

The Debating Group



A Parliamentary forum for Media and Marketing Debate

Is the British supermarket the biggest threat to press diversity?

The Debating Group's debate on the motion 'The biggest threat to press diversity is the British supermarket' on Monday 14 March 2005 at the House of Commons was set in the context of the Office of Fair Trading's (OFT) recent announcement which threatens the basis of the current system of exclusive territorial distribution of magazines and newspapers, potentially leading to a future where supermarkets will gain control of the press supply chain. The debate was sponsored by the Periodical Publishers Association (PPA) with Dr Austin Mitchell MP, President of the Debating Group, in the chair.

Proposing the motion Ian Reeves, Editor of *Press Gazette*, pointed out that, at the heart of this debate was the diversity of the press, and, in effect, diversity of thought, claiming: "The UK is blessed with one of the most vigorous, entertaining, informative and passionate publishing industries in the world". The pages of our newspapers and magazines help in no small part to make us into the nation we are. "Their pages form our opinions, break our news, fuel our interests, solve our problems, widen our horizons and host the debates that help define who we are. Their freedom to publish have been hard won over more than three centuries gained after battles with kings, churches, governments and tax collectors". Ian Reeves suggested that they now face a more subtle threat from a different but powerful force, which affects the way that newspapers and magazines are distributed throughout the country. The crucial element of this is that, as things stand, every shop, petrol forecourt, newsagent or supermarket can effectively stock as wide a range of titles as they choose, selling at the same price. The proposed legislative changes will upset this balance of power. In the name of greater competition, supermarkets are about to be handed the power, so far largely denied to them, to take control of the supply chain.

Ian Reeves described the implications of this potential situation. Newspapers are a daily habit. And they are the most perishable item produced by any manufacturer of any product in the world. An edition of a regional evening newspaper, for example, has an on-sale time of just a few hours. Similarly many magazines have an effective shelf-life of less than a week. People are often not in a position to make the journey to their nearest supermarket *that* frequently and, even if they could, what are the chances of their favourite magazines being available on the shelves? Because supermarkets are, by their nature, only interested in stocking things that sell in big numbers.

Everything has to earn its place on the shelf. And a magazine that only shifts, say, 60,000 copies a week might well be out on a limb. And if newsagents close because they cannot compete within the new distribution system, a magazine such as, for instance *The Spectator*, which has this circulation figure, would have nowhere else to go.

Supermarkets would effectively be deciding which titles succeed or fail, and this would not be based on their cultural value. Supermarkets might also be deciding not only which magazines and newspapers they sell, but also what goes into them. The publishers of certain mainstream magazines aimed at the men's market are already finding that their covers are subject to scrutiny. If they are considered unsuitable, they won't be displayed. So far, the criteria on which they are judged are about taste and decency, but this could be the thin edge of a very dangerous wedge. What if a supermarket chain objected to one newspaper's business coverage? If a significant percentage of that paper's copies were sold in that company's stores, the potential consequences are not difficult to foresee. Indeed, last week Marks & Spencer withdrew all its advertising – worth an estimated £3 million – from Associated Newspaper titles because its bosses felt that stories about their company were being portrayed too negatively in that publisher's papers. Ian Reeves asked, "Is it too far fetched to imagine a retailer refusing to carry certain titles if they were advertising the products of its rivals? ...Or imagine how a future debate on, say, genetically modified foods, which was led by this country's brilliant print press, would be affected when so many vested interests had such a stranglehold on how and when those newspapers got into their readers' hands?"

He concluded, "How much easier for the supermarkets if we all read the same, limited range of magazines and newspapers. How much richer they would be. And how much poorer, culturally, the rest of us would be".

Supermarket success

Opposing the motion, Tim Danaher, Editor of *Retail Week*, pointed out that supermarkets are a success story for publishers. According to figures from the PPA, the magazine industry is in fantastic health. Over the last fifty years, the number of titles has increased from 2,000 to 3,000. Retailers stock products they can sell and over the last fifteen years, the impact of their selling magazines has been to expand the market. Magazine shopping at supermarkets is impulse purchasing and it has been good news for publishers.

