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Republic of Serbia
COMMISSION FOR PROTECTION OF COMPETITION

THE REPORT
ON THE ANALYSIS OF THE STATE OF
COMPETITION IN THE TEXTBOOK
MARKET FOR PRIMARY EDUCATION
IN THE TERRITORY OF THE
REPUBLIC OF SERBIA IN THE PERIOD
2018-2020.

The ex officio, competition violation investigation procedure is ongoing against the following related market participants: KLETT PUBLISHING HOUSES DOO BELGRADE, PUBLISHING COMPANY NOVI LOGOS DOO BELGRADE and FRESKA PUBLISHING HOUSES DOO BELGRADE, in order to establish the existence of an act of abuse of a dominant position, in terms of Article 16 of the Law on Protection of Competition. There is a possibility that the facts established in the case in question deviate from certain data presented in this report.

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1. Analysis subject and goal

Pursuant to Article 47 of the Law on Protection of Competition (“Official Gazette of the Republic of Serbia”, number 51/2009 and 95/2013, hereinafter referred to as: Law) and Decision of the Council of the Commission as of November 19, 2020, the Commission for the Protection of Competition (hereinafter: the Commission) conducted a sectoral analysis of the state of competition on the textbook market for primary education in the Republic of Serbia in the period from 2018-2020.

In the period before conducting the analysis, the Commission received several initiatives to examine the violation of competition on the market in question, which did not result in the initiation of proceedings, due to lack of jurisdiction, but influenced the Commission's determination to analyze this market. Bearing in mind that the legal framework itself, which regulates relations on the subject market, has been changed several times in the past two decades, there was a need to look at the reasons that led to changes in the relevant regulations and the effects of such changes, from the point of view of rules on competition protection, on the market structure and relations between the participants in that market.

Expenditure on textbooks represents a significant part of the total expenditure on education. Given certain specificities of this market, which allow schools to choose textbooks from certain publishing houses in an insufficiently transparent manner, the necessity to identify potential problems and/or limitations that may exist in this market has been recognized.

The subject of the research is a comprehensive analysis of the procedure for publishing and selling textbooks and textbook sets for primary education, as well as the conditions under which textbooks are sold on the market of the Republic of Serbia. This entails determining the relationship between competitors - publishers on the textbook market, assessing their market share and relative strength, analyzing (contractual) relationships between textbook publishers on the one hand and their customers, distributors, bookstores and schools, as well as the effects these relationships can have on state of competition on the market. The subject analysis includes the method of forming the price of textbooks, as well as the analysis of the structure of the textbook sales price.

The main objective of the research is to comprehensively assess the state and dynamics of competition on the market in question. This includes identifying possible weaknesses in the market structure, as a result of which the end buyers of textbooks could have higher costs than optimal, as well as potential competition violations in the market in question.

The conducted analysis covered a three-year time period, from 2018 to 2020, and most of the collected and processed data refer to that time period. To the extent that certain data were not available and/or it was desirable to cover a wider time interval, in order to obtain a more complete picture of the market in question, data from the period preceding 2018 were also included in the analysis.

2. Methodological and legal framework and data sources

2.1. Methodological framework, scope of analysis and data sources

The research was conducted using a combination of the office (desk) method, which primarily related to the analysis of the relevant legal framework and available professional literature, and the field research method (survey method). The research itself was conducted on the basis of available (secondary) data and on the basis of primary data, collected through structured questionnaires, from market participants and competent state authorities.

In the process of analysis, the Commission started from the wider relevant market - the textbook market for primary education as a whole, within which it analyzed the textbook market for each grade of primary school separately. The relevant market did not include low-circulation textbooks¹, but based on all collected and processed data, it is possible to conclude that by including these textbooks in the analysis, the market structure would not change to the extent that it could lead to different conclusions of this analysis².

The main data sources for this analysis were:

- existing legal regulation;
- data of the Republic Institute of Statistics on primary education statistics;
- data of the Ministry of Education, Science and Technological Development from the catalog of textbooks for the observed years;
- data submitted by selected market participants based on the Commission's structured questionnaire - textbook publishers and distributors and
- other publicly available data on the Internet.

The research was conducted in two phases. In the first phase of the research, the Commission addressed the request for information to market participants who are registered for the activity of "publishing books", activity code 5811, and in particular:

- KLETT IZDAVAČKA KUĆA DOO BEOGRAD (hereinafter referred to as: Klett)
- PRIVREDNO DRUŠTVO ZA IZDAVAČKU DELATNOST NOVI LOGOS DOO BEOGRAD (hereinafter referred to as: Novi Logos)
- IZDAVAČKA KUĆA FRESKA DOO BEOGRAD (hereinafter referred to as: Freska)
- IZDAVAČKO PRIVREDNO DRUŠTVO VULKAN IZDAVAŠTVO DOO – BEOGRAD (hereinafter referred to as: Vulkan)
- PREDUZEĆE ZA IZDAVAŠTVO, PROIZVODNJU I TRGOVINU EDUKA DOO BEOGRAD (hereinafter referred to as: Eduka)
- INFOTEHNIKA DOO PREDUZEĆE ZA IZDAVANJE UDŽBENIKA I PROIZVODNJU UČILA BEOGRAD (hereinafter referred to as: Infotehnika)
- IZDAVAČKO PREDUZEĆE MATEMATISKOP DOO BEOGRAD (hereinafter referred to as: Matematiskop)

¹ A low-circulation textbook is a textbook whose direct and indirect production costs and dependent sales costs are higher than the retail price (a textbook in the language and script of a national minority, a textbook adapted to the needs of students with developmental impairments and disabilities, a textbook for trial programs, for vocational schools, etc.).

² According to data from the analysis of the effects of the 2018 Proposal for a Law on Textbooks, the number of students who attended classes in their mother tongue is approximately 4% of the student population in Serbia.

- PRIVREDNO DRUŠTVO GERUNDIJUM DOO BEOGRAD (hereinafter referred to as: Gerundijum)
- NOVA ŠKOLA DOO BEOGRAD (hereinafter referred to as: Nova škola)
- KREATIVNI CENTAR PREDUZEĆE ZA IZDAVAŠTVO, PROIZVODNJU I TRGOVINU DRUŠTVO SA OGRANIČENOM ODGOVORNOŠĆU BEOGRAD (hereinafter referred to as: Kreativni centar)
- IZDAVAČKA KUĆA SAZKANJE DOO BEOGRAD-NOVI BEOGRAD (hereinafter referred to as: Sazkanje)
- BIGZ-IZDAVAČKO PREDUZEĆE DOO BEOGRAD (hereinafter referred to as: BIGZ)
- JAVNO PREDUZEĆE ZAVOD ZA UDŽBENIKE BEOGRAD (hereinafter referred to as: Zavod za udžbenike)
- M&G DAKTA PREDUZEĆE ZA IZDAVAŠTVO PROMET I USLUGE DOO BEOGRAD (hereinafter referred to as: M&G Dakta)
- KRUG DRUŠTVO ZA GRAFIČKO-IZDAVAČKU DELATNOST I TRGOVINU DOO BEOGRAD (hereinafter referred to as: Krug)
- DATA STATUS DOO BEOGRAD (hereinafter referred to as: Data status)
- The English Book d.o.o. Beograd (hereinafter referred to as: The English Book)
- Educational Centre d.o.o. Beograd (hereinafter referred to as: Educational Centre)
- Akronolo d.o.o. Beograd (hereinafter referred to as: Akronolo)³

The selection of market participants included in the first phase of the research was made based on an insight into the data from the catalog of textbooks for primary education from the official website of the Ministry of Education, Science and Technological Development. In the manner described above, the first phase of the research included all textbook publishers whose textbooks were included in the textbook catalog of the relevant ministry for the 2020/2021 school year.

In order to identify the scope of the publishers that will be included in the analysis, the data from the official website of the Association of Publishers of Textbooks, Teaching Aids and Schools of Serbia was reviewed. The association has fifteen (15) members - publishers who have a license to publish textbooks, of which thirteen (13) are included in the sector analysis, while the remaining two are not publishers of textbooks for primary education.

Textbook publishers were required to submit data related to revenue from textbook sales by subject and class, revenue structure by sales channel, calculation of textbook sales price, market and market share assessment, customer categorization plan, rebate policy and overview of major competitors on the textbook market. In order to analyze the contractual relations, the publishers were asked to submit the contracts concluded with the ten largest buyers of textbooks for primary education.

Only one company, Nova škola, failed to submit the requested data, with an attached statement that that company did not sell textbooks in the period 2018-2020, because their textbooks were not selected by primary schools.

According to the answer from the publishing house Klett doo Beograd, Novi Logos, Freska and Klett operated as three separate legal entities until 2020, so that their operational activities (marketing, logistics, administration and sales) were at the service of all three publishing houses. In January 2021, the business transfer agreement came into force, uniting the

³ Akronolo is registered for the activity of "wholesale of other household products", activity code 4649.

operations of all three publishing houses and transferring most of the rights and obligations to the Klett publishing house. In this regard, it was established that the three publishing houses represent related market participants in the sense of Article 5 of the Law, and for the purposes of this analysis (with certain exceptions that will be specially emphasized) are viewed as one market participant.

Bearing in mind all the above, the first phase of the research included sixteen (16) textbook publishers, who do not represent a sample but the population, i.e. the entire textbook market for primary education in 2020.

Based on the data and documentation submitted by textbook publishers in the first phase of the research, ten (10) distributors were identified who represent the largest buyers of textbooks for primary education and who further sell these textbooks to primary schools and bookstores.

Considering the above, in the second phase of the research, the Commission addressed the following identified textbook distributors with a request for information:

- Dubrava d.o.o. Beograd (hereinafter: Dubrava)
- Društvo za izdavačko-grafičku delatnost, inženjering i trgovinu Školski servis Gajić d.o.o. Beograd (hereinafter referred to as: Gajić)
- Privredno društvo za trgovinu, proizvodnju i usluge Hijeroglif d.o.o. Niš - Mediana (hereinafter: Hijeroglif)
- Hol Net d.o.o. Pančevo (hereinafter: Hol Net)
- Igor Valušek PR Trgovina na malo Kolibri book Novi Sad (hereinafter: Kolibri)
- SZTR Most Ratomir Radović preduzetnik Kragujevac (hereinafter: Most)
- Darko Vukašinić PR Izdavaštvo i distribucija Prima Gornji Milanovac (hereinafter: Prima)
- Sintra izdavaštvo d.o.o. Novi Sad (hereinafter: Sintra)
- Aleksandar Petrov PR Trgovinska radnja Spirit Beograd (hereinafter: Spirit)
- Wal Talija d.o.o. Beograd - Zemun (hereinafter: Wal Talija)

Of the ten distributors listed, four are registered for the activity of "publishing books" (activity code 5811), two are registered for the activity of "retail sale of books in specialized stores" (activity code 4761), and one each is registered for the following activities "wholesale of other household products" (4649), "non-specialized wholesale" (4690), "other retail trade in shops, stalls and markets" (4799) and "other retail trade in non-specialized stores" (4719).

