

Report on the Fact Finding Survey on Textbook Distribution (Summary)

August 3, 2007
Japan Fair Trade Commission

Part 1. Objectives and Method of the Survey

It is recognized that the textbook supply network in the distribution market has been unchanged and there are few new entrants, and that no competition is taking place in this area. The level of commission concerning text book supplies has been fixed on almost all occasions, and various trade practices in textbook distribution have long remained unchanged. Thus some related parties argue that it should be made possible to introduce more effective methods corresponding to changes in the times. The Japan Fair Trade Commission (JFTC) conducted a survey aimed at understanding the facts of distribution concerning the textbook supply and at making proposals from the perspective of competition policy.

Specifically, the JFTC conducted a survey, specifically a questionnaire survey and interviews, to the prefectural boards of education, textbook publishers, exclusive textbook distributors, textbook distribution agents and schools.

Part 2. Points of the Survey Report

1. System and Reality of Textbook Distribution

- | The Minister of Education, Culture, Sports, Science and Technology gives instructions on the types of textbooks and the number of copies thereof to be published to textbook publishers on the basis of the textbook demand reported from prefectural boards of education. After consenting to the instructions, textbook publishers are obliged to be responsible for publication until they supply textbooks to schools (including full supply). Moreover, to fulfill their full-supply obligation, they need to respond to changes in textbook demand from different schools (including checking and delivery of textbooks in stock; hereinafter referred to as “supply adjustments”), which would occur after shipping the textbooks.
- | Textbook publishers and major textbook dealers contract solely with specialized distributors of textbooks located within prefectures to engage in textbook distribution services, including delivery of textbooks to schools. Such specialized distributors contract solely with textbook distribution agents, not with any other distribution business operator, to undertake the textbook distribution services.

2. Problems with Textbook Distribution Business

- | The textbook distribution system has basically remained unchanged since 1963, when the free textbook supply system was put into operation.
- | Supply adjustments are not necessarily being done properly under the existing textbook distribution system.
- | The level of textbook distribution commissions has long been fixed in most transactions.

3. Proposals from the Perspective of Competition Policy

- | The many different parties associated with textbook distribution should discuss ways to build a more efficient textbook distribution system that corresponds to changes in the times, such as computerization and streamlined distribution, including an option of securing more than one supply channels. For example, they should study a system under which schools can place orders direct with textbook publishers via the Internet and other mechanisms for providing school transferees with textbooks and under which schools can choose distribution agents as suppliers on their own discretion.
- | If this study opens the way for competition between the conventional supply network, which consists of specialized distributors of textbook and textbook distribution agents, and other distribution services, then it would be possible that distribution commission rates will change to a level appropriate to the cost.

Part 3. Summary of Survey Results

1. Summary of the Textbook Distribution System

(1) Report on demand levels for textbooks and publication instructions

The required quantity of adopted textbooks, or demand quantity, is to be reported from municipal boards of education and school principals through prefectural boards of education to the Minister of Education, Culture, Sports, Science and Technology not later than September 16 each year.

The Minister gives instructions to textbook publishers on the types of textbook and the number of copies thereof to be published on the basis of the demand quantity reported. By consenting to the instructions, textbook publishers assume an obligation to publish and supply textbooks and remain responsible for publication until the textbooks are supplied to schools.

This obligation to supply textbooks to schools is deemed to include a full-supply obligation to ensure that every schoolchild is supplied with the necessary textbooks in time for their new school term or for their entry into new schools in the event of their transfer. For this reason, textbook publishers need to perform supply adjustments to respond to changes in demand from schools that occur after the textbooks are shipped.

(2) Delivery orders from schools

Schools produce written textbook delivery orders to textbook publishers to give instructions on the number of copies to be delivered for each grade and subject on the due date.

(3) Free supply of textbooks for compulsory education

The Minister of Education, Culture, Sports, Science and Technology purchases the adopted textbooks to be used by all schoolchildren of state-run, public and private schools for compulsory education in all subjects and supplies them to the schoolchildren free of charge.

(4) Commissions for distribution of textbooks for compulsory education in the purchase budget

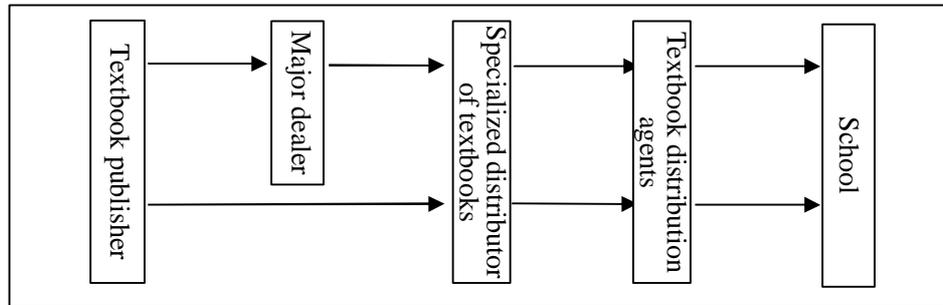
In fiscal 2006, some 5.9 billion yen, or 15% of the budget prepared for purchasing textbooks for compulsory education, was earmarked for the cost of specialized distributors of textbooks and textbook distribution agents to supply textbooks to schools (distribution commissions). Of the 15%, 4% goes to the specialized distributors of textbooks while the remaining 11% to the textbook distribution agents.

