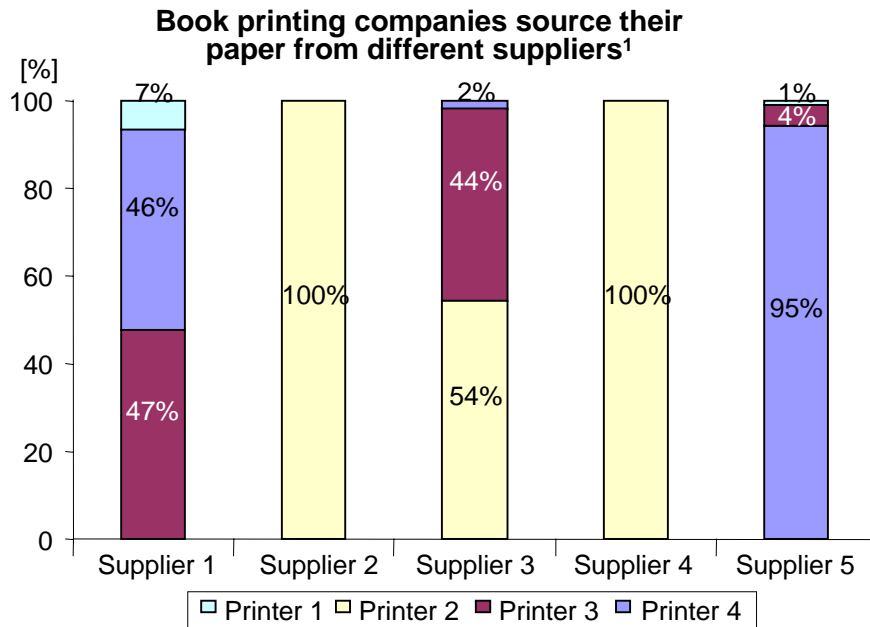
¶ **Australian book printers adopt only basic procurement practices**

¶ **Australian book printers do not have a collaborative approach to paper sourcing which hold a potential saving of up to \$10m p.a.**

¶ **Aggregating paper demand at industry level has the biggest potential to drive down overall material costs for the Australian book printing sector**



Australian book printers do not have a collaborative approach to paper sourcing which hold a potential saving of up to \$10m p.a.



- Despite requiring a similar mix of paper, Australian printers source paper individually from different suppliers
- Price differences point to the need for further investigation into potential savings through collaborative sourcing
- Without any current aggregation of printers' paper demand forecasts, suppliers cannot smooth out demand patterns. Greater demand visibility would lead to more stability in paper supply, less cost in the supply chain and further improvement potential through vendor management and product substitution

Notes:

- 1) Accenture analysis of Ad Rem participant data
- 2) Weighted average of paper cost / ton for Ad Rem participating printers in 2000
- 3) 'Best' and 'Worst' average paper cost / ton have been adjusted to reflect differences in paper mix relative to the participant average (see page 68)



Australian book printers could save \$10m p.a. through better and collaborative paper sourcing practices

- ¶ **Australian printers use many different suppliers to source one type of paper**
- ¶ **Australian book printers adopt only basic procurement practices**
- ¶ **Australian book printers do not have a collaborative approach to paper sourcing which hold a potential saving of up to \$10m p.a.**

¶ **Aggregating paper demand at industry level has the biggest potential to drive down overall material costs for the Australian book printing sector**



Aggregating paper demand at industry level has the biggest potential to drive down overall material costs for the Australian book printing sector

Recommendation ¹	Description	Relevance
<ul style="list-style-type: none"> • Aggregate demand on (near) industry level 	<ul style="list-style-type: none"> • Create an independent entity (e.g. wholesaler) to aggregate paper demand by electronically sharing real time paper demand forecasts from printers, in order to drive costs out of the supply chain. This will give opportunities to optimise inventory levels, exploit the spot market and leverage volume bundling. The entity will be able to discriminate price to its customers based on several criteria (volume, creditworthiness etc.) 	<ul style="list-style-type: none"> • Printers
<ul style="list-style-type: none"> • Consolidate paper suppliers 	<ul style="list-style-type: none"> • Consolidate suppliers to leverage volume and material bundling to minimise inefficiencies in the supply chain 	<ul style="list-style-type: none"> • Printers
<ul style="list-style-type: none"> • Improve individual procurement practices 	<ul style="list-style-type: none"> • Build strategic alliances with paper suppliers involving them early in the planning process, continuously monitoring their performance and instigating ongoing improvement programs • Adapt the concept of Total Cost of Ownership (TCO) to assist in supplier selection • Exploit internet enabled sourcing options (eAuctions etc.) 	<ul style="list-style-type: none"> • Printers

Notes:

1) Some recommendations may be mutually exclusive

= Key recommendation(s)

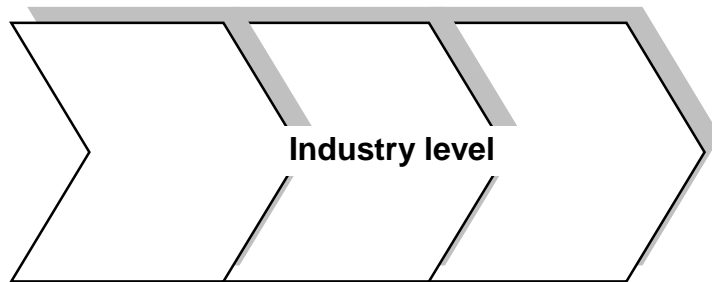


Aggregating paper demand at industry level has the biggest potential to drive down overall material costs for the Australian book printing sector

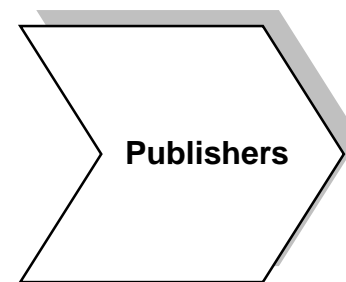
Recommendation ¹	Description	Relevance
<ul style="list-style-type: none">• Increase supply chain collaboration with publishers	<ul style="list-style-type: none">• Plan collaboratively (i.e. share online real time forecasts) to improve demand forecasts and thereby maximise and share supply chain efficiencies (see 'aggregate demand' recommendation)• Engage in collaborative product design to benefit and share significantly from a rationalised number of SKUs	<ul style="list-style-type: none">• Printers

Notes:
1) Some recommendations may be mutually exclusive

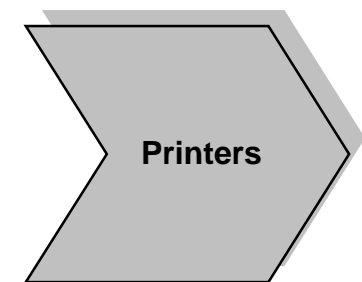
The Ad Rem project has identified improvement opportunities estimated to be worth \$155 million annually for the Australian book industry, based on the value chain analysis



- ¶ Better and collaborative demand planning practices could reduce the cost of returns by \$47m p.a. in the Australian book industry
- ¶ Improved inventory management practices could reduce the cost of inventory by \$48m p.a. in the Australian book industry



- ¶ Consolidation of book distribution could reduce cost of distribution by at least \$50m p.a.



- ¶ Australian book printers could save \$10m p.a. through better and collaborative paper sourcing practices
- ¶ **Closer collaboration with publishers and better internal planning practices are key to increasing supply chain efficiencies in the printing sector**
- ¶ Further consolidation of the printing sector could improve Australian printers' competitiveness



Closer collaboration with publishers and better internal planning practices are key to increasing supply chain efficiencies in the printing sector

¶ Book printers' external relations create operational inefficiencies

- Book printers' external relations with publishers are at arms length, disconnecting supply chains
- Disconnected supply chains affect book printers' operational effectiveness

¶ Book printers' internal practices create operational inefficiencies

¶ Stronger focus on strategic relationships with publishers is the key to improving operational planning

Book printers' external relations with publishers are at arms length, disconnecting supply chains

"...but aren't we talking about the supply chain here? What have printers got to do with it?"

CEO, Book Publisher¹

"...my sales reps talks to publishers' production people ... but that's about the extent of our relationship ..."