The distributors were asked to submit data on the purchase value of the textbooks sold and the revenue generated from the sale of textbooks by publisher, i.e. by sales channel, to explain in detail the process of cooperation with suppliers (publishers) and customers (schools, bookstores, other distributors), as well as to evaluate conditions of competition on the market (distribution) of textbooks for primary education.

2.2. Relevant legal framework and basic data on primary education

2.2.1. Basic characteristics of the education system

Basic education is regulated by the following legal acts:

- The Law on the Fundamentals of the Education and Training System ("Official Gazette of the RS", No. 88/2017, 27/2018 - state law, 10/2019, 27/2018 - state law and 6/2020) and
- the Law on Basic Education and Training ("Official Gazette of RS", no. 55/13, 101/17, 27/18 - state law and 10/19)

The Law on the Fundamentals of the Education and Training System regulates the fundamentals of the system of preschool, primary and secondary education and adult education⁴, including the manner and conditions for performing activities, types of education and training programs, establishment, organization, financing and supervision of the work of education and training institutions, as well as other issues.

The Law on Basic Education and Training regulates basic education and training as part of a unified system of education and training.

Primary education is achieved on the basis of the school program adopted by the school board, as a rule for four years, and is developed in accordance with the National Framework of Education and Training. The national framework of education and training and the plan and program of teaching and acquiring basic education, according to the opinion of the National Education Council, is adopted by the minister.

The eight-year primary education is divided into two cycles, each of which consists of four grades.

The first cycle represents classroom teaching from the first to the fourth grade. In this stage, one teacher is in charge of one department and is responsible for teaching all subjects, except for the foreign language and certain elective subjects. Compulsory subjects studied from the first to the fourth grade include: Serbian language, mathematics, foreign language, the world around us/nature and society, arts, music and physical education.⁵

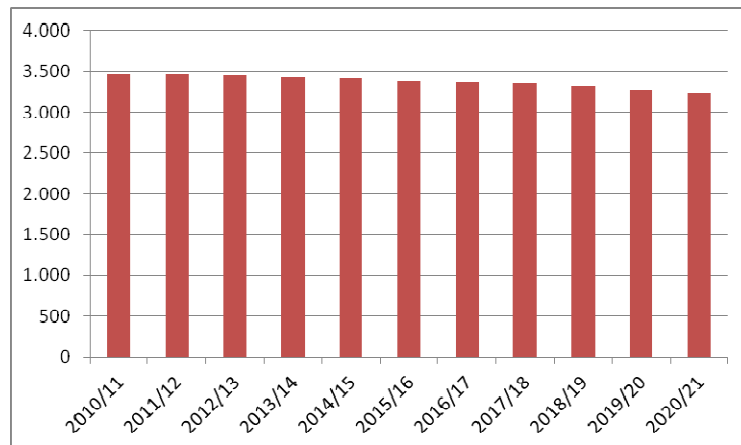
The second cycle is subject teaching from the fifth to the eighth grade. At this stage, each subject is taught by a different teacher, specialized in a certain area, while one teacher, the class teacher, is responsible for running the class. In addition to individual subjects studied in the first four grades of elementary school, in the fifth grade biology, history, geography, and technical and IT education are added to the curriculum, in the sixth grade physics is added to the curriculum, and in the seventh grade chemistry.

According to the data of the Republic Institute of Statistics, the number of regular elementary schools in the Republic of Serbia in the past ten-year period decreased from 3,468 to 3,238, which represents a decrease of 7%. Primary education coverage according to the latest available data for 2018 was 97%, which was also the rate of completion of primary education.

⁴ Bearing in mind that the analysis refers to the textbook market for primary education, the analysis of the education system will only refer to this segment.

⁵ From September 2020, first-grade students attend an additional subject - the digital world.

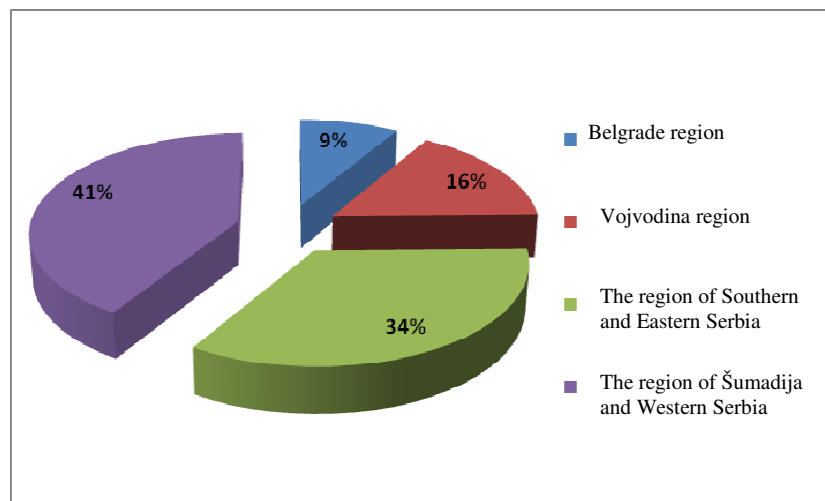
Diagram no. 1 - Number of regular elementary schools at the beginning of the school year (2010-2020)



Source: RSO

As for the geographical distribution of primary schools, i.e. by region, according to data for the 2019/2020 school year, 41% are located in the region of Šumadija and Western Serbia, and 34% in the region of Southern and Eastern Serbia. There are 9% of the total number of primary schools in the Belgrade region, while 16% are in the Vojvodina region.

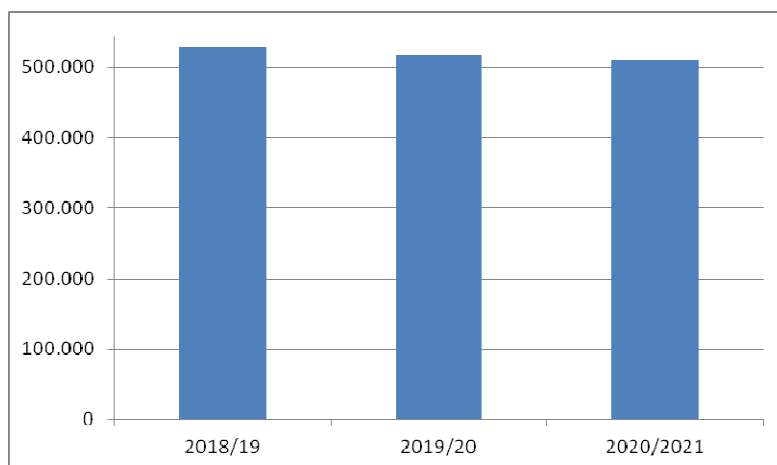
Diagram no. 2 - Distribution of elementary schools by region in the 2019/2020 school year



Source: RSO

In the past three-year period, there has been a noticeable trend of a slight but steady decline in the number of students in primary schools. According to official statistics, the total number of students in regular primary schools at the beginning of the school year in the period from the 2018/2019 school year to the 2020/2021 school year decreased from 527,834 to 510,576, which represents a decrease of 3%.

Diagram no. 3 - Number of regular elementary schools at the beginning of the school year (2010-2020)



Source: RSO

2.2.2. The legal framework of the textbook market for primary education

The basic regulation that regulates the textbook market for primary education in the Republic of Serbia is the Law on Textbooks ("Official Gazette of RS", number 27/2018).

The Law on Textbooks regulates the preparation, approval, selection, issuance, withdrawal and monitoring of textbooks and textbook sets, manuals and additional teaching aids for primary and secondary schools.

The textbook market for primary education is more closely regulated by the following by-laws:

- Rulebook on textbook quality standards and instructions on their use ("Official Gazette of the RS", number 42/16 and 45/18)
- Rulebook on the detailed conditions and criteria for the selection of other experts and members of the committee for the preparation of the expert evaluation of the quality of manuscripts and expert opinion ("Official Gazette of the RS", number 94/18)
- Rulebook on detailed conditions and criteria for the selection of members of the expert commission that performs the expertise of textbook manuscripts and members of the commission for the preparation of expert opinions ("Official Gazette of the RS", number 94/18)
- Rulebook on the manner of adjusting the content and/or format of textbooks ("Official Gazette of RS", number 55/17)
- Rulebook on the method and procedure for selecting persons on the List of Assessors, the training program for assessors, the code of ethics for persons participating in the textbook approval procedure and the procedure for appointing members of the Commission for Assessment of Textbook Manuscripts ("Official Gazette of the RS", number 87/15)
- Rulebook on Issuing Low-Circulation Textbooks ("Official Gazette of RS", No. 30/2010)
- Rulebook on textbooks issuing permits - licenses ("Official Gazette of RS", number 6/2010)
- Rulebook on textbook plan ("Official Gazette of the RS-Education Gazette", 2010)
- Rulebook on supplements to the Rulebook on textbook plan ("Official Gazette of the RS-Education Gazette", 4/13)
- Rulebook on supplements to the Rulebook on textbook plan ("Official Gazette of the RS-Education Gazette", 13/13)

- Rulebook on supplements to the Rulebook on textbook plan ("Official Gazette of the RS-Education Gazette", 5/14)

In addition to the aforementioned legal and by-law acts that specifically relate to primary education, the following regulations may be relevant for the publishing industry in general:

- Law on Issuing Publications ("Official Gazette of RS", no. 37/91, 53/93, 67/93, 48/94, 135/2004 and 101/2005 - other laws)
- Law on copyright and related rights ("Official Gazette of the RS", no. 104/2009, 99/2011, 119/2012, 29/2016 - decision of the CC and 66/2019)
- Special usances for the circulation of books ("Official Gazette of the SFRY", number 19 of April 20, 1984)

2.2.3. Analysis of the legal framework of the textbook market

In the analysis, the Commission was particularly concerned with the way in which the textbook selection procedure was regulated.

In accordance with the Law on Textbooks, textbooks are selected by schools for a period of four years, whereby the selection is made for two grades each year (first and fifth, second and sixth, etc.), after which the selection decision lasts for the next four school years. After the textbooks for a certain school have been chosen, the parents or guardians of the students purchase certain textbooks, depending on the choice of the school the child attends.