If people want to go shopping at local greengrocers and newsagents, they can do so. But they go to supermarkets because they want to do so. Supermarkets have not reduced the diversity of magazines. Sainsbury's, for instance, stock a wide range of serious and small circulation magazines. Stocking some 500 titles is not a token gesture. But shopping for magazines in supermarkets is not destination shopping and if you want a title that is not well known you would go to your newsagent.

Prices of magazines have held steady and the success of many new launches has been due in part to the supermarkets. Thousands of stores are stocking publishers' products – they have done well out of supermarkets.

Distribution

Seconding the motion, Mike Newman, Circulation Director, Associated Newspapers and Chairman of the Newspaper Publishers Association, acknowledged that supermarkets in the UK are regarded by many people as national icons, adding: "And why not? They are among the best and most efficient retailers in the world". But they are about power and influence. If supermarkets are allowed to exert the same power and influence over the newspaper and magazine markets as they have exercised over hundreds of other markets in recent years, we would rapidly face a number of unpleasant and possibly unforeseen consequences. Some parts of this country would be denied access to newspapers and magazines, because many small or rural retailers which currently make a substantial part of their living selling newspapers and magazines would close.

Mike Newman described the way newspapers and magazines are distributed. At the moment wholesalers are appointed on an exclusive basis by publishers to manage all sales and distribution in a territory. In return for this the wholesalers are compelled contractually to make the publishers universally available to all the retailers in the territory which can order a minimum quantity. All the retailers, whatever their size, buy all their newspapers and magazines at the same wholesale price regardless of volume. This means that publications are sold at the same cover price throughout the country, whether in a small rural newsagent or a large out-of-town supermarket. He argued: "It is this system, often called the nightly miracle, which allows us to distribute fourteen million newspapers every night. What is special about this is that most newspapers do not start printing until after 10pm and do not finish printing until 4am". So there is a choice of any of ten national newspapers at your breakfast table or available in your local newsagent on the way to work, in addition to the wide variety of local and regional newspapers that go through the same network. In addition 3,500 different magazine titles are available. Even if your local newsagent does not stock your magazine of choice, a copy can be obtained very quickly from the wholesaler.

Mike Newman believed that if supermarkets were allowed, by changes in competition law, to exercise their normal influence on the market, by making their size count, this distribution system would be under severe threat. He put forward several ways in which they could exercise their power. First, by playing one wholesaler off against another, they would be able to obtain preferential terms of supply for themselves, but would probably start with magazines rather than newspapers. The wholesaler's costs would not change. However, the wholesaler would still have to supply all his other retailers with newspapers and magazines and he might well be forced to increase his prices to those retailers that he continues to supply. Professor Paul Dobson of Loughborough University, who has examined the newspaper and magazine distribution market in detail, believes the impact of this would be that between 12,000 and 20,000 independently owned retail outlets could exit the market. Even though these figures are disputed, it is clear that the most vulnerable are small retailers, the majority of which are in rural or socially deprived areas.

If people go to a supermarket once a week, they do not buy a week's worth of daily newspapers. They are bought every day, near home, travelling, or at work. The loss of

small retailers would hit newspaper sales and small magazines would simply disappear from whole areas. In Mike Newman's view, we would face the prospect of newspaper and magazine deserts in the same way as we now face rural Post Office deserts.

He compared the situation in the USA where the breaking up of the existing distribution system started in 1995, led by Safeway and Wal-Mart. In 1995 there were 180 wholesalers, now there are only four. And this was brought about by the squeeze, which the supermarkets put on the wholesaler's profits. The overall retail universe has declined by about 50,000 outlets or 27%. The number of magazine titles has nearly halved from 9,300 in 1998 to 5,300 in 2002. Whilst there has been a slight pick-up in subscription sales, counter sales through all outlets are down by about 27% and the overall market is down by 4%. By contrast in the UK, the magazine market has grown by 67% in value and 4% in volume in the last decade.