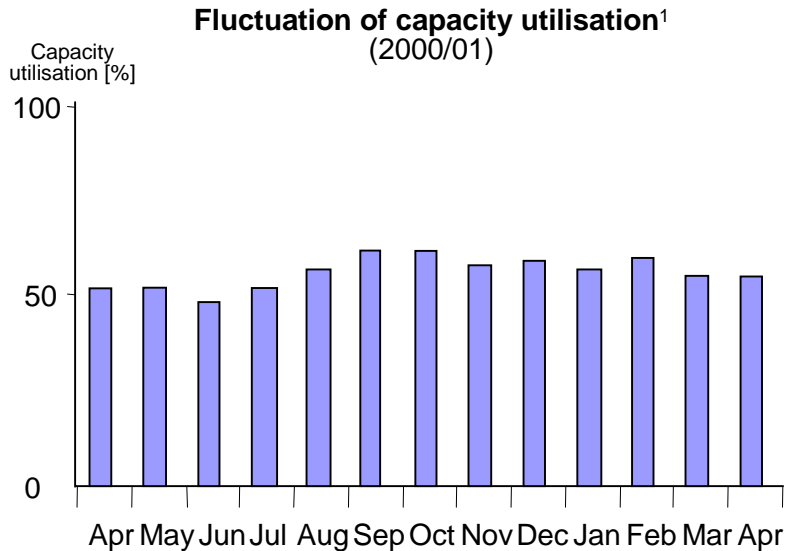
Managing Director, Book Printer¹

- Publishers' and printers' supply chains rarely interact at early stages. Their relations are typically at arms length
- Interaction between publishers and printers is usually in the form of price quotation or order placement. Other interaction is normally transaction-specific and takes place between printers' sales representatives or production staff and publishers' operation managers
- Strategic partnerships between publishers and printers are few. They do not typically collaborate extensively in the areas of book development and book design, and they rarely share information such as real-time forecasts and production plans
- Neither publishers nor printers commonly understand each other's processes and they are given limited internal incentive to do so

Notes:

1) Quote taken from records of Ad Rem interviews with 60 executives from Australian publishing companies and 20 executives from Australian printing companies

Disconnected supply chains affect book printers' operational effectiveness



“...we recently experienced a rush order and we had to rearrange our production plan significantly. We dropped everything to deliver the order in 2 days, only to discover that the book was in the warehouse for 2 weeks before it reached the shops”

Production Manager, Book Printer²

- Demand is somewhat cyclical, as reflected by the degree to which capacity utilisation fluctuates from month to month
- The capacity utilisation for each individual printer varies more than the average of several printers depicted in the graph. The lack of interaction between publishers and printers in the planning phase inhibits printers' ability to spread production more evenly throughout the year
- In the absence of interconnected supply chains, rush orders cause considerable interruption. Most printers are willing to change their production schedules to satisfy rush orders
- Despite interruptions to production and difficulties with scheduling due to untimely orders, printers have not designed pricing structures to reward publishers or create benefit-sharing initiatives, with view to create incentive for preferred behaviour

Notes:

1) Accenture analysis of Ad Rem participant data

Capacity calculated as 3 shifts a day, 312 days a year. The size of a book defined as approximately 250 pages. Ad Rem participant data used as the base and then extrapolated with data from ABS, Book Publishers, 1999-2000. Note that this data shows a variance of about 3% from the 2000 capacity-utilisation data reported elsewhere in this report. The different time periods used for recording these figures account for this variance

2) Quote taken from records of Ad Rem interviews with 20 executives from Australian printing companies



Closer collaboration with publishers and better internal planning practices are key to increasing supply chain efficiencies in the printing sector

¶ Book printers' external relations create operational inefficiencies

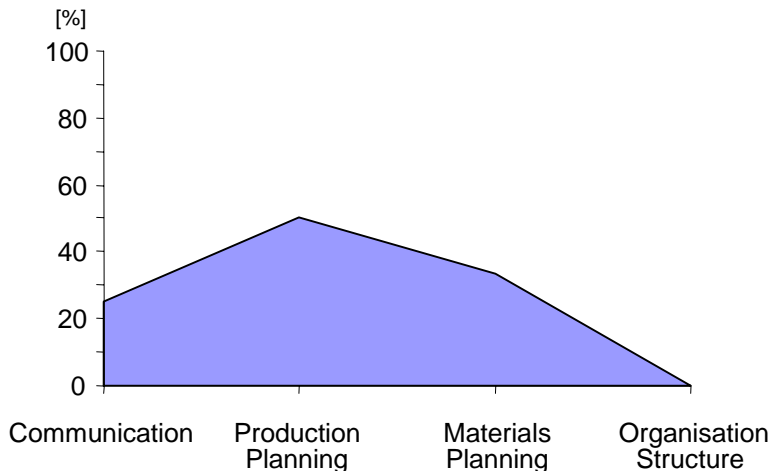
¶ Book printers' internal practices create operational inefficiencies

- Book printers have adopted only basic operational planning practices
- Internal planning practices affect book printers' services levels

¶ Stronger focus on strategic relationships with publishers is the key to improving operational planning

Book printers have adopted only basic operational planning practices

**Progressive Practice Gap Analysis¹
Planning Practices**



“...we can't do production scheduling on a computer system because there are too many variables...”

Scheduling Manager, Book Printer²

- Printers' planning practices have been benchmarked³ against recommended:
 - Basic practices, most of which have been adopted (73%)
 - Progressive practices, some of which have been adopted (27%) - reflected in the opposing graph
 - Leading practices, few of which have been adopted (16%)
- Most printers over rely on manual processes, continuing to depend on paper-based schedule boards and the memory and know-how of a few key individuals
- Most printers under rely on information technology, managing their businesses with central and paper-based book systems. Microsoft Excel is widely used, but there is limited use of more advanced software applications

Notes:

1) Source: Accenture analysis of Ad Rem participant data

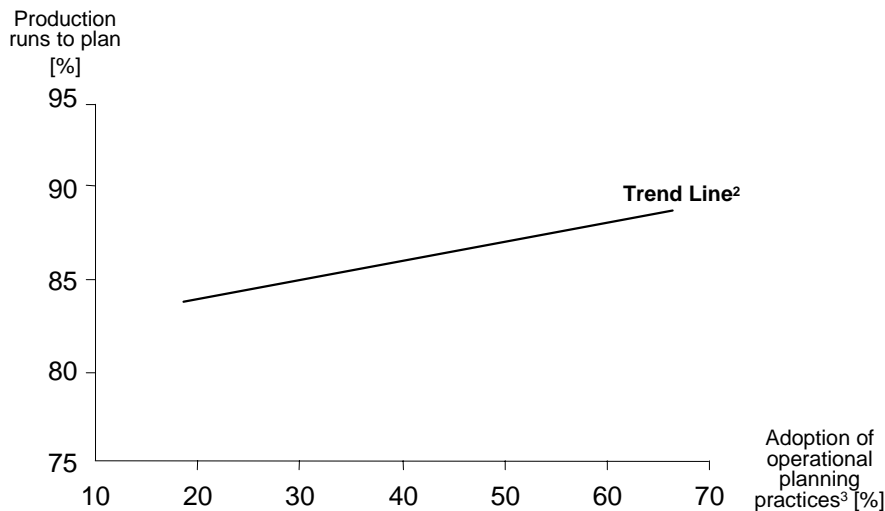
2) Source: Quote taken from records of Ad Rem interviews with 20 executives from Australian printing companies

3) See Appendix F for further details



Internal planning practices affect book printers' service levels

Benchmarking¹
Planning practices and runs to plan



- There is an apparent relationship between printers' adoption of operational planning practices and their completion of production runs to plan. That is, the greater the use of planning practices, the greater the proportion of print runs completed to plan
- Completing production runs to plan allows printers to satisfy fulfilment promises and thereby meet customer service expectations

"...we sometimes fail to print according to plan, but this can't be helped. There are too many uncertainties that just pop-up and we have to change our plan to make it all come together."
Production Manager, Book Printer⁴

Notes:

- 1) Source: Accenture analysis of Ad Rem participant data
- 2) This trend reflects actual Ad Rem participant data. Data points have been omitted to protect company-specific information
- 3) This includes basic, progressive and leading practices. See appendix F for details
- 4) Source: Quote taken from records of Ad Rem interviews with 20 executives from Australian printing companies



Closer collaboration with publishers and better internal planning practices are key to increasing supply chain efficiencies in the printing sector

¶ **Book printers' external relations create operational inefficiencies**

¶ **Book printers' internal practices create operational inefficiencies**

¶ **Stronger focus on strategic relationships with publishers is the key to improving operational planning**



Stronger focus on strategic relationships with publishers is the key to improving operational planning

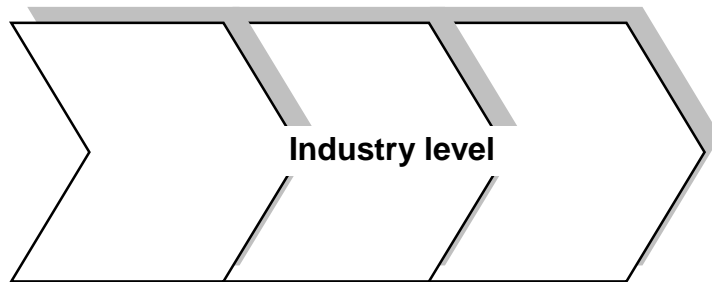
Recommendation ¹	Description	Relevance
<ul style="list-style-type: none"> • Establish cooperative strategic relationships with publishers • Adopt pricing structures to influence behaviour 	<ul style="list-style-type: none"> • Establish long-term strategic relations for increasing transactional certainty and improving operational planning, by allowing supply chains to interact at early stages, enabling cooperation on product design and development and electronic communication on product forecasts and production planning • Set pricing structures to create incentive for preferred publisher behaviour, with prices that explicitly reward publishers for the timeliness of their orders and the degree to which they share information and keep to forecasts, while also sharing the benefits to which their preferred behaviour gives rise 	<ul style="list-style-type: none"> • Printers • Printers
<ul style="list-style-type: none"> • Improve internal operational planning practices 	<ul style="list-style-type: none"> • Replace paper-based scheduling boards and books with computer-based systems and explore the viability of implementing more advanced software applications 	<ul style="list-style-type: none"> • Printers

Notes:

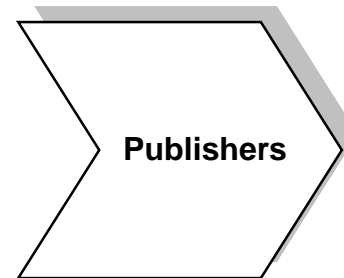
1) Some recommendations may be mutually exclusive

= Key recommendation(s)

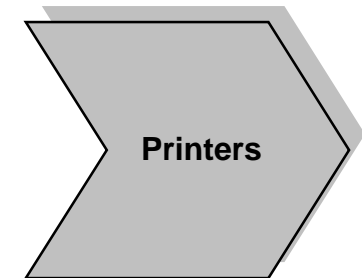
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- ¶ Australian book printers could save \$10m p.a. through better and collaborative paper sourcing practices
- ¶ Closer collaboration with publishers and better internal planning practices are key to increasing supply chain efficiencies in the printing sector
- ¶ **Further consolidation of the printing sector could improve Australian printers' competitiveness**



Further consolidation of the printing sector could improve Australian printers' competitiveness

¶ Publishers are moving the production of books for the Australian market overseas

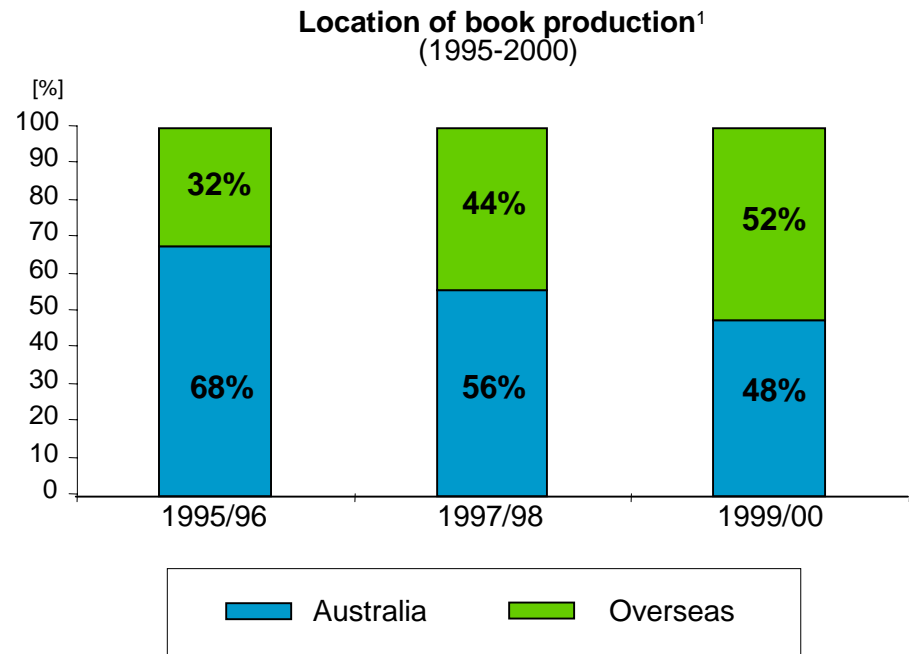
¶ Australian book printers have maintained market share in black and white books, but have excess capacity and unrealised potential in scale economies

¶ Australian book printers are uncompetitive in colour books compared to Asian printers

¶ Investigating strategic options that lead to greater consolidation is a key recommendation



Publishers are moving the production of books for the Australian market overseas



The Australian Bureau of Statistics reports that the market share captured by Australian book printers has been declining - dropping 20 percentage points over the period from 1995/1996 to 1999/2000

Notes:
1) Accenture analysis of ABS, Australian Book Publishing, 1995-2000



Further consolidation of the printing sector could improve Australian printers' competitiveness

¶ Publishers are moving the production of books for the Australian market overseas

¶ Australian book printers have maintained market share in black and white books, but have excess capacity and unrealised potential in scale economies

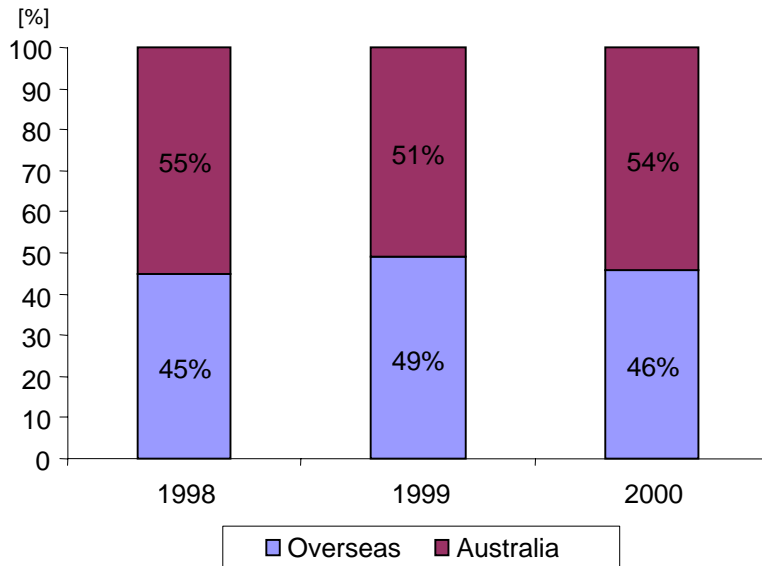
- Australian book printers have maintained market share in black and white books
- Australian book printers have excess capacity and are not fully exploiting potential scale economies

¶ Australian book printers are uncompetitive in colour books compared to Asian printers

¶ Investigating strategic options that lead to greater consolidation is a key recommendation

Australian book printers have maintained market share in black and white books

Trade segment (fiction/non-fiction) - volume printed¹
(1998-2000)



- Black and white books typically satisfy the trade segments of the book market. These books usually service the market with strong frontlists and monthly releases
- Australian printers have maintained market share in the printing of trade books, largely because of:
 - Lead time advantages compared to overseas printers
 - Greater control that onshore production gives publishers
 - Competitive pricing and quality
 - History of, and experience with, supplying black and white books to Australian publishers

"... 'Time to market' is of particular importance for books with global launch dates and books needing to reach the market within the regulatory timeframe of 30 days..."

Managing Director, Book Publisher²

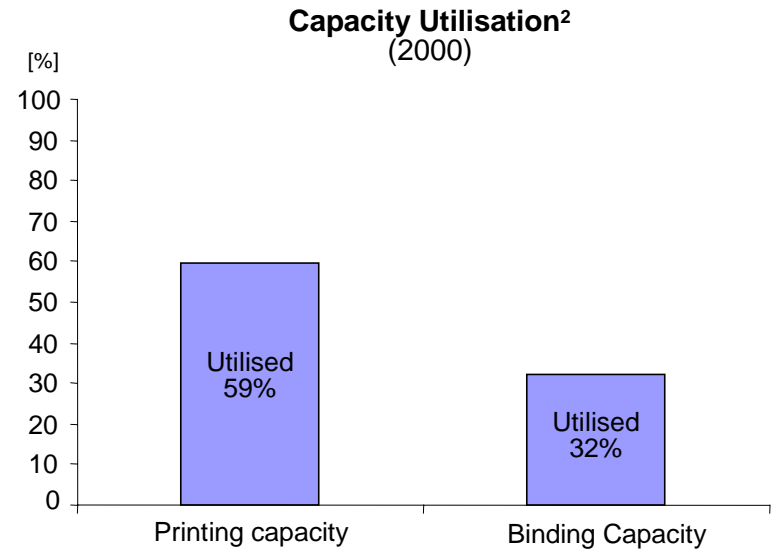
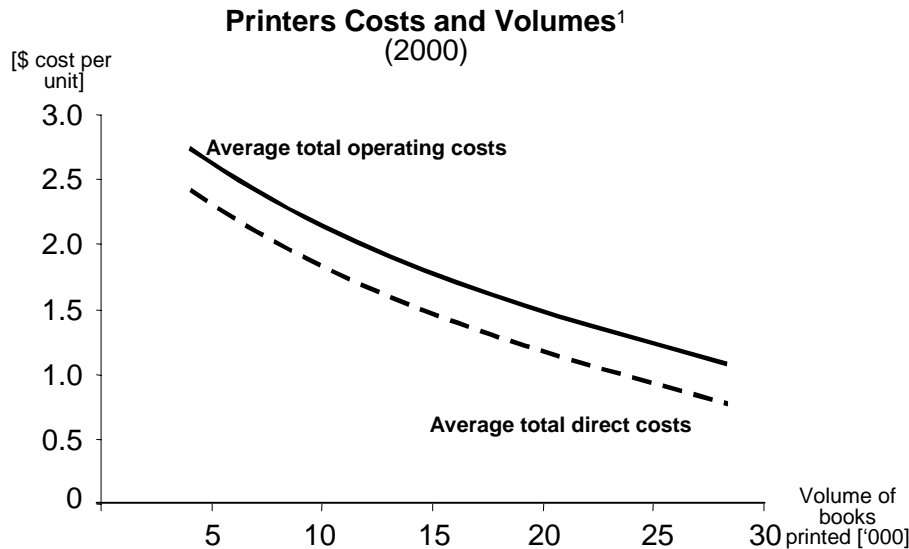
Notes:

1) Accenture analysis of Ad Rem participant data

2) Quote taken from records of Ad Rem interviews with 60 executives from Australian publishing companies



Australian book printers have excess capacity and are not fully exploiting potential scale economies



- Australia's book printing sector faces a volume-driven cost base. Its priority should therefore be to maximise scale economies
- However, scale economies are under exploited. Australia has approximately 228 book printers servicing 200 publishers and an unquantified number of non-publishing entities³

Notes:

- 1) Accenture analysis of Ad Rem participant data. These cost curves reflect actual Ad Rem participant data. Data points have been omitted to disguise company specific information
- 2) Accenture analysis of Ad Rem participant data. Same volume used to determine printing and binding capacities. Capacity calculated as 3 shifts a day, 312 days a year. 312 days (6 days/week) was arbitrarily chosen in absence of an industry standard. Its economic feasibility is subject to an operation's cost base, i.e. where it is positioned on the cost curve. The size of a book defined as approximately 250 pages
Ad Rem participant data used as the base and then extrapolated with data from ABS, Australian Book Publishing, 1999-2000
- 3) Also refer to page 17 of this report

Further consolidation of the printing sector could improve Australian printers' competitiveness

¶ **Publishers are moving the production of books for the Australian market overseas**

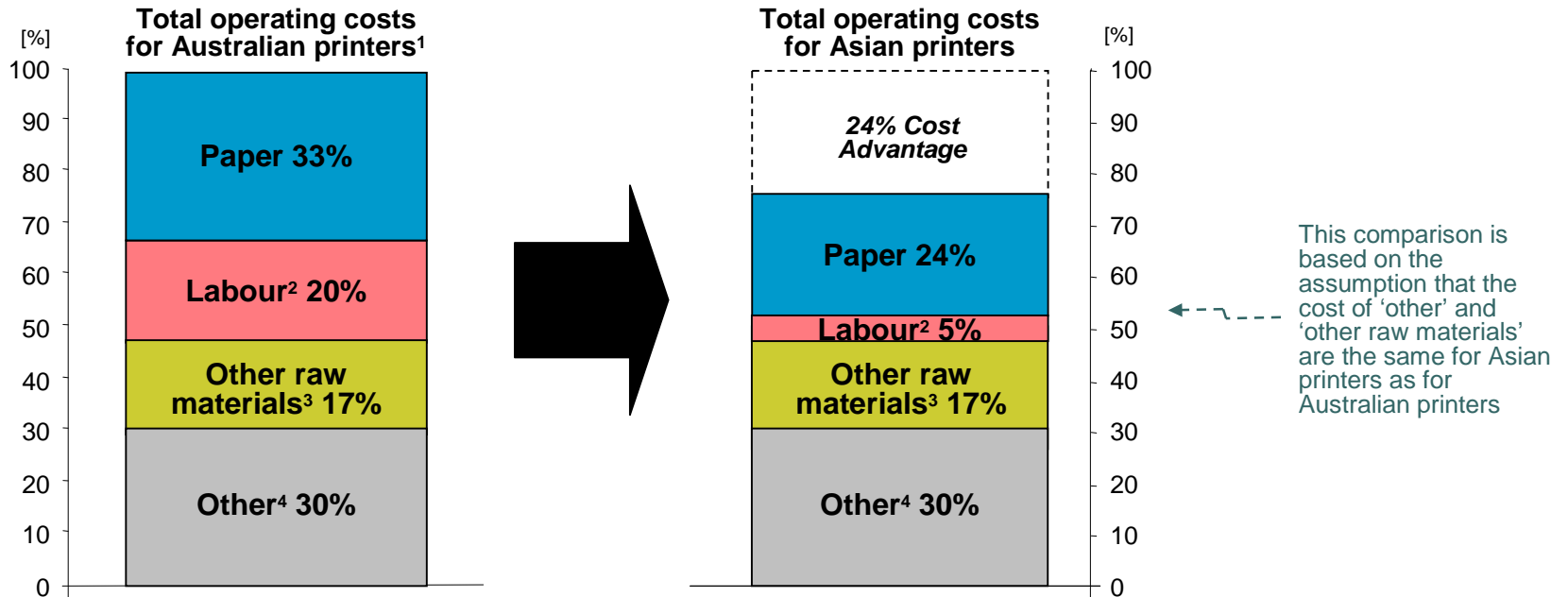
¶ **Australian book printers have maintained market share in black and white books, but have excess capacity and unrealised potential in scale economies**

¶ **Australian book printers are uncompetitive in colour books compared to Asian printers**

- Australian book printers have a 24% cost disadvantage in colour printing compared to Asian printers
- Higher paper and labour costs account for the 24% cost disadvantage faced by Australian book printers

¶ **Investigating strategic options that lead to greater consolidation is a key recommendation**

Australian book printers have a 24% cost disadvantage in colour printing compared to Asian printers



- Colour books typically fit the higher education, school and children book segments. These books usually service markets with strong backlists and periodic releases. For publishers of these books, cost is of particular advantage
- The actual cost advantage may be more than 24%. Publishers suggest that Australian printers typically quote between 30% and 70% more for colour jobs than Asian printers

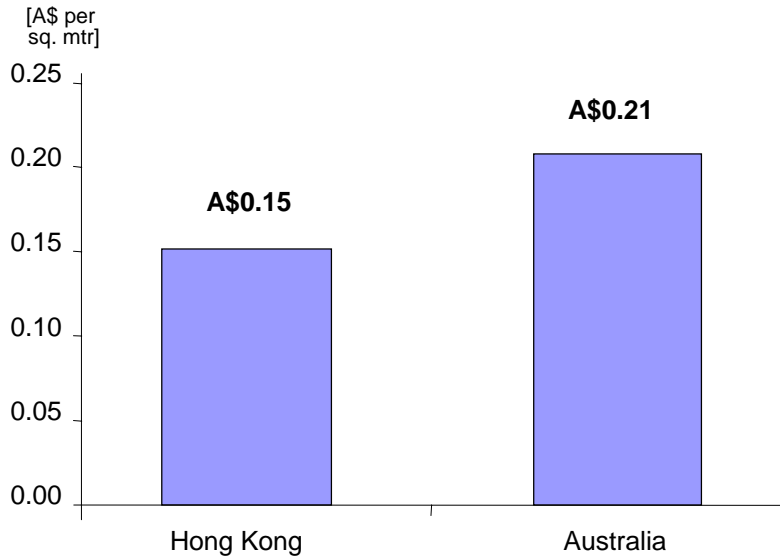
Notes:

- 1) Source: Accenture analysis of Ad Rem participant data
- 2) 'Labour' refers to the cost of labour involved in production only, not the labour component of 'overheads'
- 3) 'Other raw materials' refers to materials used in the production process, including plate, ink and miscellaneous materials
- 4) 'Other' refers to total overheads and other miscellaneous costs



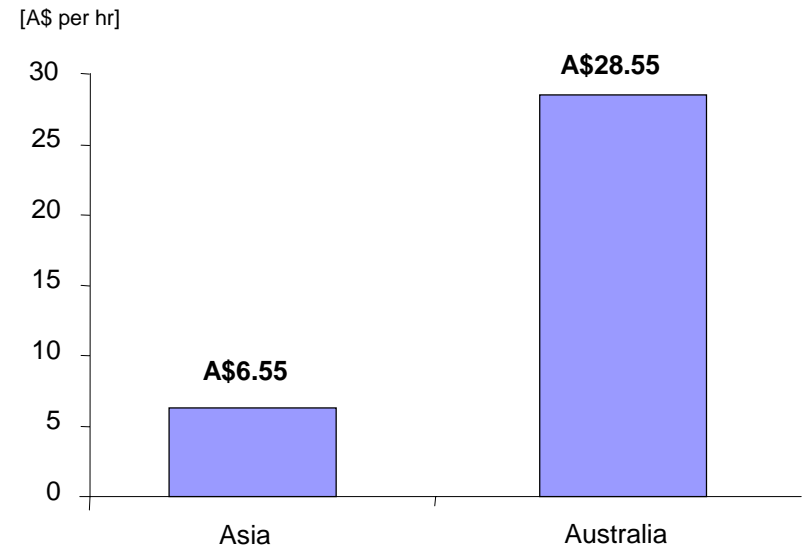
Higher paper and labour costs account for the 24% cost disadvantage faced by Australian book printers

Cost of paper¹



Australian printers pay about 40% more for coated paper used in colour printing

Cost of labour²



Australian printers pay about 4½ times more for labour employed in manufacturing capacities

Notes:

- 1) Accenture analysis of i) Ad Rem participant data and ii) Preliminary results: Joint Industry Study, Imprint 2001. Calculation based on coated 100 gram A2 Matt Art Paper
- 2) Accenture analysis of i) Ad Rem participant data and ii) The Economist Intelligence Unit, "Country Data" 2001. Average cost of production labour (pay and non-pay)



Printer Competitiveness

Further consolidation of the printing sector could improve Australian printers' competitiveness

¶ **Publishers are moving the production of books for the Australian market overseas**

¶ **Australian book printers have maintained market share in black and white books, but have excess capacity and unrealised potential in scale economies**

¶ **Australian book printers are uncompetitive in colour books compared to Asian printers**

¶ **Investigating strategic options that lead to greater consolidation is a key recommendation**