2. Structure of Distribution for Supply of Textbooks

Outline of channels to which distribution services are subcontracted

Textbook publishers and major dealers contract with specialized distributors of textbooks located within prefectures to supply textbooks to schools. Specialized distributors of textbooks subcontract the service to textbook distribution agents.

Figure 1: Textbook Distribution Channels from Publishers to Schools



3. Textbook Distribution Commissions

Distribution commissions paid by textbook publishers or major dealers to specialized distributors of textbooks and those paid by specialized distributors of textbooks to textbook distribution agents have long been fixed.

4. Trade Practices in Textbook Distribution

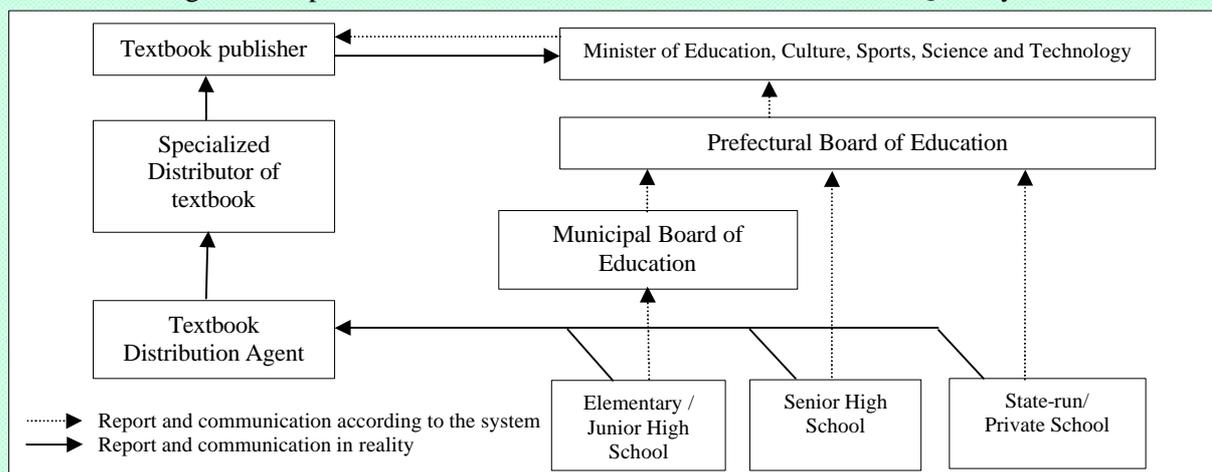
Facts about subcontracting of textbook distribution services from textbook publishers and others

Textbook publishers, including major dealers commissioned by publishers that do not own their packing and shipping equipments to engage in textbook distribution services, outsource the textbook distribution services, including delivery, to schools solely to specialized distributors of textbooks, and not to any other distribution business operator. In each prefecture, there is only one such distributor, except in Tokyo, where each of the six areas has a distributor.

(1) Textbook publishers' acquisition of information necessary for textbook distribution (demand quantity, delivery dates and places)

In reality, textbook publishers obtain information on demand quantity from specialized distributors of textbooks prior to publication instructions from the Minister of Education, Culture, Sports, Science and Technology.

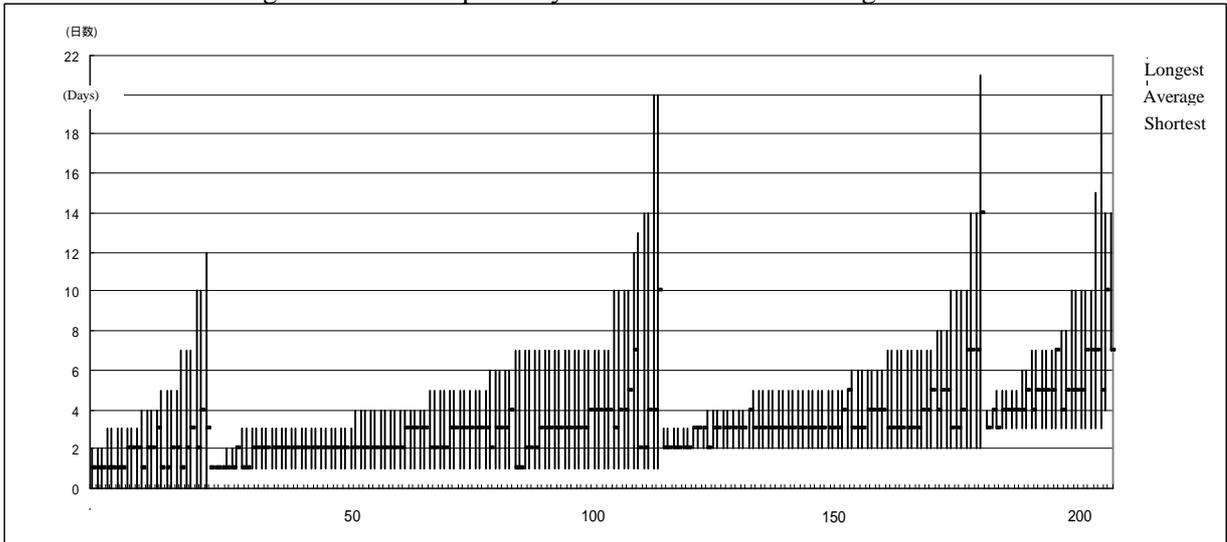
Figure 2: Report and Communication of the Textbook Demand Quantity



