PA/BA BOOK INDUSTRY SUPPLY CHAIN
STEERING COMMITTEE

Returns: the New Process

A CODE OF PRACTICE

JULY 2000

BOOK INDUSTRY COMMUNICATION

First published July 2000
by Book Industry Communication
39/41 North Road, London N7 9DP
on behalf of the PA/BA Book Industry Supply Chain steering committee

ISBN 1-873671-28-8

Introduction

In 1997/98 the Councils of the PA and BA employed KPMG to undertake a detailed analysis of the book industry supply chain. The resulting document *Unlocking the Hidden Prize* identified potential savings amounting to many millions of pounds from improved business systems, electronic trading, less adversarial relationships and so on.

One of the chief opportunities identified was in the area of returns, which KPMG estimated to cost the industry £100 million every year, and this formed the basis of a second project specifically addressing this issue which was also undertaken by KPMG. This culminated in a conference at Eynsham Hall in Oxfordshire in June 1999 attended by senior individuals from all parts of the industry which reached a high measure of agreement as to how the various aspects of the problem could be tackled.

Returns have long been acknowledged to be one of the most wasteful and costly aspects of the book industry. KPMG’s proposals acknowledged the inevitability that having the right book in the right place at the right time is key to maximising sales and that this resulted in the need for books to be removed from sale and replaced by titles of more immediate appeal. They therefore concentrated not on the level of returns which was inherent in the system but on re-engineering the system itself, to take cost and waste out of the processes involved by recommending the adoption of standard automated systems.

Underpinning these recommendations for process change was the publication of a code of practice for the industry which would document the way in which trading partners should operate in this new environment.

The Book Industry Supply Chain steering committee of the Publishers and Booksellers Associations has been concerned to ensure that this initiative is not used for the commercial benefit of any individual party or sector and that these proposals form a transparent and fair alternative to present trading arrangements. It is on this basis that this Code of Practice is presented to the industry.

The new process explained

1. Principles of the process change

1.1 Returns will be preauthorised using electronic communication between retailers and distribution centres.

1.2 Consequently, for the vast majority of transactions, publishers' representatives and sales office personnel will no longer have direct responsibility for managing the returns process.

1.3 Instead, acceptance of returns will be subject to a set of parameters built into the distributor's distribution system relating to timing of supply, quantity, ordering source and credit valuation.

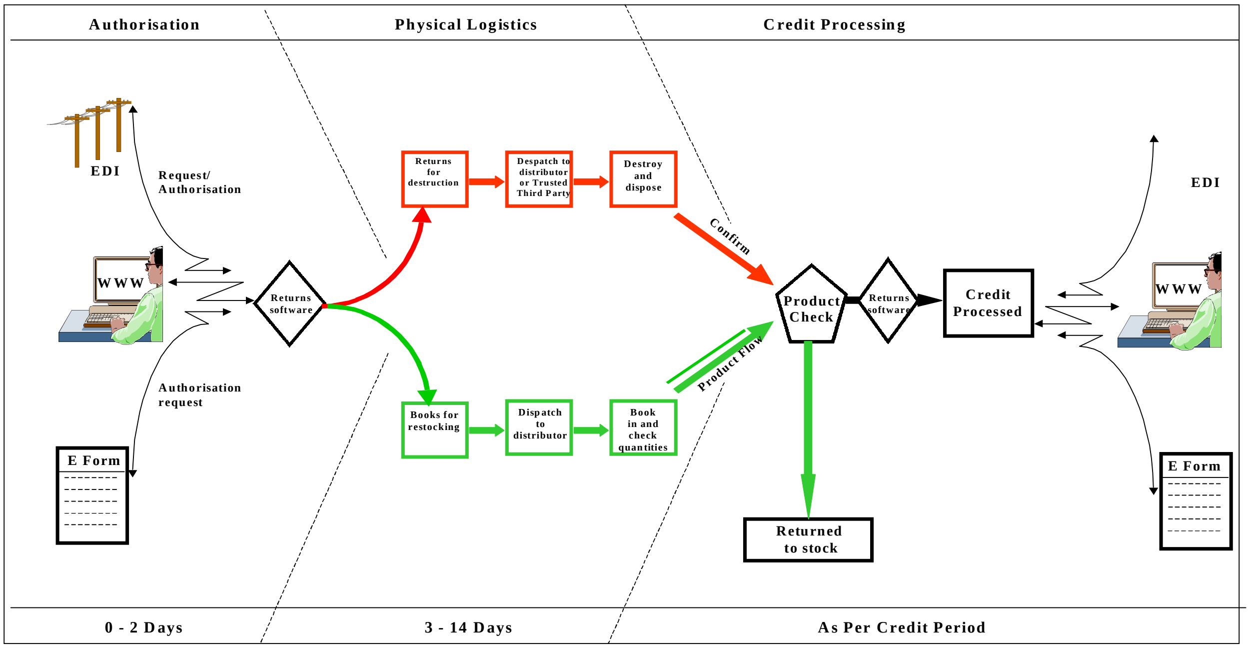
1.4 The process from request to return to final settlement will be greatly reduced, freeing up working capital for all parties.