In this sense, the legal framework envisages two time-related market segments, namely the period of textbook selection in which competition for the market exists and, after that, the period of procurement of textbooks by end users.

The textbook selection mechanism stipulated by the law shifts the competition among publishers to the fight for access to schools for a certain period during the year, after which the consequences of the selection are felt in the market for the next four years, which can create a "bottleneck" in the market. The relationship between the participants in this part of the market is partly reminiscent of public procurement markets - the publisher who "wins" in this selection, that is, who is chosen by the school, has a guaranteed market for the selected textbooks in the next four years. However, unlike public procurement, where the criteria for selection are clearly defined and where the main criterion is most often the price offered, the process of selecting textbooks is more complex, it takes place simultaneously in a single and regulated period of time throughout elementary schools in the Republic of Serbia for two entire grades, whereas there are less clear and transparent criteria for making a decision, as well as the conditions and process of interaction between the publisher (that is, the distributor) and the teacher (school).

Due to the aforementioned specificity of the textbook market for primary education, for publishers whose textbooks are selected by the school for the next four years, that is, until the next textbook selection, there is no uncertainty regarding the sale of textbooks in a specific school for a specific grade and subject. This allows publishers to recover the costs they incurred during the period of textbook selection for the purpose of their promotion in the period of the next four years from the moment of selection of that specific textbook.

Apart from the observed segmentation of the market in the aforementioned sense, according to the current legal framework, it could be concluded that this market is also characterized by a kind of cyclicity - both on an annual level and on a four-year level.

Observed at the annual level, the period of textbook selection for e.g. first and fifth grades take place in the first quarter and then there is a competition "for the market". After the schools have selected the textbooks, there is a period of subscription sales, followed by a period of printing and distribution, and then regular sales of textbooks. At the beginning of the next year, there will be another cycle of textbook selection, but this time for the second and sixth grades, according to the same described model.

After four years, the entire cycle of selecting textbooks for the first and fifth grades returns to the beginning, that is, to the selection by the schools, so that, from a broader perspective, the annual and four-year cycles are repeated.

3. Textbook market

3.1. Basic characteristics of the relevant market

3.2.1. Concept of textbooks and approval procedure

The Law on Textbooks defines the concept of a textbook as a basic didactically designed teaching tool, in any form or medium, which is used in educational work at school for the acquisition of knowledge, skills, the formation of attitudes, the encouragement of critical thinking, the improvement of functional knowledge and the development of intellectual and emotional characteristics of students and trainees, the contents of which are determined by the teaching and learning plan and program, which is approved in accordance with the law.

The textbook set consists of a textbook and other teaching aids for a specific subject in a specific grade, and its composition is determined by the Textbook Plan. The textbook can also contain an electronic supplement.

The textbook plan determines textbooks by subjects or areas, classes, levels of education and type of school, which are used in educational work. The textbook plan, at the proposal of the Institute for the Improvement of Education and Training (hereinafter: the Institute), according to the obtained opinion of the National Education Council, is adopted by the minister. The textbook plan is adopted by the minister simultaneously with the adoption of the teaching and learning plan and program, that is, when the need to change the existing textbook plan is determined.

The textbook must comply with the textbook quality standards, that is, it must meet the conditions related to the content, pedagogical-psychological requirements, didactic and methodical processing, language requirements, production, graphic, artistic and technical equipment of the textbook, depending on the form, media and purpose. Standards and instructions on the application thereof, at the proposal of the Institute, and according to the obtained opinion of the National Education Council, are adopted by the minister.

The request for approval of the textbook manuscript is submitted by the publisher to the Ministry of Education, Science and Technological Development (hereinafter: competent ministry or ministry). Fulfillment of the Standard is the basis for making an expert assessment of the quality of textbook manuscripts by a special committee formed by the Institute. Based on the Institute's expert assessment, the minister, that is, the provincial secretary, reaches a decision on accepting or rejecting the textbook manuscript.

A textbook approved by February 1 is included in the Catalog of textbooks and can be used in the following school year. The catalog of textbooks is published no later than February 15 on the official website of the ministry and in the "Official Gazette of the Republic of Serbia - Education Gazette".

The school selects a textbook for each subject in each grade from the Catalog of Textbooks, which is informed by the Parents' Council, and the decision on the selection of textbooks is submitted to the Ministry. The decision on the choice of textbooks is made by the teachers' council based on the reasoned proposal of the expert councils for subject areas, that is, the expert council for class teaching. Within the professional council, teachers evaluate and harmonize their views when it comes to deciding on a textbook approved for a specific subject, and which, in its conception, best meets the needs of the teaching they do with specific students in a specific school.

According to the ministry's response to the request for information, from this point of view, all textbooks and textbook sets that are included in the Catalog of textbooks meet the prescribed quality standards, so it is not of crucial importance which textbook, among all the approved textbooks, the school will choose.

As a rule, the same textbook from the same publisher is used for the same subject in all classes of the same grade in the same school. If the school does not submit a decision on the choice of textbooks, the ministry makes a decision that the school uses textbooks from the Catalog of textbooks that are most represented in the territory of the competent school administration.

Although the selection of textbooks is made for a period of four school years, exceptionally, the decision to change textbooks can be made by the teachers' council based on the reasoned proposal of the expert councils for the subject area, that is, the expert council for class teaching, of which the ministry is notified. For the school year in which the new teaching and learning program is implemented for the first time, textbooks are selected for a period of one school year.

Publication of textbooks and other teaching aids can be performed by a public company (public publisher), entrepreneur or other legal entity registered for publishing activity. A textbook publisher that does not publish low-circulation textbooks has the obligation to participate in providing funds for the publication of low-circulation textbooks in the amount of 2% of the realized net income from sold textbooks in the previous calendar year, which is paid into the dedicated account of the public publisher.

In order to enable equal access to education and upbringing, the Government makes a decision every year on the financing or co-financing of the purchase and allocation of textbooks, primarily for pupils and students who are socially and materially disadvantaged, as well as for pupils with developmental impairments and disabilities, and the procurement of

these textbooks is implemented in accordance with the law governing the field of public procurement.

The law on textbooks provides for the creation of an electronic register of textbooks managed by the Ministry, in which each school would enter data on textbooks from the final decision on the selection of textbooks. The law stipulates that the electronic register of textbooks be publicly available on the official website of the Ministry and that it contains the following information: the title of the textbook manuscript, the name of the subject, as well as the grade and type of school for which the textbook manuscript was prepared, the name of the author, the language and the script in which it was prepared and full name of the publisher.

In its reply dated January 22, 2021, the Ministry stated that the competent sector is working on establishing a textbook register and that the data in question is expected to become publicly available during 2021. The register of textbooks with individual schools' votes, by municipality, for sets of textbooks was published on the Ministry's website during the preparation of this report, with data relating to the school's choices in the 2021/2022 school year.

3.2.2. Basic characteristics of the textbook market

The primary education textbook market includes the production and distribution of primary school textbooks. Geography-wise, this market is of a national character, for the reason that school textbooks from all publishers can be included in the curriculum of all elementary schools in the territory of the Republic of Serbia.

What makes the textbook market specific is the fact that it is characterized by the so-called performed demand, bearing in mind that the entity that selects the textbooks (the teacher, that is, the school) is not the purchaser of the textbooks at the same time. In other words, even though parents buy or pay for the textbook, they do not participate directly in the textbook selection process. In this sense, the final demand for textbooks by students who buy textbooks or their families can be considered inelastic in relation to the price, which allows the publisher considerable autonomy in determining the price of textbooks.

The textbook market does not function on the principles of free choice because the publisher sets the price, the teacher or school chooses the product, and the parent then buys it. Given that the textbook selection procedure takes place in the school and that the final purchaser of the textbook has no impact on such a procedure, it is of crucial importance how the textbook publishers establish a relationship with the school in order to promote the textbooks and on the basis of which criteria the schools or teachers opt for textbooks from a certain publisher. In this sense, two time-related market segments can be identified on the textbook market, which have different dynamics:

- The first segment of the market refers to the period that precedes the selection of textbooks and in which publishers, through various promotional activities, compete with each other in order to have their textbooks selected by schools. In this market segment, there is competition on the market and competition for the market, and the publisher chosen by the school has a guaranteed market for the selected textbooks for the next four years. Therefore, it is extremely important for publishers that their textbooks are chosen by as many schools as possible in the year they are first chosen.

- The second segment of the market represents the period after the selection of textbooks, in which it is certain that previously selected textbooks for a certain grade will be purchased in the next four school years. In this market segment, there is no competition between publishers, because the sale of textbooks takes place in accordance with the choice made by schools in the previous period. Publishers who in the previous period incurred expenses for the purpose of promoting textbooks, are now able to "recoup" such expenses, because until the next textbook selection, there is no uncertainty regarding the sale of textbooks in a specific school for a specific grade.

3.2.3. Development of the textbook market

Until 2003, when the Law on the Fundamentals of the Education and Training System was passed⁶, the preparation, approval and publication of textbooks for primary and secondary schools was regulated by the Law on Textbooks and Other Teaching Aids⁷, and the publication of textbooks was exclusively the responsibility of the Public Enterprise "Zavod za udžbenike". Due to the existence of only one publisher, textbooks were exempted from market competition, and issues concerning the quality of textbooks were decided by the Institute for Textbooks, bodies and individuals who inspected and controlled the work. As a result of such regulated relations, the society had textbooks that were unified throughout the entire territory of the country and could be used during several generations of students.⁸

Competition on the textbook market was introduced gradually, first on a trial basis, and then formally. The goal of market liberalization was not only to abolish the state monopoly, but primarily to increase competitiveness, and thus to improve the quality and reduce the price of textbooks.⁹

The Law on the Fundamentals of the Education and Training System from 2003 gave the possibility to use more than one textbook for the same subject. Such a solution required the creation of legal opportunities for private publishers to be involved in publishing textbooks for primary and secondary schools. As this was not possible under the previously valid Law on Textbooks and Other Teaching Aids, private publishers were also introduced, based on the regulations on the trial program, in accordance with the Law on the Fundamentals of the Education and Training System. During the implementation of the trial and its evaluation process, it was noted that there were problems due to the lack of textbook quality standards, because the approval of textbooks, both for private and public publishers, was carried out without prescribed standards, which created legal uncertainty for all publishers on the market¹⁰.