Investigating strategic options that lead to greater consolidation is a key recommendation

Recommendation ¹	Description	Relevance
<ul style="list-style-type: none"> • Investigate strategic options that lead to greater consolidation 	<ul style="list-style-type: none"> • Exploit the underlying economics of book production with improved scale economies and reduced industry capacity, through investigating options that lead to consolidation of the sector, including mergers, acquisitions and strategic partnerships 	<ul style="list-style-type: none"> • Printers
<ul style="list-style-type: none"> • Collaborate on calling tenders for major pieces of colour printing 	<ul style="list-style-type: none"> • Seek reductions in the cost of colour printing through publisher-collaboration on issuing a joint Request-For-Quotation (RFQ), thus also allowing Australian printers to bid for colour jobs that promise favourable scale economies 	<ul style="list-style-type: none"> • Printers and publishers
<ul style="list-style-type: none"> • Pursue lower labour costs 	<ul style="list-style-type: none"> • Prioritise high automation when making decisions on equipment replacements and use information technology and business process reengineering, with view to driving labour costs out of the production process 	<ul style="list-style-type: none"> • Printers
<ul style="list-style-type: none"> • Campaign for maintaining the 30 Day Rule 	<ul style="list-style-type: none"> • Protect the preservation of lead time advantage by voicing support for maintaining the '30 Day Rule' through political avenues 	<ul style="list-style-type: none"> • Printers

Notes:

1) Some recommendations may be mutually exclusive

 = Key recommendation(s)



Appendices

- A. Industry Interviews
- B. Book Printing Market Sizing
- C. Demand Planning Practices
- D. Inventory Management Practices
- E. Procurement Practices
- F. Operational Planning Practices

Appendix A Industry Interviews (I)

More than 120 individuals representing over 50 organisations were involved in the Ad Rem value chain analysis of the Australian book industry

Patrick Gallagher	<i>Allen and Unwin</i>	Peter Knock	<i>Dymocks</i>
Paul Donovan	<i>Allen and Unwin</i>	Christine Simmons	<i>Dymocks</i>
Peter Eichhorn	<i>Allen and Unwin</i>	Patrick Bernau	<i>Fuji Xerox</i>
David Martin	<i>Allen and Unwin</i>	Roger Mackell	<i>Gleebooks</i>
Lou Playfair	<i>Allen and Unwin</i>	Ben Jolly	<i>Griffin Press</i>
Alan Corder	<i>Angus & Robertson</i>	Peter Wright	<i>Griffin Press</i>
Ian Draper	<i>Angus & Robertson</i>	Adam Crouch	<i>Griffin Press</i>
Carolyn Elliott	<i>Australian Book Connection</i>	Graham Jowett	<i>Harlequin Mills Boon</i>
Kathleen Mapperson	<i>Australian Booksellers Association</i>	Ron Tomsett	<i>Harlequin Mills Boon</i>
David Aizenstros	<i>Australian Paper</i>	Melinda Pang	<i>Harlequin Mills Boon</i>
Susan Bridge	<i>Australian Publisher Association</i>	Michael Hoogestein	<i>Harlequin Mills Boon</i>
Michael Webster	<i>BookTrack</i>	Caroline Forsyth	<i>Harlequin Mills Boon</i>
Kirsty Ward	<i>BookTrack</i>	Michelle Laforest	<i>Harlequin Mills Boon</i>
Paul Barrett	<i>Big W</i>	Siena Paul	<i>Harlequin Mills Boon</i>
Alicia Humeniuk	<i>Big W</i>	Brian Murray	<i>HarperCollins</i>
Paul Rouget	<i>Brown Prior Anderson</i>	Barrie Hitchon	<i>HarperCollins</i>
Gus Gollings	<i>Common Ground Publishing</i>	Lil Velis	<i>HarperCollins</i>
Dr Bill Cope	<i>Common Ground Publishing</i>	Malcolm Boyd	<i>HarperCollins</i>
Dean Mason	<i>Common Ground Publishing</i>	Philip Klink	<i>HarperCollins</i>
Robin Freeman	<i>Common Ground Publishing</i>	Hannelore Federspiel	<i>HarperCollins</i>
Gillian Coutts	<i>David Jones</i>	James Herd	<i>HarperCollins</i>
Stephen Whittam	<i>David Jones</i>	Reno Galea	<i>HarperCollins</i>
Rene Byrne	<i>David Jones</i>	Elaine Brownlow	<i>Hawker Brownlow Education</i>
Martin Hourigan	<i>David Jones</i>	Malcolm Edwards	<i>Hodder Headline</i>
Simon Lane	<i>dbooks</i>	Edward Petrie	<i>Hodder Headline</i>
Paul Fisher	<i>dbooks</i>	David Cocking	<i>Hodder Headline</i>
Richard Bennett	<i>Dominie</i>	Fiona Lincoln	<i>Hodder Headline</i>

Appendix A Industry Interviews (II)

Ad Rem

More than 120 individuals representing over 50 organisations were involved in the Ad Rem value chain analysis of the Australian book industry

Peter Donoghue	<i>John Wiley & Sons</i>	Tony Castle	<i>McPherson's Printing Group</i>
David Wilson	<i>John Wiley & Sons</i>	Warren Griffin	<i>McPherson's Printing Group</i>
Quentin Smith	<i>John Wiley & Sons</i>	Tony Burch	<i>McPherson's Printing Group</i>
Lucy Russel	<i>John Wiley & Sons</i>	Jim McGrath	<i>Monash University Bookshop</i>
Bryan Price	<i>Joint Industry Study</i>	David Loomes	<i>Myer Grace Bros</i>
Russell Porch	<i>Landmark School Supplies</i>	Greg Browne	<i>Nelson</i>
Chris Burgess	<i>Leading Edge Books</i>	Kit Andrews	<i>Océ</i>
Richard Celarc	<i>Ligare</i>	Gary Pengelly	<i>PacStream</i>
Joy Thorne	<i>Ligare</i>	Barbara Cullen	<i>Page One</i>
Peter Lothian	<i>Lothian Books</i>	Siv Toigo	<i>Pan Macmillan</i>
Phil Brierley	<i>Macmillan Distribution Services</i>	Peter Phillips	<i>Pan Macmillan</i>
Andy Palmer	<i>Macmillan Distribution Services</i>	Simon Cameron	<i>Paperlinx Merchenting</i>
Shane Armstrong	<i>Macmillan Education</i>	Peter Field	<i>Penguin Australia</i>
Peter Huntley	<i>Macmillan Education</i>	Richard Vines	<i>Printing Industries Association of Australia</i>
Terry White	<i>Macmillan Education</i>	Andrew Goldsmith	<i>Printing Industries Association of Australia</i>
Roxanne Burns	<i>Macmillan Education</i>	Philip Andersen	<i>Printing Industries Association of Australia</i>
Ross Gibb	<i>Macmillan Publishers</i>	Phillip Boyle	<i>Printing Industries Association of Australia</i>
Bill Hastings	<i>McGraw Hill</i>	Tony Freeman	<i>Printing Industries Association of Australia</i>
Anthony Eden	<i>McPherson's Printing Group</i>	Juliet Rogers	<i>Random House</i>
Alex Donaldson	<i>McPherson's Printing Group</i>	Lisa Hanrahan	<i>Random House</i>
Bill Drummond	<i>McPherson's Printing Group</i>	Andrew Leake	<i>Random House</i>
Craig Maher	<i>McPherson's Printing Group</i>	Brian Davies	<i>Random House International</i>
Jamie Herd	<i>McPherson's Printing Group</i>	Arthur Fletcher	<i>Reader's Digest</i>
Chris Burns (APG)	<i>McPherson's Printing Group</i>	Mark Rubbo	<i>Readings</i>
George Gatehouse	<i>McPherson's Printing Group</i>	Michael Schulz	<i>The S.O.S. Print Group</i>
Ken Croft	<i>McPherson's Printing Group</i>	Ron Fisher	<i>Trade Consultants</i>
Martin Lovegrove	<i>McPherson's Printing Group</i>	Ian Webster	<i>Sally Milner</i>