Mike Newman went on to point out that the newspaper magazine distribution market in the UK is one of its crown jewels: 14 million newspapers every night, 3,500 magazines on sale through 54,000 mostly small shops. Access to a widely available free press is one of the hallmarks of a civilised society. He concluded by saying: "We must not throw it away on the altar of purist competition theory...Let us work together to improve the supply chain, not destroy it".

Threats

In seconding the opposition, Ian Locks, Chief Executive of the PPA, regretted that nobody from a supermarket company was prepared to speak against the motion.

While he believes that supermarkets pose a huge threat to the future of a free and diverse press, this is not the *biggest* threat. Certainly supermarkets want to treat magazines like any other product, which means having a say in the content. Currently our push system for press products guarantees a broad market for publishers. Supermarkets do not have full control. We are still able to see spectacular programmes of magazine launches and an ever-wider diversity of magazines flourishing in the marketplace without the need for specific legislation. What will change if the OFT does what it says it is 'minded' to do and affords continuing protection to newspapers from 1 May 2005, but not to magazines?

While the British supermarket is undoubtedly a huge threat to press diversity, it is also a huge opportunity. It can drive sales, help launch new products and if it chooses, be mindful of diversity by increasing range.

However, it is the OFT which holds the future of a free and diverse press in its hands. If it decides that magazines do not need the protection of a fully secure route to market, the loss of thousands of retailers and a thousand or so magazines that will result, surely makes the OFT the biggest threat.

Thirdly in countries such as the USA more than 80% of magazine sales are through subscriptions – relying on the postal system to get magazines to readers every day, week and month. In the UK the postal system has proved to be so uncompetitive for

magazine sales that, even after ten years of promotion, we have only managed to push the proportion from around 2% to about 11%. So, the Royal Mail is a threat to press diversity, an accusation that could certainly not be levelled at the postal administrations in France, Germany or the US.

Ian Locks went on to suggest that it is publishers themselves which might pose the biggest threat. He argued: “We have been fighting for years to protect the route to market so essential for a free and diverse press. Have we taken the warning to wean ourselves off the retail route and onto another? Perhaps by working harder to build subscriptions through and with Royal Mail? Should we have talked more productively to newspapers and newsagents with home delivery services? Should we have worked earlier to build new routes through the milkman or other home delivery services?”

He identified a fifth threat as being from the government. The government of each individual country is still mainly responsible for ensuring there is a free and diverse press within it. On a scale of 1 to 150 of countries ranked for having a free press, the UK comes fifteenth whereas Sweden and Denmark jointly top the list. It can only be the government which creates, nurtures and nourishes the environment for this essential pillar of democracy. In the democracy ranking the UK does 50% better than in the free press ranking, coming in at tenth. Ian Locks suggested that one fundamental reason why France and Germany are perceived as enjoying more press freedom is demonstrated in the UK government ducking its responsibilities for maintaining essential structures that ensure a secure route to market. “To suggest that there can be a free press without a secure route to market an oxymoron”.

Ian Locks concluded by saying: “A free and diverse press requires two things: a legislative environment which supports freedom of expression, and a secure route to market. Undermining the second by allowing, indeed creating, a legal environment in which the current secure route to market will unravel is an action by a government which either has not understood the consequences of its actions or does not care. Effectively abdicating its responsibilities by dumping into the hands of a competition authority responsibility for press freedom is abdication of responsibility to the highest degree...this makes government the biggest threat to a diverse and free press”.

Discussion from the floor

For the motion

- The contributor identified himself as being from a small independent family business that is still suffering from what he described as “the exploitative use of naked power by both the press and the supermarkets”. He questioned the movers of the motion as to just what is on the agenda to support news retailers in their quest to support effective press diversity.