⁶ "Official Gazette of RS", no. 62/03, 64/03 - correction, 58/04, 62/04 - correction, 101/05 - st. law and 79/05 - st. law

⁷ "Official Gazette of RS", no. 29/93 and 62/06

⁸ Delić, B. Kuzović, D. (2017) "Issues of the textbook market in Serbia in 2008 - 2016", Kultura polisa, vol. XV (2018), no. 35, p. 423-443

⁹ Fiket, I. Pavlović, A. (2017) "Analysis of the risk of corruption in the process of approval and publication of textbooks in Serbia", Balkan Investigative Reporting Network

¹⁰ Analysis of the effects of the Draft Law on Textbooks, downloaded from the website http://www.parlament.gov.rs/upload/archive/files/lat/pdf/predlozi_zakona/690-18%20LAT.pdf

The liberalization of the textbook market formally entered into force in 2009 with the adoption of the new Law on Textbooks¹¹. This law enabled private publishers to obtain a license or permit for the publication of textbooks, and public and private publishers received equal rights and obligations in accordance with the law and regulations governing the issuing of publications.

More detailed conditions, the manner of issuing and revoking the permit for the issuance of textbooks (license) and the content of the permit form were prescribed by the Rulebook on the permit for the issuance of textbooks - licenses¹². Publishers could apply for a type A, B or C license. Publisher holding a type A license had the right to print textbooks for all levels and all areas of education, a type B license indicated the possibility of publishing textbooks for certain levels (preschool, primary and secondary education) and areas of education (scientific-mathematical, social-humanistic, medical, technical-technological and artistic), while the type C license was issued for certain textbook sets.

The opening of the textbook market to competition made a large number of publishers appear on the market with domestic or (majority) foreign capital, i.e. the Institute for Textbooks was no longer the only publisher of textbooks. An additional step in liberalization was the cancellation of the license for textbook publishers provided by the Law on Textbooks from 2015, which enabled all legal entities involved in publishing to submit a request for approval of textbooks without prior fulfillment of special conditions.

3.2.4. The introduction of the "highest textbook price" institute

According to the Law on Textbooks from 2009, the formation of the price of textbooks was completely free, which meant that the prices of textbooks differed significantly from one publisher to another. At the same time, the scope of textbooks until 2015 was not defined by secondary legal acts¹³, which allowed publishers to freely offer textbooks and other teaching materials of arbitrary volume, which resulted in an increase in the final price of the textbook set¹⁴.

The law from 2015 introduced the term "maximum retail price of textbooks", and the publisher is prohibited from selling textbooks, manuals and teaching materials at a price higher than the one set. According to this legal solution, it was foreseen that the decision on the highest retail price would be made by the minister every year based on the proposal of a special Commission for determining the highest retail price. The aim of introducing the maximum price institute was to enable planning of textbook purchases and savings in the family budget and to remove the uncertainty that exists every year regarding the price of textbooks¹⁵.

The introduction of the institute of the maximum price of textbooks was preceded by a comparative analysis of the practice of certain European countries, which showed that the

¹¹ "Official Gazette of RS", no. 72/09 and 62/06

¹² "Official Gazette of RS", no. 6/10

¹³ The law from 2015 stipulates that the textbook plan defines the scope of textbooks.

¹⁴ Analysis of the effects of the Draft Law on Textbooks, downloaded from the website http://www.parlament.gov.rs/upload/archive/files/lat/pdf/predlozi_zakona/1920-15%20lat.pdf

¹⁵ According to the Analysis of the effects of the Textbook Law proposal, fragmentation of the textbook market causes problems for students, parents and teachers to a large extent.

price of textbooks is subject to regulation in other European countries as well. According to the statements in the explanation of the Proposal for the Law on Textbooks¹⁶, in Austria the relevant ministry determines the highest possible price for a certain type of textbook, in Bulgaria the Council of Ministers determines the maximum amount of sets from the first to seventh grades, in Hungary and Portugal the relevant ministry and publishers agree on the price that will be regulated, and in Slovenia the state limits the price of textbooks.

The "maximum retail price of textbooks" institute was never implemented in practice and this provision was finally removed from the text of the 2018 Law on Textbooks. According to the statement in the explanation of the Proposal for the Law on Textbooks¹⁷, the decision to abolish the "maximum retail price" institute was a consequence of the impossibility of establishing precise and exact criteria that would adequately include all relevant aspects of the textbook publishing process, since the number of textbooks, manuals and teaching materials is extremely high, and especially difficult to determine the average publisher's margin. In addition, there was a fear that setting a maximum price could lead to product shortages or even a complete absence of supply if none of the market participants was willing to supply a product of a certain quality at a prescribed price. According to the explanation, this could, in the medium and long term, limit the scope for product quality improvement and new product development and lead to a reduction in the number of bidders.

According to the provisions of the current Law on Textbooks, the retail prices of textbooks are formed freely on the market, and the retail price of textbooks issued in the language and script of a national minority, i.e. issued with an adapted script and/or format for students with developmental impairments and disabilities, cannot be higher than the retail price of a textbook in the Serbian language that has been translated, i.e. the script and/or format of which has been adapted.

3.2.5. The process of digitalization of schools

Electronic education includes all teaching activities that are implemented with the help of electronic technologies. Unlike "classical" education, where the teaching process is most often realized in a classroom where all students are present at the same time, online education or e-education allows students to devote themselves to learning at the time and place that suits them best.

The digital textbook is identical in structure to the printed textbook, but it is enriched with multimedia content that is an addition to the basic text. Multimedia content is marked with appropriate icons and linked to a specific part of the lesson, and moving through the content is easy, owing to clear navigation and tools. Unlike a digital textbook, *an e-textbook* uses multimedia (films, animations, audio and video materials) to display content, which are not an addition, but an integral part of the textbook. Each page of the e-textbook is a methodically explained whole, which gives the teacher the opportunity to guide students in different ways towards defined outcomes.¹⁸

¹⁶ Available on the website: http://www.parlament.gov.rs/upload/archive/files/lat/pdf/predlozi_zakona/1920-15%20lat.pdf

¹⁷ Available on the website: http://www.parlament.gov.rs/upload/archive/files/lat/pdf/predlozi_zakona/690-18%20LAT.pdf

¹⁸ Available on the website: <https://www.eucionica.rs/>

Digital classrooms are hubs that enable multiple segments of teaching to take place in a digital media environment. Unlike digital textbooks in pdf format, which the student mostly uses alone (or with the assistance of parents), digital classrooms enable different types of communication: between students and teaching staff, between students themselves and among teaching staff¹⁹.

The process of digitizing textbooks in the Republic of Serbia began with the adoption of the Law on Textbooks from 2015, when the textbook was defined as a basic didactic tool, in any form or medium. In practice, however, until 2018, digital textbooks, manuals and other teaching aids were not developed to the appropriate extent.

For the stated reason, the Ministry of Education, Science and Technological Development in the 2017/2018 school year started implementing the project "Teaching contents through a digital textbook/digital classroom", the purpose of which is to improve teaching by introducing new technologies and support teachers in introducing innovations in educational work, in accordance with the plans and programs of teaching and learning that are outcome-oriented. The pilot project of digital textbooks was implemented in selected schools in the 2018/2019 school year. Digitization of textbooks first included individual publishers, who, aware of the importance of following world trends and the advantages that this will bring them on the market, digitized their physical editions. In the 2020/2021 school year, under the influence of the Covid 19 pandemic, almost all publishing houses had electronic editions of textbooks in addition to printed ones, and the digitization process of schools was further accelerated.

Digitized editions of physical textbooks are available mainly in the form of pdf files that some publishers supplement with additional content (sound, image, audio-visual), on the platform of the publisher itself or on specialized platforms that offer additional content and enable their exchange between different publishing houses. Such pdf files are usually "unlocked" using a code in the physical edition of the textbook, which allows the purchaser of the textbook access to the digital textbook for a period of one year.

4. The first phase of the research – publisher analysis

4.1. Income from the sale of textbooks and assessment of the relevant market

The total textbook market for primary education was estimated on the basis of data on publishers' realized revenues from the sale of textbooks for primary education. Bearing in mind that the sectoral analysis includes all publishers whose textbooks were included in the textbook catalog in the 2020/2021 school year, such an assessment of the textbook market can

¹⁹ Available on the website: <https://www.mascom.rs/sr/digitalni-udzbenici-i-autorsko-pravo-nid-550.1.176.html>

be considered relatively reliable and more precise than the assessments submitted by individual market participants²⁰.

The Commission does not rule out the possibility that in the 2018/2019 and 2019/2020 school years, there were other, smaller publishers on the market of elementary school textbooks, which were not included in this analysis, bearing in mind that a certain number of textbooks that were in circulation during those years, were selected in a period that is not included in this analysis, but it believes that they could not have changed the market structure to the extent that such a change would lead to significantly different conclusions of this analysis.

To estimate the textbook market and publishers' market shares, the publisher's data on the total revenue from the sale of textbooks for primary education, including other teaching aids that are part of the textbook set and excluding low-circulation textbooks and textbooks for elective subjects, achieved in the territory of the Republic of Serbia in 2018, 2019 and in 2020, were used, within which the income generated from the sale of textbooks for each subject in each grade of the primary school was shown separately.

As previously described, the total textbook market for primary education in 2020 is estimated at around 3 billion dinars, i.e. 25.5 million euros²¹, which represents an increase of 24% compared to 2018²².

If the submitted data of the publisher on revenue from the sale of textbooks for primary education is compared with the total business revenue of the publisher, taken from their official and publicly available financial reports, it can be concluded that between 55% and 60% of the total business revenue of publishing houses is revenue from the sale of textbooks for elementary school, whereas at the level of individual publishing houses, these values differ significantly.

When analyzing the estimated textbook market and publishers' market shares, the Commission took into account the argument put forward by several publishers that the market share in the publishing sector is a dynamic category and is (mostly) determined for the first year of textbook selection. According to the publisher, the selection of textbooks for a period of four years leads to a decrease in market share in the years after the selection due to photocopying of textbooks, the purchase of used textbooks, the difference in the number of students per generation, as well as due to the potential change of textbooks between generations.

Further on, the overall textbook market for primary education is first analyzed, then the segments of the textbook market for lower (from first to fourth) and higher (from fifth to eighth) grades of primary school are analyzed separately.

4.1.1. Total textbook market for primary education

The overall textbook market for primary education is dominated by the Klett group, which consists of the publishing houses Klett, Freska and Novi Logos. The share of the Klett Group

²⁰ Market participants assessed the textbook market based on officially available statistical data on the number of primary schools and the number of students, and their own participation based on internal data on textbook sales.