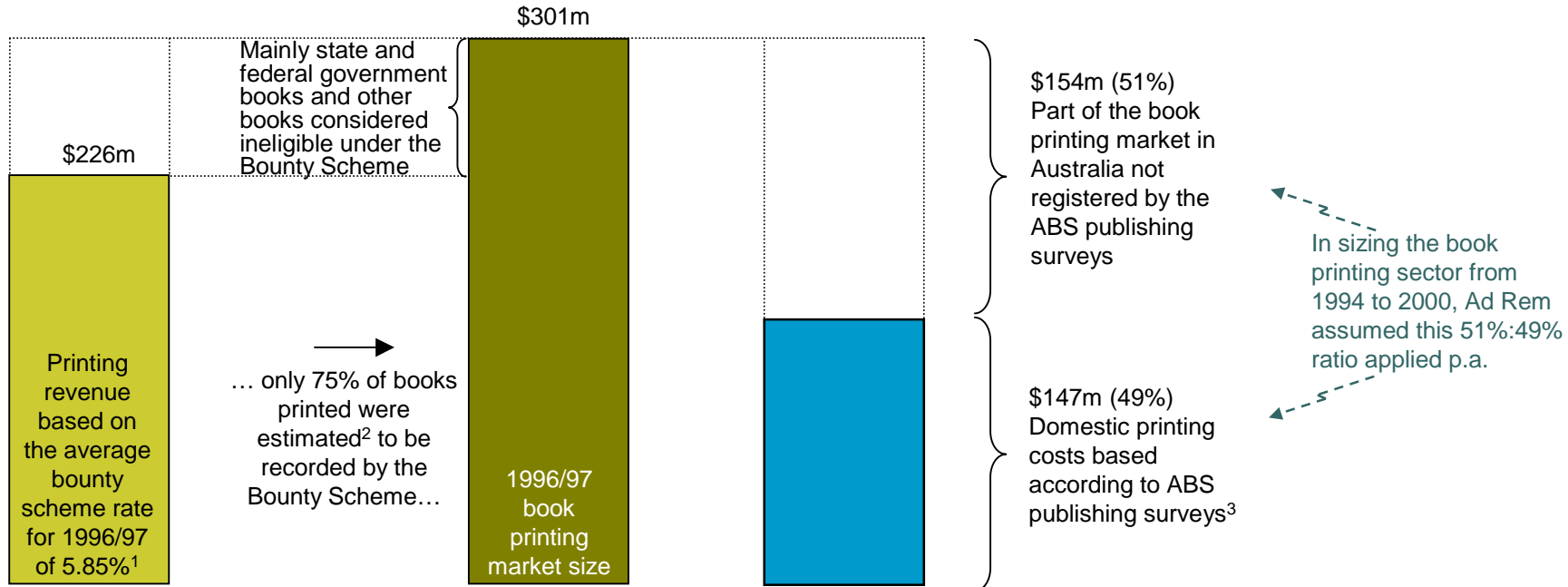
More than 120 individuals representing over 50 organisations were involved in the Ad Rem value chain analysis of the Australian book industry

Libby Webster	<i>Sally Milner</i>
Greg Parsonson	<i>Sally Milner</i>
Bob Bateman	<i>Scholastic</i>
Guy Romeo	<i>Scholastic</i>
Peter Cole-Clark	<i>Scholastic</i>
Malcolm Tindale	<i>Scholastic</i>
Derek Harling	<i>Scholastic</i>
Michael Lappin	<i>Scholastic</i>
Peter Cleal	<i>Scholastic</i>
Mark Latham	<i>Scholastic</i>
Richard Parslow	<i>SeekBOOKS.com.au</i>
Tony Horgan	<i>Shearer's Bookshops</i>
Di Robinson	<i>University Cooperative</i>
Alan Magnusson	<i>University Cooperative</i>
Peter Haig	<i>University Cooperative</i>
Anne Duffy	<i>University Cooperative</i>
Laurie Muller	<i>University of Queensland Press</i>
Greg Bain	<i>University of Queensland Press</i>
Chris Wall	<i>University of Queensland Press</i>
Terry Farley	<i>University of Queensland Press</i>

Appendix B

Book Printing Market Sizing

Based on claimant data from the Book Bounty Scheme and information obtained from PIAA, the ABS only capture 49% of the actual Australian book printing market in their book publishing surveys



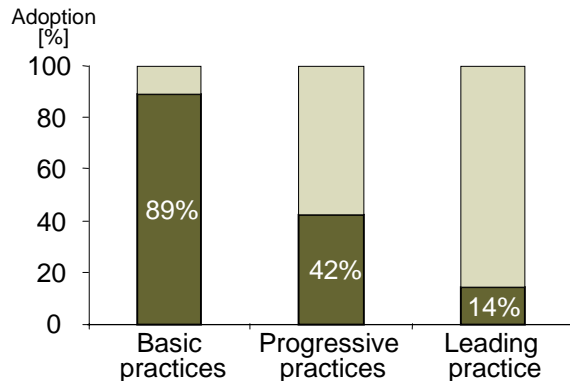
Notes:

- 1) The average of the 1996 bounty rate (7.2%) and the 1997 bounty rate (4.5%) is more appropriate as the bounty payments (\$13.2m) used for the calculation was claimed for the (fiscal) period of 1996-97
- 2) Printing Industry Association of Australia (estimate)
- 3) Calculated using estimates from ABS, Australian Book Publishing, 1995-8, using the midpoint between 1995-6 and 1997-8 domestic printing costs to establish 1996-7 figure

Appendix C

Demand Planning Practices (I)

Forecast data
Adoption of key practices¹



Forecast data

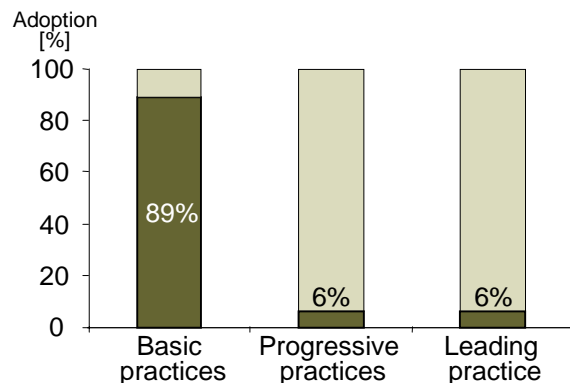
Strengths

- Personnel responsible for forecasting are well experienced and knowledgeable individuals
- There is a healthy emphasis placed on the importance of studying authors' histories

Weaknesses

- There is limited use of cross functional input and third-party syndicated information
- Demand forecasting systems are lacking for most publishers
- There is a lack of real-time information

Forecast method
Adoption of key practices¹



Forecast method

Strengths

- Most publishers achieve good internal consensus on forecasts
- Personal judgements are typically made by well experienced personnel

Weaknesses

- Most publishers overly rely on the knowledge of a few individuals
- There is limited scientific bases for generating baseline forecasts and an over reliance on personal judgement
- There is a lack of real data to correlate with statistics

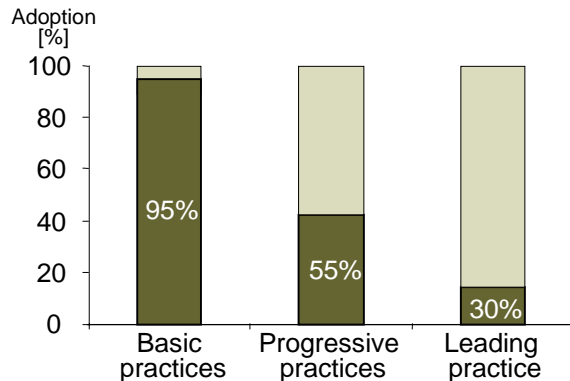
Notes:

1) Accenture analysis of Ad Rem participating publishers

Appendix C

Demand Planning Practices (II)

Forecast accountability Adoption of key practices¹



Forecast accountability

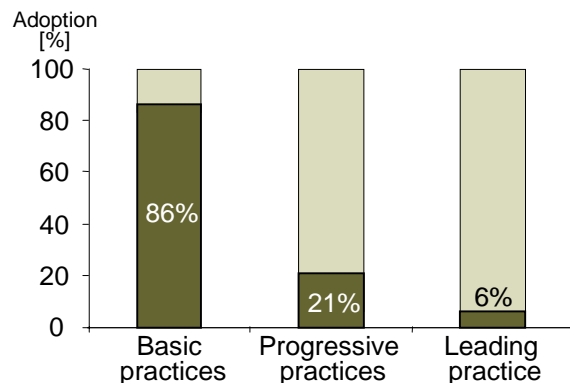
Strengths

- There is clear delegation of responsibility to personnel for making forecasts
- There are well established 'sign-off' procedures (although not necessarily mandated to senior-enough personnel)

Weaknesses

- There is poor integration of accountability for forecast accuracy into staff performance appraisals
- Accountability for forecast accuracy does not extend across functions and rarely sits with managers having profit and those responsibility

Forecast accuracy Adoption of key practices¹



Forecast accuracy

Strengths

- There is a good appreciation for the importance of forecast accuracy and its general impact on profitability

Weaknesses

- There is a general lack of rewards and incentives for inducing accuracy
- There are limited processes for identifying errors and these errors are rarely quantified in terms of their total cost to the business

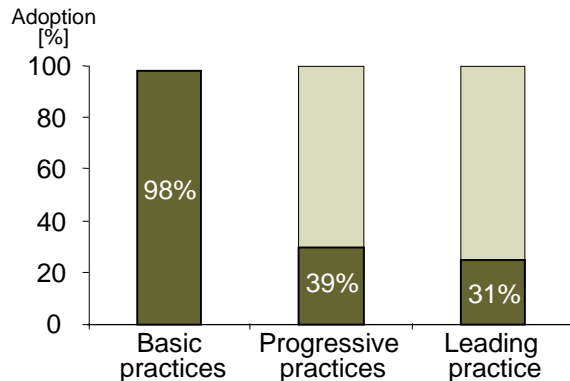
Notes:

1) Accenture analysis of Ad Rem participating publishers

Appendix C

Demand Planning Practices (III)