1.5 Following the introduction of automated processes, authorisations will identify whether books are to be returned for restocking or destined for destruction. This will enable more efficient procedures to be put in place for the physical handling of returns. The immediate gain will be that returns will be consolidated by distributor.

2. How the new process will work

2.1 The bookseller creates an electronic request for returns authorisation and transmits it to the distributor.

2.2 The information in the request is subjected to automatic query mechanisms which generate a response: either a message to say that the request has been rejected, and why; or an authorisation, which will include a unique reference number (and a barcode label which can be printed out directly at the remote location), a unit value for credit, and an indicator to show whether the publisher wishes the books in question to be physically returned.



2.3 The bookseller picks the authorised titles from the shelves and sorts them according to whether they are to be returned for restocking or for pulping.

2.4 If they are to be returned to the distributor, they are labelled with the barcode label and dispatched. On arrival at the distribution centre, the quantities are validated, the returns authorisation edited and a credit note raised.

2.5 If they are for disposal via a trusted third party, a report will be created which will be transmitted electronically back to the distributor so that a credit note can be raised.

Requirements of the new process

It is recommended that all trading arrangements between parties in the book supply chain be formalised into a written agreement. Individual agreements incorporating the requirements of the new process will have to include terms relating to three aspects of the new returns process: means of delivery of returns requests; parameters for the acceptance of returns; and credit processing. They must also define the relationship between the publisher, the distributor and the bookselling organisation.

1. Means of delivery of returns requests

In order to derive the maximum benefits from this initiative, in the course of time the process will require that retailers submit returns requests in an electronic format which enables digital data to be accessed without rekeying or other human intervention.

There are various possible ways in which this might be done:

- by EDI (electronic data interchange) using the BIC returns request message;
- by the use of an Internet returns form, which will be devised for this purpose;
- by means of a standard spreadsheet form which can be sent by e-mail, and which also will be made available;
- via Teleordering, BATCH or PubEasy.

In the case of booksellers who cannot implement an electronic format, it will be necessary that written requests for returns authorisation are submitted in a standard form.

All returns, including damaged copies and incorrect deliveries, must receive preauthorisation via this system.

Returns authorisations will be valid for a period of three months.

2. Parameters for the acceptance of returns

2.1 Timing

In order to maintain an appropriate balance between the need (from the publisher's point of view) for a book to be exposed for sale and the need (from the retailer's) to replace slow-selling titles with more current and saleable stock, returns will only be accepted if they comply with pre-agreed timing parameters.

The automatic authorisation process will reject returns requests which fail to meet the criteria set.

The recommendation is that distributors should not accept returns until three months from the date of publication. Exceptions, for which automatic provision will be made, include damaged stock, incorrect deliveries, and time- or event-sensitive product and books supplied for a particular promotion or display.