²¹ According to the average value of the middle euro exchange rate of the National Bank of Serbia in 2020 of 117,578

²² The estimated growth of the textbook market in the observed three-year period can be partially explained by the somewhat smaller coverage of market participants in 2018 and 2019, for the previously mentioned reasons.

in the observed three-year period is high and stable and amounts to about 56%. The first next participant in the market is BIGZ, whose share is also stable and amounts to about 8%. These are followed by Eduka and Data Status with[...] shares of around /5-10/% and /5-10/% respectively. The fifth largest participant in the textbook market in 2020 is Vulkan, whose share increased from /0-5/% in 2019 (when it first entered the textbook market) to /5-10/% in 2020.

The market shares of the only public publisher of textbooks, the Institute for Textbooks, decreased from around 6% in 2018 to around 4% in 2020.

Table no. 1 - Sales revenue and market shares by publishers in 2020

Serial no.	Publisher	Sales revenue (in RSD)	Market share (in %)
1	Klett group	1.683.292.868	56,2
2	BIGZ	245.453.213	8,2
3	Eduka	[...]	/5-10/
4	Data Status	[...]	/5-10/
5	Vulkan	[...]	/5-10/
6	The English Book	120.629.663	4,0
7	Zavod za udžbenike	106.342.541	3,5
8	Akronolo	79.972.243	2,7
9	Gerundijum	74.849.683	2,5
10	Kreativni centar	[...]	/0-5/
11	Matematiskop	31.487.064	1,1
12	M&G Dakta	[...]	/0-5/
13	Saznanje	8.584.245	0,3
14	Educational Centre	4.356.828	0,1
15	Infotehnika	3.493.002	0,1
16	Krug	[...]	/0-5/
Total		2.997.393.097	100,0

Source: CPC calculations based on the publisher's data

Educational Centre and Matematiskop companies achieved the greatest increase in total revenue from the sale of textbooks for primary education in the observed three-year period, while the Klett group achieved a 24% increase in revenue. Seven companies experienced a decrease in income from the sale of textbooks, of which the largest decrease in income was achieved by the companies [...] (67%), [...] (30%) and [...] (25%).

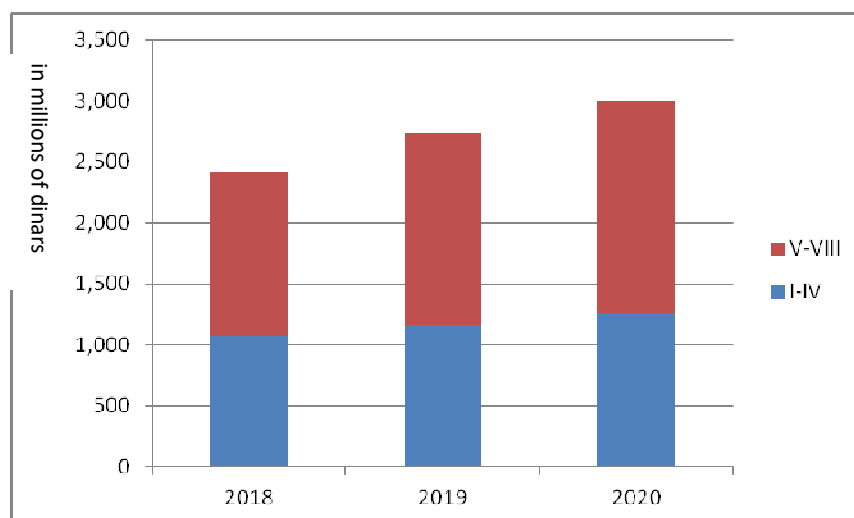
Despite the large number of publishing houses present in this market, the textbook market for primary education is a highly concentrated market. In 2020, the value of the Herfindahl-Hirschman concentration index was 3,391 points, while the market share of the largest participant was 56.2%. The first four publishers account for around 77% of the estimated total market for primary education textbooks in 2020, while the top eight publishers account for as much as 93.3% of the school textbook market.

Half of the publishers included in the analysis (eight in total) are mainly or completely specialized in publishing textbooks for upper grades of elementary school. Of the eight publishers specialized in publishing textbooks for higher grades, five publishers exclusively publish textbooks for higher grades (Saznanje, Infotehnika, Krug, Matematiskop, M&G Dakta), while for three (Gerundium, Zavod za udžbenike and Educational Centre) textbooks for higher grades, more than 90% of total revenues are from the sale of textbooks for primary education.

Of the remaining eight publishers, only three are predominantly oriented towards publishing textbooks for younger grades (Eduka, Kreativni centar and Akronolo), while at five publishers (Klett, BIGZ, Vulkan, Data Status and The English Book) textbooks for lower grades make up between 30 % and 50% of the total revenue from the sale of textbooks.

Total income from the sale of textbooks for primary education consists of income from the sale of textbooks for lower grades and income from the sale of textbooks for upper grades of elementary school.

Diagram no. 4 - Income from the sale of textbooks - lower and higher grades and total



Source: CPC calculations based on the publisher's data

Revenues from the sale of textbooks for the lower grades of primary school, from the first to the fourth, make up between 42% and 44%, while the revenues from the sale of textbooks for the upper grades of the primary school, from the fifth to the eighth, make up between 56% and 58% of the estimated total revenues from sale of textbooks for primary education.

4.1.2. Textbook market for lower grades of elementary school (I-IV)

The estimated market for textbooks for lower grades of elementary school increased by 17% in the three-year period and in 2020 amounted to about 1.3 billion dinars, or 10.7 million euros.

In 2018, nine publishing houses were present on the textbook market for lower grades of elementary school. With the entry of the publishing house Vulkan on the textbook market in 2019, that number increased to ten, while in 2020 the publishing company Educational Centre also appeared on the textbook market for lower grades, so the number of publishers in this category of textbooks increased to eleven.

Table no. 2 - Sales revenue and market shares by publishers in 2020

Serial no.	Publisher	Sales revenue (in RSD)	Market share (in %)
1	Klett group	717.764.089	57,0
2	Eduka	[...]	/10-20/
3	BIGZ	95.123.631	7,6
4	Vulkan	[...]	/5-10/
5	The English Book	59.477.705	4,7
6	Akronolo	53.910.556	4,3
7	Data Status	[...]	/0-5/
8	Kreativni centar	[...]	/0-5/
9	Zavod za udžbenike	9.754.929	0,8
10	Gerundijum	1.764.316	0,1
11	Educational Centre	220.185	0,0
Total		1.259.113.438	100,0

Source: CPC calculations based on the publisher's data

The Klett group is the most represented in the textbook market for lower grades of elementary school, whose share increased from 54% to 57% in the three-year period. Eduka and BIGZ are next, whose market shares are in slight decline and in 2020 they amount to /10-20/, i.e. around 8%. Vulkan entered the textbook market in 2019 and in a short time became the fourth largest publisher in this market segment, with a market share of /5-10%. These four publishers together account for 82% of the estimated market for lower grade textbooks in 2020, making the lower grade textbook market segment highly concentrated.

The market shares of publishing houses that are importers and distributors of textbooks for learning foreign languages (The English Book, Akronolo and Data Status) are in slight decline and range between /0-5%. In eighth place is Kreativni centar, whose share in the three-year period decreased from /5-10% to /0-5%, while the shares of the remaining three publishers are negligible.

If this market segment is viewed from the point of view of the representation of publishing houses' textbooks in individual subjects, the Klett Group's share is between 55% and 65%. The market share of this publisher is slightly higher in the subjects of Serbian language, mathematics and art (60-65%), and slightly lower in the subjects of musical culture and the world around us (55-60%). The share of the Klett Group is slightly increasing in all subjects except for arts, where it decreased from 75% to 63%. When it comes to foreign languages, the share of the Klett group increased from 31% to 37% in the three-year period, which still represents a significantly lower share than in other subjects.

Of the other publishers in the lower grades, Eduka stands out, whose market share is [...] in all subjects except art and music, as well as BIGZ, whose share is in decline in all subjects except art. Kreativni centar achieves [...] share in all subjects in which this publisher is present, while Vulkan in a short time [...] market share in all subjects.

The market segment of textbooks for learning foreign languages is specific for the reason that, in addition to domestic publishers, there are also importers and distributors of foreign

textbooks, whose individual market shares, despite the negative trend or stagnation in 2020, amount to about /20-30/%.

4.1.3. Textbook market for higher grades of elementary school (V-VIII)

The estimated market for textbooks for higher grades of elementary school increased in the three-year period by 29% and in 2020 amounted to about 1.7 billion dinars, or 14.8 million Euros.

Table no. 3 - Sales revenue and market shares by publishers in 2020

Serial no.	Publisher	Sales revenue (in RSD)	Market share (in %)
1	Klett group	965.528.779	55,5
2	BIGZ	150.329.582	8,6
3	Data Status	[...]	/5-10/
4	Zavod za udžbenike	96.587.612	5,6
5	Vulkan	[...]	/5-10/
6	Gerundijum	73.085.367	4,2
7	Eduka	[...]	/0-5/
8	The English Book	61.151.958	3,5
9	Matematskop	31.487.064	1,8
10	Akronolo	26.061.687	1,5
11	M&G Dakta	[...]	/0-5/
12	Kreativni centar	[...]	/0-5/
13	Saznanje	8.584.245	0,5
14	Educational Centre	4.136.643	0,2
15	Infotehnika	3.493.002	0,2
16	Krug	[...]	/0-5/
Total		1.738.279.659	100,0

Source: CPC calculations based on the publisher's data

All sixteen publishers are present on the textbook market for higher grades of elementary school. The Klett group is the most represented in this market segment, whose share decreased from 58% to 56% in the three-year period. They are followed by BIGZ, whose share is slightly increasing in 2020 and amounts to about 9%, and Data Status, whose market share is [...] and amounts to about /5-10/%. The Institute for Textbooks suffered a drop in market share from 10% to 6% in a three-year period, while Vulkan's market share is around /5-10/%.

The high concentration of the market is also characterized by the market segment of textbooks for upper grades of elementary school. The first four publishers together account for 77% of the estimated textbook market for upper grades of elementary school, while the first eight publishers account for 94% of the total revenues generated in this market segment.

For each subject in the upper grades of elementary school, there are textbooks from 6-7 publishers, of which the Klett group has the largest share. The Klett Group's market share is the highest in the Serbian language subject, where, despite the negative trend in 2020, it is 75%, and the smallest in foreign languages and IT, where it is around 40%. The market share of this publisher increased in the three-year period in the subjects of mathematics (from 59%

to 62%), T&T²³ (from 60% to 68%), arts (from 46% to 49%), foreign languages (from 40% to 42%) and informatics (from 34% to 40%), while the Serbian language decreased (from 92% to 75%), history (from 52% to 45%), geography (from 67% to 65%), biology (from 47% to 42%), musical culture (from 72% to 67%) and chemistry (from 60% to 51%).

