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Booksellers should read between the lines

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There are a lot of disgruntled people as a result of the voluntary administration of REDGroup, owner of booksellers Angus & Robertson, Borders and Whitcoulls. Jobs will be lost, customers can't redeem their gift cards, and landlords will lose tenants.

A few explanations have been given for the failure of REDGroup – the fact that book lovers prefer buying online from the likes of Amazon; the emergence of eBooks that make it cheap and easy to download books; and the fact that books can be bought cheaper overseas because there is no GST charged.

However, this failure seems to be as much about poor management as it is about the book sector generally.

Borders' border has not been strong enough, and the company's moat was too shallow.

I often talk about the necessity of a competitive moat to keep away competitors and enable growth, irrespective of the economic environment. If you are a bookseller, you have a lot of competition and you need to be a bit different to stand out. Books are a commodity and booklovers are spoiled for choice.

The story of an independent bookseller in Melbourne illustrates at least some of what REDgroup did wrong.

Mark Rubbo founded Readings, Australia's largest independent book and music group, in 1969 starting with one store in Melbourne. The group now has six stores around Melbourne, each with its own local flavour and character, and has a website that is popular with online booklovers across Australia.

In 2003, Borders announced their arrival in Carlton, an inner-city university suburb of Melbourne, just 100m down the road from Rubbo's store.

Small, independent booksellers had been known to wither and die once a Borders store was opened nearby. But Rubbo was determined to fight them. He monitored his competitor and his loyal customers regularly went on 'Border Patrol'. Rubbo continued to do what he had always done, only better. He hosted children's events, book signings, in-store music performances, and book launches. He deepened his store's links with the local community.

On the day Harry Potter and the Order of the Phoenix was launched, Rubbo left Borders for dead. Harry Potter day was just another day for Borders, but Rubbo hosted in-store events for the community and sold 400 copies before 11am at full retail price. Over the whole day, more than a thousand customers chose to buy at Readings rather than crossing the street to buy the same book at half-price at Borders.

Why? Because Rubbo had built customer loyalty, a competitive moat that enabled him to compete effectively against the big price discounter who didn't understand their customer base, didn't have a passion for books, and didn't realise that with a commodity product you need to offer something extra to the customer otherwise your margins are only going to go in one direction.

Clearly there were other things that contributed to REDgroup's failure, but the survival of Readings and other independent booksellers illustrates that a competitive border or moat can be effective in keeping competitors at bay, regardless of how big they are.

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