It is further recommended that booksellers should be permitted to return all titles up to fifteen months after the latest dispatch of that title from the distribution centre – subject to other criteria also being met – provided that the number of copies for return is no higher than the sales, net of previously authorised returns, of the same title supplied in the fifteen month period.

The recommendation is that these parameters are applied at organisation, rather than branch, level.

A particular exception applies to the case of wholesalers, who in the nature of their business will wish to operate returns systems for their own customers at the same time as agreeing returns parameters with their distributor suppliers. For the purposes of simplicity, it is proposed that wholesalers should accept returns from their customers up to twelve months from the latest date of dispatch to enable the books in question to be returned to the distributor within the time frame recommended above.

2.2 Unit volume

Returns authorisation systems should be programmed to reject quantities which are in excess of those they have themselves supplied. This is to meet concerns that books supplied to wholesalers are being returned directly to the distributor.

It is recommended that this check is implemented at organisation level.

2.3 Firm sales

Returns authorisation systems should be programmed to reject titles supplied or orders fulfilled on a firm sale basis. Invoice lines which have been supplied as non-returnable should accordingly be excluded from timing and financial calculations.

2.4 Value capping

As part of the written trading agreement, some publishers may wish to agree a cap on the value of returns from individual bookselling organisations, normally calculated as a percentage of sales. Returns authorisation systems should ensure that returns are not accepted if they exceed the percentage agreed by that particular publisher within a twelve month trading period, measured on the basis of a Moving Annual Total (MAT).

3. Credit processing

3.1 Credit value

The new process also requires agreement on the value of the credit given, replacing a multiplicity of different calculations which have been applied in the past.

In view of the fact that many titles are supplied at a range of discounts from the recommended retail price in the course of their active life it is proposed that credit value should be calculated at the quantity-weighted average cost price (recommended retail price less discount) of transactions involving that item and that customer (at organisation level) over the twelve month period leading up to the latest invoice for that particular title. The credit value calculated in this way will form a part of the returns authorisation message.

It is not anticipated that this recommendation will lead to any change to existing practice as far as the crediting of royalty accounts is concerned.

3.2 Credit timing

It is recommended that credit terms should apply to returns credits and should be identical to the payment terms between trading partners. In practice, returns will normally be credited to statements so that payments can be adjusted to accommodate them.

It is accepted that discrepancies will occur between the number of books authorised for return and the number actually received by the distributor; consequently it will still be necessary for books received back to be manually checked before a credit note can be raised. In order for the new process to function fairly, it is essential that distributors undertake to process physical returns within ten working days of receipt.

Consequently, booksellers – though they may wish to create debit notes for their own internal accounting purposes - are encouraged not to send these to distributors or deduct the value of them from payments. The speed and transparency of the automatic process will be sufficient to minimise disputes over account reconciliation.

4. The role of the distributor

Although most trading agreements are made between publishers and bookselling organisations, the new process will require that distributors manage the returns process on behalf of their third party customers. Distributors who have in the past been obliged to operate different returns policies to suit the requirements of each of their individual customers will now have the opportunity to adopt standard procedures on behalf of all their clients.

Consequently it will be necessary for trading agreements both between publishers and distributors and publishers and bookselling organisations to recognise the operational requirements of the new process.

5. Implementation and transition

It is considered essential to the successful implementation of the new process that individual companies within the industry adopt a speedy transition to the proposed new terms of trading. It is anticipated that this will happen by:

a] individual distributors investing in the software required to operate the new process;

b] individual distributors amending their terms of trade with third party clients to enable adoption of the new process;

c] individual publishers amending their terms of trade with their bookseller customers.

In order to ensure that the process operates fairly in the interests of the whole industry the PA/BA Book Industry Supply Chain steering group will continue to monitor the impact of the new process on a six monthly basis.

6. Compliance

A form of accreditation will be put in place for those organisations which have been judged to have successfully implemented the new process.