Other publishers in this market segment include Gerundijum (chemistry, biology and mathematics), BIGZ (chemistry, physics, informatics, art, music, biology and history), Matematiskop (mathematics), Zavod za udžbenike (history, geography). and Eduka (art culture, T&T, informatics).

The market segment of textbooks for learning foreign languages for higher grades of elementary school is specific, as well as for lower grades, due to the fact that importers and distributors of foreign textbooks are present in it. The market shares of the publisher Data Status in [...] the three-year period and in 2020 is about /20-30/%, while the market shares of the publishers The English Book and Akronolo are declining from 18% to 15%, i.e. from 8 % to 6%. The Institute for Textbooks is also present in this market segment with a relatively stable share of around 10%.

5. Customer categorization and rebate policy

For the purposes of sectoral analysis, market participants, textbook publishers, were asked to submit a categorization plan for primary education textbook buyers and the rebate policy that was in effect in the previous three years, as well as to state whether there were distribution of free products or sales at preferential prices, in case of purchase of entire textbook sets.

Publishers were also asked to sort the realized revenues from the sale of basic education textbooks according to sales channels (distributors, bookstores, schools, internet sales, own retail facilities, etc.) and to show the total value of approved discounts for each sales channel.

Based on the responses of the market participants, the following text first analyzes the method of dividing customers, i.e. sales channels, and then the rebate policy by sales channels.

5.1. Categorization of customers

Textbook publishers sell elementary school textbooks in the following several ways:

- Subscription sales
- Regular sale (sale following the subscription period)
- Commission sales
- School cooperatives
- Internet sale
- Public procurement of the relevant ministry or local authorities

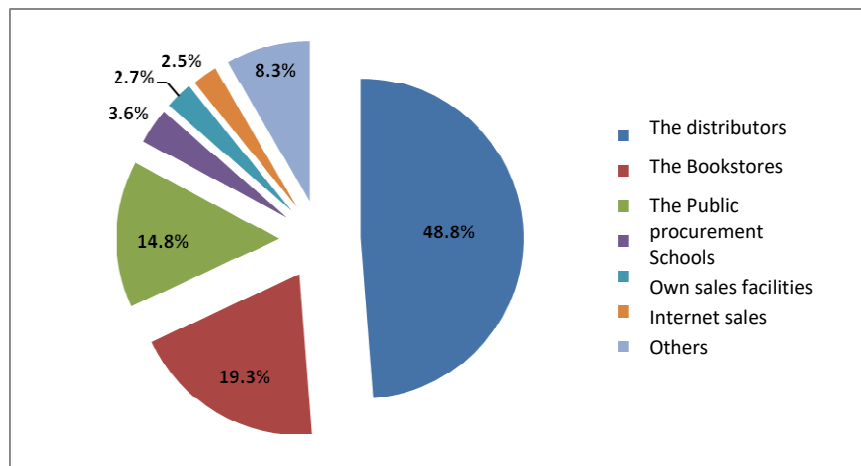
²³ Subject *technique and technology* (old name technical and IT education - TITe).

- Other

About half, or 48-49% of the total value of textbooks for primary education, on average, is sold through distributors. Textbook distributors are large buyers of textbooks who are in the sales chain between publishers and schools, i.e. parents, and who primarily supply schools (parents) through the organized procurement of textbooks during the subscription period.²⁴ In addition to selling textbooks to schools, i.e. parents in subscription, distributors also sell textbooks to bookstores, and depending on whether they own their own retail stores, they also sell textbooks on commission.

Between 15% and 19% of the total value of sold textbooks for primary education is represented by direct sales to bookstores by publishers, 15-17% is sales in the public procurement process, 4% is direct sales to schools or school cooperatives, sales in own sales facilities participate with 3%, while internet sales make up 1-3%. Other sales channels (sales to individuals, fairs, promotions, commission sales outside bookstores) together account for 8-10% of the total value of textbooks sold for primary education.

Diagram no. 5 - Revenue structure by sales channels in 2020 (in %)



Source: Calculations based on data from market participants

At the level of individual publishing houses, these values differ significantly. For example, with publishers such as [...],[...] and Matematiskop, the share of the distributor as a customer in the realized sales revenue is significantly above the average value and generally amounts to over 60%, and with [...] and over 90%. The share of distributors is also high among two importers of textbooks for learning foreign languages, where it amounts to between 60% and 70%, while the third importer markets textbooks exclusively through bookstores.

On the other hand, with publishers such as [...], Saznanje, Data Status, Infotehnika and Gerundijum, the share of distributors in the total sales revenue is below the average value and generally amounts to between 25% and 35%, depending on the publisher and the year. The share of distributors in the Klett Group's sales revenue is also below the average value and ranges between 40% and 42%.

The Institute for Textbooks classified revenues from sales (to distributors) into subscription sales and regular sales, with the fact that, according to reports, sales to schools and bookstores

²⁴ The procedure for the organized sale of textbooks during the subscription period will be explained in more detail below.

appear in a much smaller volume within regular (daily) sales. The share of this group of customers has a slightly increasing trend in the three-year period and in 2020 is 54%.

Revenues from sales to bookstores have a significant share in the total revenue from sales at Saznanje (about 70%), while at publishers such as Gerundijum, [...], Infotehnika and Data Status, that share is between 35% and 45%, depending on the year and the publisher. Below the average share of bookstores in the total revenues from sales are the Institute for Textbooks, [...], and [...] and that share does not exceed 13%, while BIGZ presented revenues from sales to bookstores other than its own together with revenues from sales to distributors, and they cannot be separated. In the total revenue from sales of the Klett Group, the share of bookstores has a growing trend and increased from 15% to 23% in a three-year period.

Direct sales to schools are negligible on average, but some publishers rely to a significant extent on this sales channel. The share of direct sales to schools by these publishers was 30-40% in 2018 and 2019, and in 2020 it was reduced to 20-30%.

Sales through the public procurement of the line ministry and the city of Novi Sad are registered with six publishers and the share of this sales channel in their revenues is between 20% and 30%.

Online sales of primary education textbooks are still in its infancy. The exception are the two publishers, Data Status and BIGZ, where the share of this channel is slightly higher than the average and amounts to 4-5%, and for [...] up to 9%.

The share of sales in one's own sales facilities in the total income from the sale of textbooks for basic education is about 3% on average. Among the publishers in this category [...] stands out, where the share of this sales channel ranges between 26% and 29%, while for other publishers that have their own sales facilities, this share does not exceed 8%.

5.2. Rebate policy

5.2.1. Comparative analysis of rebate policy

The rebate policy of publishing houses usually differs depending on the method of sale, so that the same customers, depending on the method of sale (subscription, regular sale, commission), can exercise the right to different rebates.

Within the channel or sales method, rebates can be fixed, i.e. percentage identical for all customers, regardless of the purchase amount, and there may be special rebate scales depending on the purchased quantity (quantity rebate) and this practice is present among several market participants. Also, there are publishers whose rebate scales within the sales channel differ depending on whether they are textbooks for learning foreign languages or textbooks from general education subjects, whereby a smaller rebate is obtained for the purchase of textbooks for foreign languages (usually around 10%).

The subscription period lasts until June of the current year, i.e. year for which the textbooks are ordered, after which the period of regular sales begins. Subscription customers are distributors who supply schools (parents) through organized procurement of textbooks. Purchase of textbooks in subscription means guaranteed prices and advance payment of

textbooks in four monthly installments. At the end of the subscription period, customers fill out the purchase order, based on which the books are delivered at the paid value.

Distributors who buy by subscription usually have the right to return goods (transfer of children to other schools, withdrawal due to inability to pay, etc.). Also, during the subscription period, rebates are usually higher or additional rebates are granted to customers, because the prepaid funds of subscribers are invested in the printing of textbooks and in the production of digital textbooks.

Rebates granted to distributors usually range from 15% to 35%.

Commission sales are sales to bookstores and other legal entities that sell textbooks in their retail stores and who usually have a greater possibility of returning the goods. Some publishers stated that a new contract is not signed with commission agents every year, nor an annex, if there are no changes in the conditions. Rebates granted to bookstores (commissioners) and distributors with whom commission contracts are concluded are smaller than rebates for subscription purchases and usually amount to 10% to 20%.

Publishers agreed that *direct sales to schools* through school (student) cooperatives is negligible. Participants state that despite the recommendation of the line ministry to schools to purchase textbooks through student cooperatives, there are very few such examples. According to one participant, copies are most often bought in this way for libraries or for students who were mistakenly not registered with the relevant ministry, and who are social assistance beneficiaries. One publisher, wanting to stimulate this way of selling, which, as they claim, is beneficial for both schools and students, grants a higher percentage discount for direct orders from schools through student cooperatives, but despite this, only one school buys textbooks in this way.

Most publishers grant buyers, distributors and commissions an additional (logistics) rebate of 1% for their own transport, i.e. for collection at the seller's (publisher's) warehouse, as well as a rebate for advance payment.

Some publishers also grant customers an additional rebate for reporting the number of textbooks sold by title, grade, and school, and that rebate is between 1% and 3%. The Klett group stated that the possibility of paying fees to customers for the implementation of additional marketing activities is foreseen.

The market participants included in the analysis generally state that the price of a textbook set for one subject is defined as the price of the textbook and the price of the workbook/collection of tasks, that is, that each product has its own price, and that they do not approve special discounts for the purchase of entire textbook sets. One publisher stated that there are exceptions for certain subjects (English language), but that they are mostly conditioned by the longer process of product development and the need for a faster turnover of invested money, and a set of knowledge test is given away along with the textbook set.

The publishing houses also stated that they do not distribute free textbooks, except for the distribution of promotional copies of textbooks at presentations of new editions of textbooks.²⁵ One participant specified that, in addition to the free textbooks that are distributed

²⁵ With the exception of the companies Klett and Novi Logos, which in 2019 and 2020 granted a discount of about 10% for a set of textbooks to subscription customers

to teachers before choosing textbooks, free textbooks are also sent to charitable organizations and similar institutions that request them, as well as to all students who are deemed by the school to be of lower financial status, and are not financed as such by the line ministry. According to this participant, schools are notified every year that they can get free textbooks for such students.

5.2.2. Analysis of the average share of discounts in gross sales revenue

Based on the data on the realized gross revenue from the sale of textbooks for primary education and the total amount of approved discounts by customer category, which were submitted by the market participants, the percentage share of the discount in the gross revenue was calculated for each market participant separately for each customer category, as well as percentage share of total approved discounts in total sales revenue for all customer categories.