(2) Facts about supply adjustments

In some cases, it took two weeks or more for textbooks ordered for school transferees to reach their schools. Moreover, because the number of copies of textbooks produced by publishers and for stock with the objective of supply adjustments is limited, specialized distributors of textbooks have failed to procure textbooks ordered by schools after placing orders with publishers. Therefore, supply adjustments have not necessarily been conducted properly.

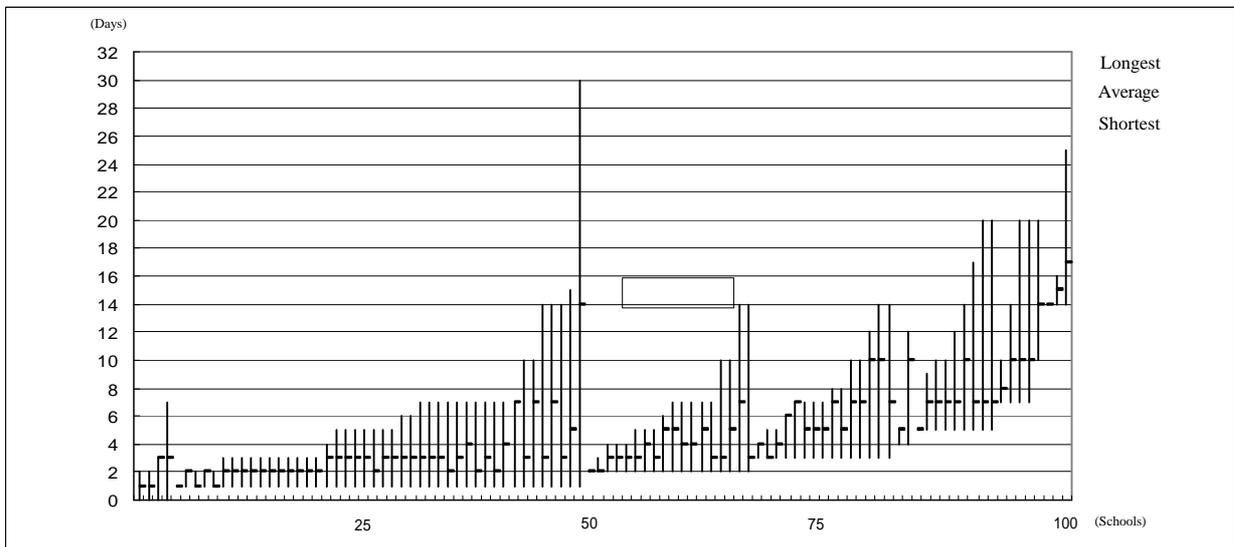
Figure 3: Time Required by Textbook Distribution Agents



(The diagram has been prepared by sorting responses by the shortest time and by the longest time.)

Figure 4: Time Required by Schools from Ordering to Delivery of Textbooks for School Transferees

(Number of valid responses: 100)



(The diagram has been prepared by sorting responses by the shortest time and by the longest time.)

(3) Relationship between textbook distribution agents and schools

The questionnaire survey shows that many distributors offer services of sorting textbooks by class and some offer services of sorting them by schoolchild, though such services are not included in the subcontract concerning textbook distribution services.

5. Summary

Problems with the textbook distribution services

- ‡ The textbook distribution system has basically remained unchanged since 1963, when the free textbook supply system was put into operation.
- ‡ Under the existing textbook distribution system, supply adjustments are not necessarily made in an appropriate manner.
- ‡ Textbook distribution commissions have long been fixed in most transactions.



<Suggestions from the perspective of competition policy>

- ‡ The many different parties associated with textbook distribution should discuss ways to create a more efficient textbook distribution system that corresponds to changes in the times such as computerization and streamlined distribution, including an option of securing more than one supply channels. For example, they should study a system under which schools can directly place orders with textbook publishers via the Internet and other mechanisms for providing school transferees with textbooks and under which schools can choose distribution agents as suppliers on their own discretion.
- ‡ If this study opens the way for competition between the conventional supply network, which consists of specialized distributors of textbooks and textbook distribution agents, and other distribution services, then distribution commission rates may change to a level appropriate to the cost.