

## Preparing for Europe Prices for Europe — The Subscription Agents' View

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First let me say how pleased I am to have been invited to speak at this UKSG Conference. In my role as Publisher Relations Manager, Europe, for the Dawson Group, I am in contact with publishers and clients in many countries and it gives me particular pleasure to be involved in this UK Conference. My satisfaction is made all the greater when viewed in the context of UK as a European partner. The Directeur General, Jean-Claude Baroux, on urgent business in Spain regrets that he was not able to present this paper but sends his best wishes for a successful Conference.

### Section One - Pricing Elements

The subject of prices for Europe in the 1990's is still clouded in uncertainty. It is perhaps reasonable to assume that there will be a move towards greater regulation and consistency in the pricing of journals as the community gets its act together, but before making that assumption we should take a look at the many influences at work on journal prices.

The prime influence is of course *the price set by the publisher*. During the 1980's customers came to expect something like a 10% annual increase in prices, this being the norm for the bulk of titles in a given year. However, we are all aware also of the many exceptions when titles were merged, split, expanded, redesigned or made the subject of buy-outs, often with unfortunate results in terms of pricing levels.

The standard price increase of about 10% per annum, or the more dramatic increases in a minority of cases, are entirely in the hands of the publisher who has to make hard business decisions based on costs of production and materials and market tolerance. Each title has to be viewed as an individual cost centre and also has to play a part in the general performance of the publishing company, which has to keep the profitability of

each title in balance with the need to produce, for instance, development funding for the launch of new titles and the introduction of new production methods. The frequent non-profitability of a journal over the first three-five years of its life and the occasional failure of a launch have to be funded by other well-established and profitable lines. So we must begin with publishers' pricing levels as the starting point and main influence.

The basic price leads naturally to a consideration of the thorny problem of *differential pricing* about which a great deal has been said and written. Publishers having overseas markets have felt it necessary to set special pricings for material which crosses oceans and frontiers. There are sound business reasons behind the imposition of extra charges when it is accepted that additional costs have to be met where exports are involved. But the level of differentiation has often seemed to be excessive and hardly justifiable to purchasers. So far, though, differential pricing has been governed by publishers' decision tempered by customer reaction.

The next unavoidable element of pricing, applying only to certain countries, is that of *taxation* arising from government legislation. So far the UK journals have been free of the extra charge in the form of VAT but French customers are faced with a range of TVA charges which can be as low as 2.1% for dailies up to 18.6% for popular magazines. Taxation can have a significant impact on library budgets and the UK is fortunate so far to have avoided these extra charges.

The next element involved in fixing price levels is that of *postage and delivery costs*. Some agents endeavour to keep the price to the consumer at the level of the cover charge plus the cost of normal delivery. In the simplest terms these two pricing elements combine to produce what is called publishers' advertised rate, i.e. the price paid when

a journal is sent direct from the publisher to the reader. Ideally, the agent would like to offer this basic price to the customer but reducing margins offered to subscription agents make this difficult to achieve.

The question of the transportation of journals over long distances, the setting up of reception centres and local distribution continue to present logistical and financial problems which impact on final prices. British journals for delivery overseas will often be handled through a system of consolidated air freight which is quite rapid but not insignificant in cost and this must be added to the final bill.

The periodicals agents is not in the business of library supply out of charity. Any large agent carries heavy costs which have to be met. The employment of staff offering an efficient personalised service, together with the design, implementation and maintenance of major computer systems, the use of expensive plant and all the other usual costs of running a business have to be met. The maintenance of reasonable profit levels are essential for survival, expansion and the provision of increasingly sophisticated levels and quality of services needed by customers. The source of this profit can be seen to derive from *in-house efficiency*, the imposition of *handling charges* and the availability of *publishers' discounts*. The balancing act involved in forward investment in improved services and systems, the setting of a reasonable level of handling charges and a measure of reliance on publishers' discounts is difficult and complex. In recent years there has been a continuing and worrying decline in the level of publishers' discounts to the agent and the ASA, in a recent document, "Subscription Agents: our role in the serials information chain" has warned of the consequences of any further deterioration. As publishers increase their own gross profits the costs to Agents and Customers increase above normal inflation levels.

One further influence on pricing levels comes from the volatility in *currency exchange rates*. It has been reported to me that in 1980 the Pound Sterling deteriorated against the Dollar to such an extent that the price of American journals imported into Britain increased by 25-30% in one year. Later

in the 80's when the Pound recovered, the reverse situation arose to concern American librarians.

You will be aware of these problems for European publications. An unfavourable currency change, such as the recent high valuation of the German Mark, could add an additional burden to those British librarians ordering German titles. A development to be noted is that one UK-based publisher requires payment in Deutschmarks for subscriptions from other European countries. In the one year, the librarian can experience not only the usual inflationary increase in price but also has added to it the debit of the unfavourable currency charge. Many large agents take considerable risk in attempting to cushion the impact of these fluctuations by the forward purchasing of overseas currencies, the benefits of which can be used partially to soften the impact on the librarian's budget. Dawson in particular do not further charge following exchange currency fluctuations.

To summarise this first section, we can see that the publisher, with his control over the initial price, any differential pricing and the amount of discounting made available to the agent has substantial control over the final cost of journals to the customer. But additional factors such as taxation imposed by government, postal and freight costs, agents' handling charges and currency exchange rates can also influence costs a good deal. Additional factors such as the volume of the library's order, number of duplicates involved, the number of points of delivery to be catered for and the general mix and profitability of the total order list will influence pricing levels. The agent is able to look at such local factors and negotiate fair but profitable prices with each client.