Based on data on the percentage share of discounts in gross revenue by categories of customers and in total for each market participant, which was obtained in the previously described manner, the average share of total approved discounts in the total gross revenue from the sale of textbooks for primary education was calculated, as well as average share of total approved discounts in sales revenue by customer category.

Table no. 4 - Average shares of approved discounts in the gross income from the sale of textbooks

Publisher	2018	2019	2020
Klett	22,0%	19,0%	22,5%
Freska	24,1%	20,1%	18,5%
Novi Logos	21,8%	19,3%	20,4%
BIGZ	20,2%	15,8%	16,6%
Zavod za udžbenike	[...]	[...]	[...]
Vulkan	[...]	[...]	[...]
Gerundijum	20,3%	19,2%	18,7%
Eduka	[...]	[...]	[...]
Kreativni centar	[...]	[...]	[...]
Infotehnika	18,7%	20,3%	20,8%
Data Status	10,0%	10,0%	10,0%
Matematiskop	14,2%	13,6%	13,9%
M&G Dakta	[...]	[...]	[...]
The English Book	[...]	[...]	[...]
Akronolo	11,9%	10,3%	10,6%
Educational Centre	10,0%	10,0%	10,0%
Average discount for all publishers	16,2%	15,5%	15,5%

Source: CPC calculations based on the publisher's data

The average discount, calculated as a simple arithmetic mean of the percentage shares of the discount in the gross income of individual publishers, is relatively stable and amounts to between 15% and 16% in a three-year period. Individually, in the analyzed period, ten publishers achieved a decrease in the share of total discounts in sales revenue, three achieved an increase in their share, while in the case of three publishers, the share of discounts in gross revenue remained unchanged²⁶.

In 2018, the share of discounts in the publisher's gross income ranged from 8% (...) to 24% (Freska). With three publishers, the discount did not exceed 10%, seven publishers had a discount ranging from 11% to 19%, while five publishers had a discount of 20% or more.

In 2019, the share of discounts in the publisher's gross income ranged from 8% (...) to 24% (...). With four publishers, the share of discount did not exceed 10%, nine publishers had a discount ranging from 11% to 19%, while three publishers had a discount of 20% or more.

In 2020, the share of discounts in publishers' gross income ranged from 8% (...) to 23% (Klett). With four publishers, the share of discount did not exceed 10%, nine publishers had a discount ranging from 11% to 19%, while four publishers had a discount of 20% or more.

If the share of approved discounts is observed by categories of customers, it can be concluded that the largest share of discounts in the gross income of all analyzed publishers was observed in the category of distributors, where it decreased on average from 25% to 23%. Of the observed publishers, the largest discount in this category is granted by companies belonging to the Klett group, where the share of discounts in the gross income from sales to distributors amounts to 33-35%, or 34% when viewed at the group level.

Although the Klett group stated that, in accordance with the commercial policy, it approves the same initial rebate according to the sales channel, the Commission, based on the analysis of the subscription sales contract for the year 2020/2021, concluded that the basic rebates differ by distributor (e.g. Hijeroglif - 29%, Kolibri, Wal Talija, Prima - 26%, Most, Sinatra, Gajić and Spirit - 24%).

Importers of textbooks for learning foreign languages grant the lowest discount to distributors. With these publishers, the discount share has not changed over time and amounts to [...].

Diagram no. 6 - Average approved discounts for distributors in 2020 (in %)

XXX

Source: CPC calculations based on the publisher's data

The share of discounts in the total gross revenue from sales to bookstores is also on a slight decline and in 2020 it amounts to 16% on average. The largest discount for customers in this category is granted by Infotehnika (25%), followed by Gerundijum, [...], Matematskop and [...] with around 20%, while the lowest discount is granted by Data Status, Educational Centre and Akronolo and with all three of participants it amounts to 10%.

²⁶ The companies that are part of the Klett Group were observed separately, for the reason that each of them had a different sales policy in the observed period. Krug did not provide data on the structure of income and the approved discount, while Saznanje provided data on the total approved discount in percentages and ranges, which is why they were not taken into account. Vulkan was not present on the market in 2018.

Diagram no. 7 - Average approved discounts for distributors in 2020 (in %)

XXX

Source: CPC calculations based on the publisher's data

The share of discounts in the total gross revenue from sales to schools decreased in the three-year period from 11% to 9%. Discounts for this category of customers are approved by seven market participants, three of whom approved discounts for schools in just one year. The highest discount in this category is approved by Saznanje (25%) and Data Status (10%), while BIGZ and Klett Group have significantly reduced the share of discounts for schools over the three-year period. With other publishers, the share of discounts for schools does not exceed 3%.

The share of discounts in the total income from internet sales is relatively stable and is between 12% and 13%. Discounts for online sales were approved by only four publishers. The highest discount in this category was approved by Matematiskop and that discount was 20%, while Data Status approved a discount of 10% in all three observed years.

When it comes to the sale of textbooks in the public procurement procedure with the aim of procuring free textbooks for elementary school students (financed by the municipality, city or the state), it takes place in most cases without a discount. Only four publishers recorded a discount in this category, two of them only in one year, while in 2019 not a single publisher recorded a discount in this category. The average share of discounts in this category in 2018 was 3%, and in 2020 it was 5%.

6. The procedure of cooperation with schools and the method of selecting textbooks

6.1. Procedure of cooperation with elementary schools

Cooperation with primary schools includes activities that publishers undertake in order to include their textbooks in the curriculum of as many schools as possible. For the purposes of the sectoral analysis, the Commission asked the publishers to explain the way in which they promote textbooks, to make a statement regarding the way in which they make contacts with schools and the frequency of such cooperation, the procedure for sending offers, as well as other issues affecting the final choice of textbooks by schools.

Based on the answers provided by the publishers, the general conclusion is that most of them carry out the same or similar actions in order to promote new editions of textbooks.

Promotional activities are most often carried out in the period from October to March. Orders are collected in the period from April to June, and books are delivered to distributors, bookstores and schools in August.

Presentations of textbooks and digital textbooks are usually made by textbook authors or editors, and sometimes external domestic and foreign lecturers are engaged. The presenters point out to those present the basic characteristics of the textbook, emphasize its quality, the difference compared to other editions and the way in which the textbook connects the subject material with the material studied in other grades of elementary school.

Promotions of textbooks are generally held in the largest cities of Serbia, most often in schools, and sometimes in cultural centers, professional training centers, hotels and other places. At the promotion itself, publishers usually distribute promotional copies of textbooks or textbook sets, and for those schools and teachers who are not included in the promotion or did not respond to the invitation, textbooks are sent by mail. Along with printed copies, teachers are also sent pdf editions, as well as catalogs with all textbooks and their price lists. In addition to schools and teaching staff, promotional copies of textbooks are also sent to bookstores and distributors who supply schools. Announcements are made in print and electronic media and on social networks, and if necessary, electronic notifications about the release of a new edition are sent to all interested teachers.

During the Covid-19 pandemic, publishers did most of their promotional activities *online*, where they presented textbooks through video presentations, "unlocked" digital textbooks for free, and sent notifications to schools via e-mail. The majority of publishers stated that during the pandemic, they shifted a large number of their promotional activities to free webinars, as a form of support and professional development for teachers, where eminent lecturers from certain fields are engaged.

One publisher stated that they also send surveys to teachers who actively use their textbooks, in order to examine the possibilities for further improvement of the textbooks.

In addition to these activities, one publisher stated that they also participated in winter seminars organized by the teachers' association, where as publishers, by paying donations, they gained the right to a stand where they displayed their textbooks, collected teachers' contacts, distributed catalogs and price lists.

One publisher stated that, in addition to webinars, interactions through web portals (blogs) and distribution of promotional textbooks, they also directly visited schools where the principal allowed entry.

One market participant stated that they do not promote the textbooks at presentations, but rather, in the period preceding the selection of the textbooks, printed copies of the textbooks are sent to teachers in primary schools together with their electronic (pdf) edition.

Market participants who specialize in publishing textbooks for one subject stated that, as small publishers, they do not have opportunities for large campaigns or promotions. Cooperation with primary schools is mainly carried out through associates/field sales specialists, who personally visit schools and communicate with the teachers of the mentioned subject and who are in charge of organizing the promotion of the editions by the textbook authors.

The public publisher of textbooks implements the promotional activity by contacting the school management by phone when new textbooks are announced, and then emails with presentations, videos and parts of the pdf are forwarded to the schools. The date of the

presentations is agreed with the school management, after which they are held in the assembly hall, library or some other place designated by the school, and schools are left with only promotional textbooks and price lists.

6.2. Method of selecting textbooks

The procedure for selecting textbooks is formally and legally regulated by the corresponding provisions of the Law on Textbooks, which was discussed in the previous chapters of this analysis. Bearing in mind the frequent accusations against certain publishing houses, when it comes to exerting influence on schools to choose their textbooks, the publishers included in the analysis were asked to explain, based on their past experience, how in practice do the schools select textbooks.

Publishers were asked to indicate whether, according to their experience, schools select textbooks or textbook sets from the same publisher or textbook sets from different publishers, depending on the class and subject. It was necessary to indicate whether the choice of a school for one or more publishers differs depending on whether it is a school located in a larger or smaller city, that is, in an urban or rural environment, or perhaps on some other basis.

Based on the responses of the participants, it could be concluded that schools generally opt for the entire textbook set from the same publisher for a specific subject and that it is very rare that the textbook and workbook from the same subject are ordered from two different publishers.

When it comes to the presence of publishers by grades and subjects, the majority of the participants stated that it often happens that within one subject the same publisher is chosen for all grades, and some publishers stated that in some schools there is a tendency to use textbooks from one publisher for all subjects in all grades. According to one of the participants, this happens much more often in schools that cooperate with distributors who are under the direct control of the publishing house Klett and who pressure and succeed in having textbook sets exclusively from this group in all grades.²⁷

Market participants state that when choosing textbooks, upper --grades teachers are somewhat more independent than lower-grades teachers and therefore more often choose textbooks independently. Some publishers also state that although the textbooks of all publishers are made according to the same plan and program, in the last few years there has been a tendency to slightly buy more sets of textbooks for basic subjects in lower grades, compared to previous years, when teachers more often chose titles from different publishers. They believe that the situation is a little different with subject teachers in upper grades of elementary school, but they also notice a tendency for textbooks to be chosen from the same publisher for the same subject for all grades.