He added that to be fair to the *Daily Mail* and thus to the mover of the motion in support, the publication has made some attempt to publicise the effects of excessive supermarket power. The contributor quoted the paper as stating recently: “The supermarkets would buy from the gates of hell for a fraction of a penny saved, whatever the effect on home-based suppliers”.

He concluded by noting that the smaller news retailers make up a substantial part of the news industry, selling roughly 70% of newspapers and 35% of magazines, where commitment, dedication and brand loyalty go hand in hand. Independent news retailers have a £4.5 billion stake in this industry often mortgaging the roof over their heads. Developing and actively encouraging this vital segment of the industry will ensure that the threat to diversity remains just that, a threat and nothing else.

- The contributor argued that supermarkets such as Tesco are interested in high volume to improve efficiency. She claimed that farmers are now too scared to complain about supermarkets. She went on to argue that having ruined farmers' businesses they are now moving into the press market, by first gaining control of the distribution mechanism.
- Another contributor noted that supermarkets operate within a high-volume system and innovation is not easy when you are fighting such giants. Globalisation and high volumes do not necessarily lead to diversity.
- The contributor argued that the supply chain is king. He went on to argue that the problems existed in this sector because there has not been sufficient investment by publishers in the supply chain. The problems in the industry will not be solved if it lets Wal-Mart and Tesco Hoover up every bit of business. Independent retailers have already seen 30,000 establishments close since regulation loosened. Supermarkets get what they want: independents get what's left. Payment and credit terms are not equitable. The supermarkets get margin over-riders while the independent retailer gets squeezed.

Against the motion

- The contributor argued that it is a temptation to think of supermarkets as the only route to market. There are a number of other channels such as home deliveries and the Internet. Moreover one of the major supermarkets in the UK is not in fact British.
- The contributor believed that the threat lies in the weaknesses of the supply chain.
- The contributor suggested that there is a lack of creativity and a degree of protectionism in the supply chain. Newspapers and magazines are now available in a whole range of outlets including petrol stations. If there was greater freedom in the supply chain perhaps new entrants would come in and build new distribution outlets. At the moment the supply chain is being protected from competition.
- Whilst accepting that in the USA there has been a huge reduction in the number of sales going through retail points the contributor did not see that resulting in less press freedom.
- The contributor argued that innovation and change happen. Publishers should look to their marketing departments to do more to help.
- The contributor believed that the biggest threat to press diversity was the British press itself.

Abstention

- The contributor suggested that the Government, retailers and publishers were all at fault.

- The contributor asked if supermarkets would sell publications more cheaply under the new regime being proposed.

Summing up

Summing up for the opposition Tim Danaher reiterated that we have a strong and healthy print media in this country. He argued that the main reason that attendees should reject the motion is that it is hypocritical. It is the supply chain and publishers themselves that are to blame for the current situation.

Metro and *Standard Light* are given away on street corners. We have to live with the open market.

The independent retailers criticise the supply chain, but fifteen years ago there were 45,000 retailers and today there are 54,000. This did not appear to be an industry which is in crisis or under threat.

Most people shop at supermarkets. They offer good value and they have been good news for the publishing industry.

Summing up for the motion Ian Reeves pointed out that publications such as *Metro* are bringing a vast swathe of people into journalism consumption, who might not otherwise read newspapers. He therefore considered such publications to be a good thing.

He believes that the threat to the industry is real and the crisis could be severe. The situation in the US showed that with changes in the supply chain, overall sales were down, because there are fewer publications to purchase.

Whilst creativity in the supply chain might be desirable, how would that creativity work in the face of the onslaught from supermarkets?

Publishers are aware that there are serious elements that have to be addressed but the OFT ruling is potentially disastrous for press diversity.

The proposers of the motion did not want magazines and newspapers *not* to be sold in supermarkets, but *not only* in supermarkets.

Result

The motion was carried by a show of hands. In addition to those against there were several abstentions.

Next Debate

The next debate will take place on Monday 23rd May 2005, sponsored by the International Advertising Association. Details from Debating Group Secretary,

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