### Section Two - European Future

Now we must consider how our list of influences as described so far might be modified in a more closely integrated Europe in the 1990's. It is likely that the publisher and the agent will see some decisions moving away from their control, being lodged instead within the realms of governmental influence.

EC regulations may impact on the publisher. It is possible that a product for sale in Europe will have

to be *priced consistently* across old frontiers. The publisher may well have to decide on the price of a title and apply that across Europe. As long as individual currencies remain in force the single-price concept may be befuddled by the intervention of *currency exchange rates* to the extent that the single price may not come through to the customer level with great clarity. However, during the 1990's we may well be faced with the need to operate within a common currency, the ECU. This being the case, the publisher might establish a single ECU price to be applied throughout. In other words, differential charging within Europe may not any longer be a possibility nor will the publisher gain from favourable currency exchange rates.

This in itself raises interesting questions. If a publisher's overall profitability rests to some extent on *differential charging*, with the financial burden carried by extra-national customers, can we assume that in order to maintain the same level of profitability the single ECU price will be considerably in advance of existing domestic price levels?

To look at the problem another way: if a publisher's final profit on a title is heavily dependent on extra charges on copies sold outside the country of origin, does this mean that future ECU sales across Europe will have to be fixed at a level to compensate for any loss of profitability earlier engendered by differential charging?

Despite well-fought campaigns by the Publishers Association, Library Association, the ASA, and other professional bodies, it seems unlikely that the UK will escape the ravages of VAT on printed material for much longer as EEC tax regimes converge. It is to be hoped that the tax table as applied in France at the moment will not act as a model for the rest of Europe.

*Postage and freight costs* will probably remain fairly high and continue to add to the cost of journals, but it is hoped that more competition and the decline of monopoly postal services will bring a keener competitive edge to this service sector. The Post Office in the UK has become more interested in customer relations and seems prepared to discuss special deals with individual companies who are heavy users of postal services.

This may act as a counterbalance to otherwise

escalating charges. However, we cannot be hopeful about achieving any significant downturn in charges. Postal costs will continue to add significantly to final prices. It is interesting to note in this respect that the US Postal Service proposes to raise postage rates by 20% from February '91.

The agents' need to impose *handling charges* will depend on the degree and level of discounting available from publishers. Without question, all agents have suffered a decline in discounts in recent years. Typically, they now range from 5% to 10% depending on country of origin and other factors. The average discount offered to UK agents is now well below 8%. Given the level of service on offer from the quality agents with their heavy investment in systems, plant and people, all agents will be forced increasingly to look at handling charges as a means of achieving the necessary operational margins. As long ago as 1985 the Thornton and Bigger study felt there was no value in libraries ordering direct and that it would be economical to use an agent as long as a quality service was on offer and handling charges were kept to a reasonable level of around 4-5%. Practices vary from country to country but agents agree that any further deterioration in discounts will inevitably lead to increased handling charges and the creation of a vicious circle of a declining volume in orders as limited library budgets are stretched further. The recent ASA publication graphically depicts a knock-on effect starting with a further reduction in publishers' discounts ultimately leading to declining sales and ever-higher unit costs.

The agent, acting as middleman, is obviously concerned about the possibility of a declining market and is endeavouring to do two things: (1) improve in-house systems thus becoming both more efficient and economical and (2) work hard at *publisher - agent relations* in order to achieve a deeper appreciation of each other's objectives and problems. Currently, detailed discussions are being held to make the maximum use of machine-readable data. Data exchange and agreement on operational standards are current topics of significant interest. Of course, the agent also looks in the other direction and continues to work closely with *library customers*. Every effort is made to keep charges to the minimum, while systems and services continue to improve. Agents

are also concerned to offer close personal support to each client, thus keeping open the channels of information communication.

There is evidence to suggest that a close publisher - agent relationship does lead to the possibility of special deals which ultimately protect the level of discounting. This is an area of great importance in which Dawson Europe is investing a good deal of time and effort right now. The end product should be the maximum protection of client interests based on efficient marketing and co-operative activity. It is possible that the larger, more integrated European market could assist in the realisation of deals carrying mutual benefits.

A recent study (Faxon, 1989) showed four main factors influencing publisher price increases:

- increased costs for paper and production
- increased postage, fulfilment costs
- additional pages or volumes; increased frequency of publication and
- exchange rates and inflation.

It is obvious that the creation of a single European market might well have little impact on these factors, with the exception of exchange rates.

The additional adverse factors already mentioned are :

- imposition of VAT in countries not taxed at present
- decline in the volume of orders, particularly from the public sector, leading to higher unit costs.

The imponderables include :

- the ending of differential pricing
- future levels of publishers' discounts to agents
- impact of special marketing arrangements
- impact of improvements in productivity and efficiency.

Having said all that we might conclude that political and fiscal policies in Europe will affect periodical prices but will be less important than annual inflation and developments in publishing which include the proliferation of titles, and the impact of new technology. The 1990's in Europe will almost certainly see the creation of large publishing groups, fewer distributors, a decline in the number of periodical agents and some move towards more electronic provision. The outcome for the consumer is not certain: it could be that the large operational units will provide greater efficiency and economies of scale thereby impacting favourably on prices but, equally, the greater concentration of control in the hands of fewer companies could weaken the competitive element and lead to higher prices. Intervention from Brussels might bring to an end such things as differential pricing and the introduction of a single currency, both of which could be helpful to the consumer, but again might insist on the imposition of taxes, such as VAT, which would add extra costs to the librarian's periodical bills. Perhaps we are looking at a number of competing influences which in the end will have a fairly neutral impact on journal prices across Europe. □