Forecast new authors Adoption of key practices¹



Forecast new authors

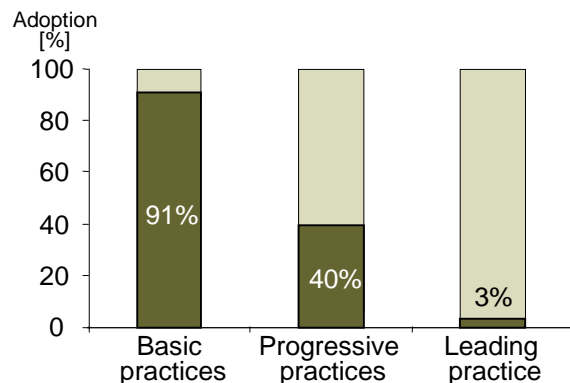
Strengths

- Personnel responsible for forecasting titles of new authors are well experienced and knowledgeable
- There is good use of judgemental methodology

Weaknesses

- There is limited structure to, and computerisation of systems to make 'like product' comparisons
- There is limited monitoring of early demand signals and a lack of information to extrapolate early signals to reflect possible life cycles
- Baseline forecasts lack scientific and statistical bases

Forecast communication Adoption of key practices¹



Forecast communication

Strengths

- There is a high degree of consistency in the terminology used to communicate forecasts
- There is a high degree of internal alignment around single number forecasts

Weaknesses

- There is limited expression of forecasts beyond ISBN-bases
- Few publishers collaborate with customers for deriving forecasts
- There is a lack of forecasts online transparency

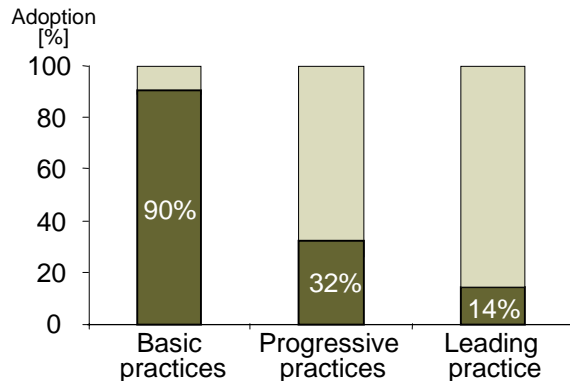
Notes:

1) Accenture analysis of Ad Rem participating publishers

Appendix C

Demand Planning Practices (IV)

Order management Adoption of key practices¹



Order management

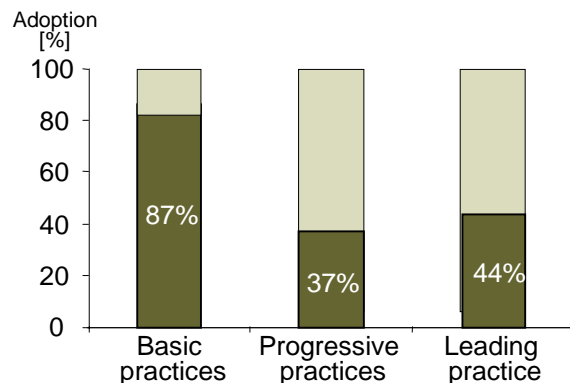
Strengths

- Publishers are able to make promises on finished goods

Weaknesses

- There is limited use of EDI
- There is limited online customer service, such as 'available-to-promise' inventory data and order intaking and sourcing

Backorder management Adoption of key practices¹



Backorder management

Strengths

- There is good regularity with basic backorder monitoring
- There are good tracking disciplines for backorders (although automation is limited)

Weaknesses

- There is limited use of allocation logic when assigning stock to meet backorders
- There is limited use of customer prioritisation techniques for backorders
- Available ISBNs to potentially substitute unavailable ISBNs are not suggested at point-of-order entry

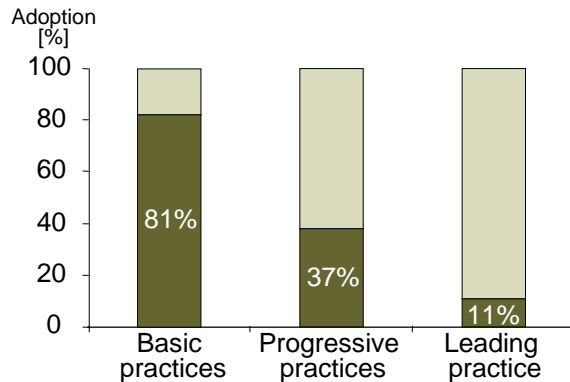
Notes:

1) Accenture analysis of Ad Rem participating publishers

Appendix D

Inventory Management Practices (I)

Inventory policy
Adoption of key practices¹



Inventory policy

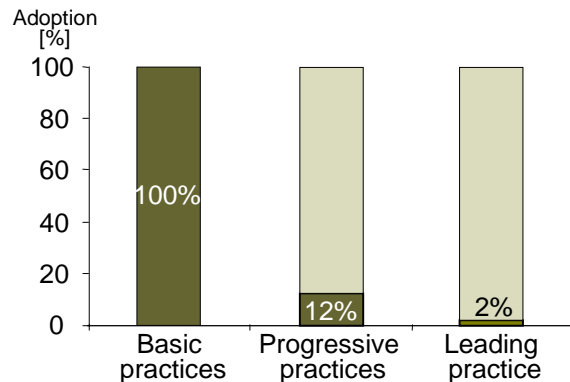
Strengths

- Most publishers have well established policies for managing inventory
- Most publishers gather and use inventory information at the company level even if such information sits on multiple systems

Weaknesses

- Inventory systems rarely support perpetual inventory tracking
- Few publishers tie KPIs based on customer service levels to inventory management practices
- Inventory is rarely stored at point of use and seldomly managed by its users

Inventory management systems
Adoption of key practices¹



Inventory management systems

Strengths

- Most publishers have well established systems for receiving and shipping inventory
- Inventory replenishment is a well prioritised activity, with devoted individuals managing the replenishment process

Weaknesses

- Few publishers have automated systems for inventory replenishment
- Suppliers play little/no role in managing publishers' inventory replenishment processes
- Reorders are not automatically system-generated on demand
- Systems do not use actual sales, or model stocks

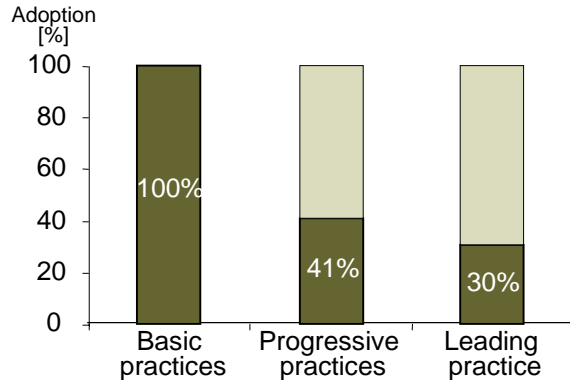
Notes:

1) Accenture analysis of Ad Rem participating publishers

Appendix D

Inventory Management Practices (II)

Inventory deployment
Adoption of key practices¹



Inventory deployment

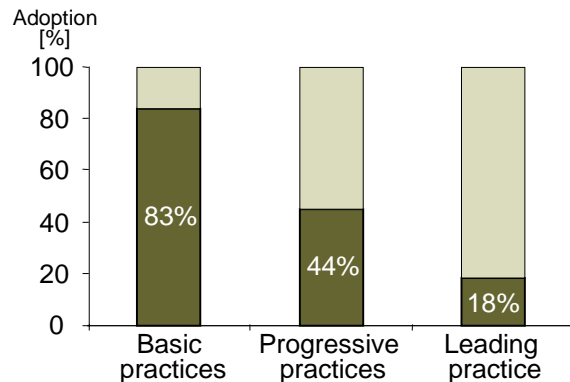
Strengths

- Most publishers deploy inventory after giving due consideration to forecasts, sales and reorder points

Weaknesses

- Actual sales do not drive the replenishment process
- Publishers' inventory replenishment is not automatically triggered by booksellers

Target inventory
Adoption of key practices¹



Target inventory

Strengths

- Target stock levels are determined by forces of supply and demand, with consideration for genre/book-type
- Most publishers have safety stock targets, based at least on a set number of days of coverage at SKU level

Weaknesses

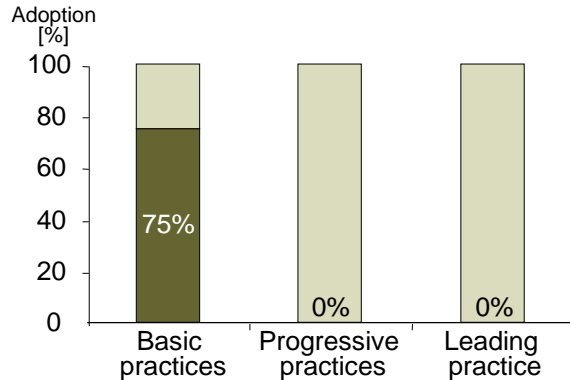
- Safety stock levels rarely take account of customer service levels
- Target stocks and safety stocks rarely take account of total supply chain variability at SKU level, nor do the systems take inventory carrying cost, production economics, channel inventories and lead times into account

Notes:

1) Accenture analysis of Ad Rem participating publishers

Appendix E Procurement Practices (I)

eProcurement Adoption of key practices¹



eProcurement

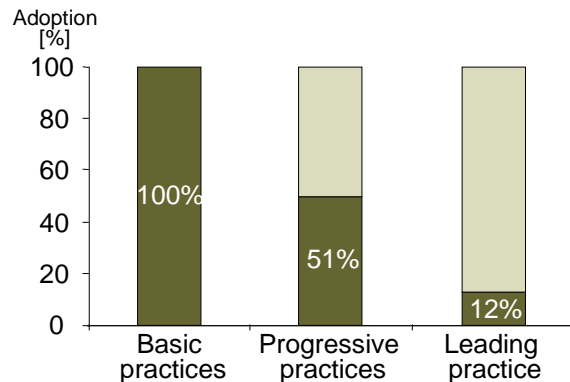
Strengths

- Suppliers' web sites used for information and fact finding

Weaknesses

- No electronic market place or auctioning for procurement
- Procurement processes mainly manual and paper based
- No direct electronic linkage to suppliers

Program definition Adoption of key practices¹



Program definition

Strengths

- Printers typically have fixed price arrangements (price grids) with suppliers
- Some printers have preferred suppliers that act as 'partners'
- Some 'partners' have come up with innovative stock arrangements

Weaknesses

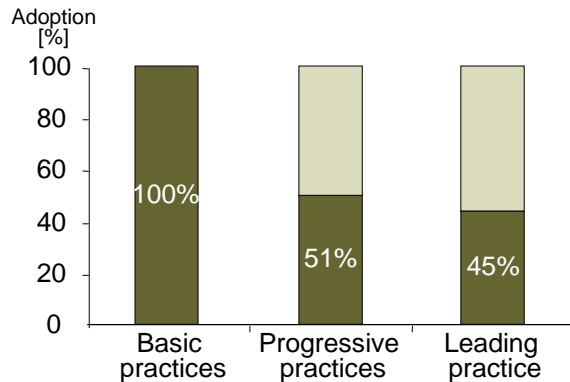
- Some printers have an arms length relationship with their suppliers
- No involvement of suppliers in supply chain issues/changes

Notes:

1) Accenture analysis of Ad Rem participating printers

Appendix E Procurement Practices (II)

Supplier selection Adoption of key practices¹



Supplier selection

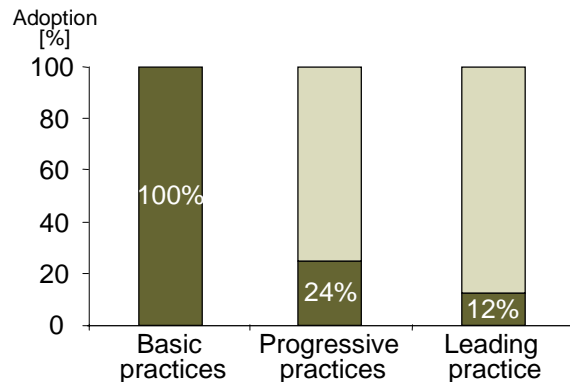
Strengths

- Many printers have a few key suppliers
- Many printers realise the benefits of long term relationships with suppliers

Weaknesses

- Procurement professionals target unit price rather than Total Cost of Ownership (TCO) to negotiate final transaction price
- Some printers have a range of suppliers
- Supplier selection is primarily based on price
- Only few printers have established KPIs for their suppliers

Supplier performance management Adoption of key practices¹



Supplier performance management

Strengths

- Suppliers performance are generally tracked by printers
- Some printers have set-up processes to monitor exceptions

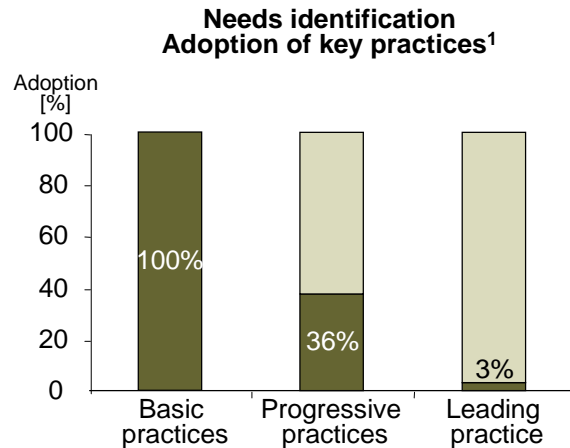
Weaknesses

- Printers generally do not have penalty clauses in their supplier contracts
- No feedback to suppliers on performance
- Continuous improvement programs are not common

Notes:

1) Accenture analysis of Ad Rem participating printers

Appendix E Procurement Practices (II)



Needs identification

Strengths

- Clear inventory KPIs for most stock items
- Some suppliers manage low value stock items

Weaknesses

- Inventory replenishment is generally manual and paper based
- Supplier orders based on inventory levels rather than sales projections
- Supplier payment are mainly based on delivery rather than usage

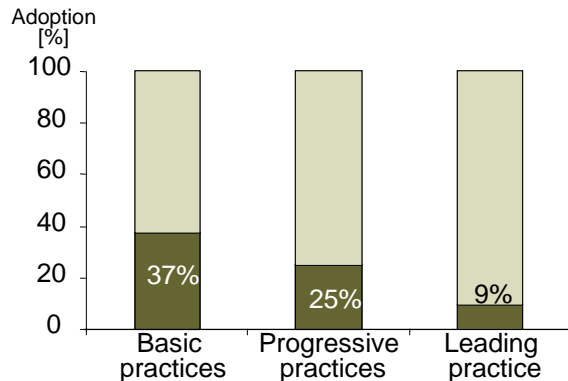
Notes:

1) Accenture analysis of Ad Rem participating printers

Appendix F

Operational Planning Practices (I)

Planning communication Adoption of key practices¹



Planning communication practices

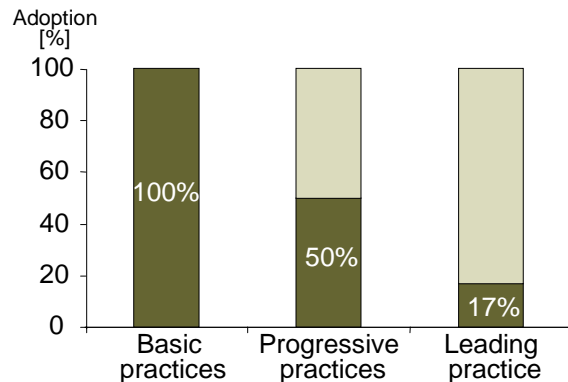
Strengths

- Some printers have adopted forecasting systems that are internally clear and transparent

Weaknesses

- The transparency of production planning is generally low
- Planning schedules are mainly paper based
- Few printers actively use production planning as part of their supply chain management
- Most printers overly rely on key people for managing production planning

Production planning Adoption of key practices¹



Production planning practices

Strengths

- There is a high degree of willingness to adjust production schedules for meeting changing demand
- Production planning practices are well oriented towards achieving reductions in production costs
- There are generally well defined KPIs for monitoring production efficiency

Weaknesses

- Production planning for many printers is manual with little or no system support
- There is limited use of demand planning in the production planning process
- Production planning is not directly linked to material and distribution planning for most printers

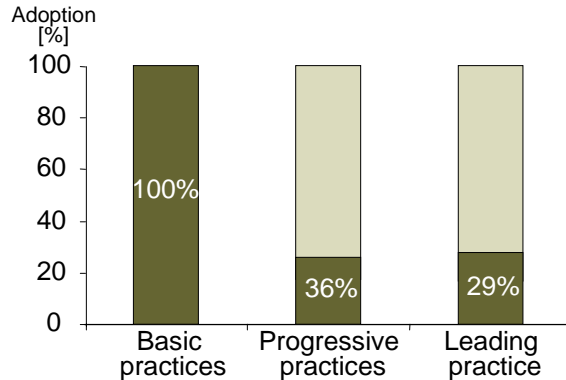
Notes:

1) Accenture analysis of Ad Rem participating printers

Appendix F

Operational Planning Practices (II)

Material planning Adoption of key practices¹



Material planning practices

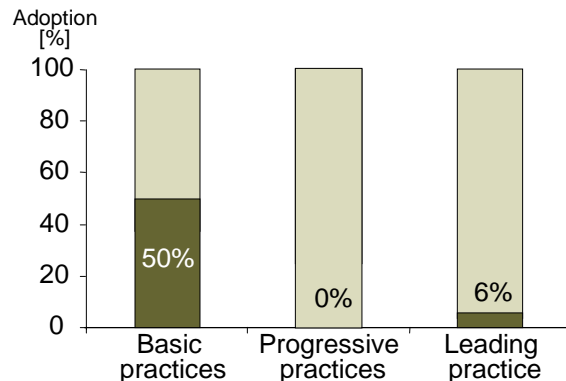
Strengths

- Material planning is an integrated part of the ordering process
- There is a high degree of flexibility with material allocation
- Material allocation tends to be based on revenue maximisation

Weaknesses

- Material planning is mainly manual and paper based
- Significant capital is tied up in material inventory

Supply chain organisational structure Adoption of key practices¹



Supply chain organisational structure

Strengths

- Some printers do indicative supply chain planning with major customers
- Personnel responsible for supply chain management are typically well identified within printing companies

Weaknesses

- Demand planning is not typically a general business priority for most printers
- There is a limited degree of formal processes that support supply chain planning

Notes:

1) Accenture analysis of Ad Rem participating printers