One participant states that there were situations in which the school was not the buyer of their textbook set, even though the teachers considered that their textbook set meets the requirements, because, as they say, a decision was made at the school level to purchase textbooks for all or one subject from the same publisher. They notice that their textbooks are

²⁷ This publisher's response cites the following distributors as examples: "Hijeroglif" from Niš, "Prima" from Gornji Milanovac, "Kolibri" from Novi Sad and "Wal Talija" from Belgrade.

mostly used by schools in areas with a smaller population, while there are almost no textbooks in larger cities.

When it comes to textbooks for learning foreign languages, importers and distributors of these textbooks state that schools are more likely to choose one publisher in lower grades, while in higher grades this practice is much less common.

Regarding the answer to the question whether urban or rural environments determine the choice or have an influence on the choice of textbooks by schools, the publishers do not agree. One publisher states that in smaller communities it is no different compared to cities and that almost everywhere the appearance of the same publisher is noticeable in all grades and for all subjects, while another believes that the selection of most or all textbooks by the same publisher is a characteristic of certain regions of Serbia, for example in the Niš region.

Two publishers indicated that the presence of a single publisher is characteristic of schools where principals have more influence, where there are more part-time teachers, and where large textbook distributors represent the publishers. These phenomena, as they state, are more pronounced in smaller areas and at a greater geographical distance from Belgrade, but they add that there are also entire cities or even regions where one publisher is represented by 70%. On the other hand, one publisher stated that the pressure on teachers by the school principal to group textbooks into one publisher's sets is greater in large city schools, in contrast to many smaller rural schools, for the reason that the more students buy the textbooks, the higher the sales.

Market participants state that the choice of textbooks often depends on what is offered with the textbook to the individual or the school, and is often, as they say, conditioned by illegal pressures from certain groups or directors and the presence of corruption. According to the participants, some (larger) publishers promise directors various donations if they opt for their publications, and in recent years there have been situations where large textbook distributors exert influence on directors on behalf of publishers.

Three market participants stated that the choice of textbooks is an individual matter, and that there are no rules or standards regarding whether a textbook or a textbook set from one publisher will be used, and that this is decided by the teachers and the Parents' Council. They believe that when choosing, teachers are guided by quality, content, modern and adapted illustrations. The participants state that they do not make any differentiation in terms of geographical location, the level of urbanization of the environment, nor in terms of the number of students attending school, and that their textbooks are chosen equally in both urban and rural environments, by opting for the whole grade in some schools, and in some schools only for certain subjects.

7. Forming textbook sales prices

The market participants included in the analysis were asked to explain in detail the way in which they form the sales prices of textbooks for primary education, as well as to show the calculation of the sales price for each textbook from each subject in each grade of primary school separately, excluding low-circulation textbooks. Below is a summary of the participants' descriptive responses, followed by an analysis of the submitted sales price calculations.

7.1. Analysis of the elements that make up the structure of the textbook sale price

All market participants who are engaged in the publication of school textbooks stated that they form the sale price of textbooks based on the production cost, i.e. the costs of creating textbooks, on the one hand, and the assessment of general business costs, on the other hand. A margin is added to the total costs shown in this way, from which rebates to customers are covered.

For editions that are purchased from other suppliers, instead of the production cost price, the purchase value of the sold goods (invoice value increased by dependent purchase costs) appears in the sales price calculation. This calculation is specific for market participants who represent large foreign publishing houses, i.e. import and distribute textbooks, dictionaries and accompanying material for learning foreign languages, as well as for participants who, in addition to their own editions, also sell editions of other publishers (mainly commission goods). Among the analyzed participants in the market, this category includes Data Status, Novi Logos, Akronolo, Textbooks institute, The English Book and Educational Centre.

Certain publishers stated that when forming sales prices, they also take into account the structure and characteristics of the market, demand and competition. Here, we primarily refer to the purchasing power with the so-called benchmarking in the publishing industry, i.e. monitoring the prices of competing textbooks, where the price policy of publishers with a large and dominant presence is especially monitored.

According to the publisher, the costs of the production of textbooks consist of the following costs:

- author's fees and royalties
- fees for illustrators, authors of maps, drawings, charts and other visual material contained in the textbook,
- fees for editors, expert reviewers, proofreaders and other (external) textbook associates,
- costs of professional evaluation (accreditation) of textbooks,
- assignment of ISBN and CIP number,
- digital platform rental costs and other digital textbook development costs,
- costs of textbook design and layout (preparation for printing),
- textbook printing costs

Other business expenses include, among others, the following expenses:

- marketing and promotion costs,
- salaries of employees,
- the costs of renting office space,
- administrative (overhead) costs,
- costs of sale and distribution of textbooks.

Further below, certain types of costs are analyzed in more detail in the context of the formation of the sale price of textbooks.

Author's fee (fee for authors of texts) represents the amount of compensation for author's work, i.e. for writing textbooks. Unlike royalties, royalties represent compensation that authors also receive as long as their work is on the market and are expressed as a percentage

of textbook sales. According to the statements of some participants, the percentages for royalties vary and amount to 5% to 10% of the realized income. Also, there are contracts on the purchase of the author's work where the amount received by the author at the start is higher compared to the previously described model and according to which the author does not receive royalties, but this model appears in a smaller number of cases. Royalties can also be a fixed percentage per title, regardless of whether it is a single author or a group of authors. This is particularly characteristic of publishers who publish only one item and where great attention is paid to authorship, because it helps them to position themselves on the market with quality.

According to the publisher, in addition to classic copyrights, there are also so-called "small copyrights", which are paid for certain content in reading books, grammars, workbooks with a set for the Serbian language, music textbooks, etc. These are most often songs, stories, excerpts from novels, compositions for which compensation is paid either to the author's agencies for each copy sold (which is most often the case) or to the heirs of the author.

The salaries of the editors employed in the graphic editorial office are also an expense that should be included in the price of textbooks, and external collaborators are often hired for some of these jobs during the textbook preparation season.

The process of digitalization of schools, which was launched in 2018, produced additional costs for the creation of electronic supplements and digital materials, in the form of royalties for digital textbooks and the rental of a digital platform on which the digital material that accompanies the book is located. According to the publishers who have joined the digitization process, the production of quality digital materials is important because it allows them to be competitive in the market, but at the same time, smaller publishers are often unable to hire a programmer, but hire development companies as needed.

The price of the textbook includes all additional costs related to the process of making the textbook - reviewers' fees, evaluations, design, photography and illustrations. The participants state that usual compensations for each of these items are applied, but there are also deviations, depending on the deadline for a specific job, the quality of the author's work that is the subject of the review, whether the reviewer is a doctor of science, etc.

According to the participants, the rights to the photos can be paid to certain agencies that already have the desired photos, and this is usually a cheaper option. If it is not possible to obtain the photos in the described manner, the photos are bought directly from the owners of the photos or from specialized agencies that sell packages of quite expensive photos. The price also differs in this case depending on whether the photo is purchased for the front page or will be inside the textbook.

The costs of producing textbooks include costs paid to the relevant ministry, which are intended for commissions for the review of textbooks, their evaluation and accreditation, as well as fees to the Republic Geodetic Institute for geographic maps, cartographers, etc.

The participants state that the costs of the author's work occur predominantly or exclusively during the first edition of the textbook, when the selling price is formed based on the estimate of the total circulation. Each subsequent year, printing costs and royalties and license costs based on realized sales, appear as the production costs.

Preparation for printing includes all activities that are necessary to prepare the textbook for printing. The tasks performed in the preparation of the press are: typing and text assembly, proofreading, editing, preparation and input of illustrations and photos, etc.

According to the publisher, the price of the text assembly depends on its complexity, which depends on whether it is a clear text (very rare) or a text with photos, illustrations, etc. which should be inserted into the existing design. For subjects such as e.g. physics, chemistry and mathematics, text assembly is more expensive, because they are very demanding textbooks, which, along with other content, contain a lot of drawings and formulas.

According to market participants, printing is one of the factors that significantly influence the selling price of textbooks. The price of textbook printing per unit is mostly influenced by circulation - the higher the circulation, the lower the unit price of printing and vice versa. Some publishers stated that prior to each printing, offers are requested from several printing companies for printing textbooks in different editions, and the most favorable offer is then decided upon.

Market participants, in addition to printing textbooks, invest every year in the printing of promotional (advertising) copies for all classes, which, according to the participants, is extremely expensive because it is done in a small print run.

In addition to printing the textbooks, there is also the cost of duplicating the CDs that accompany the textbooks for the music subject and readers, as well as making the covers that the CDs are inserted into.

Marketing and promotional activities represent a significant segment of general business expenses and as such significantly influence the formation of the sales price of textbooks. Marketing activities are usually realized through participation in book and education fairs, participation in competitions, professional gatherings, seminars and forums. The costs of marketing activities mainly relate to on-site marketing, which means the rental of halls for promotions, lecturers at promotions, etc. In addition to the salaries of the employed marketing staff, the sales price of the books also covers the costs of the commercial teams that promote the textbooks in schools (salaries, gasoline, vehicle depreciation, travel expenses, etc.)

As for the other general costs that affect the formation of the selling price of textbooks, the costs of renting an office and warehouse, material costs, depreciation costs, fuel and energy costs, salary costs, salary compensation and other personal expenses, etc. are also recognized. The impact of these costs is extremely important for publishing houses that specialize in publishing textbooks for a small number of subjects (one or two), because all overhead costs are divided among a smaller number of textbook sets.

The costs of distributing (shipping) textbooks are also included in the calculation of the selling price, and customers are often granted a special discount if they collect the books themselves. According to some publishers, these costs make up about 1% of the selling price of textbooks.

Certain market participants also stated that the creation of a new textbook is viewed as a long-term investment. In the light of the reason stated above, the profitability of textbooks is considered over a period of several years, and it is therefore allowed for the retail price, in the first year, to produce a loss of up to 200% per piece.

The participants also state that from the publisher's point of view, it is important to offer a wide range of textbooks, for example when it comes to foreign languages (English, German, French, Italian, Spanish). For the aforesaid reason, it is allowed for certain textbooks in certain grades to produce a loss, which is compensated from the margins based on the sale of other textbooks.

According to one of the market participant, in addition to real and estimated costs, the price of textbooks is also influenced by the estimated risk. If the textbook finds its market, it will be reprinted at much lower costs than the first edition.

7.2. Analysis of textbook sales price calculations

Calculations of the selling prices of textbooks for basic education were submitted by all analyzed market participants. However, the main problem in the analysis and mutual comparison of the calculations was that the calculations submitted by most publishers differed significantly, both among themselves and in relation to the table attached by the Commission in the request for information, in which the costs are grouped into several larger categories and which was supposed to serve as an example of the sales price calculation.

A certain number of publishers submitted very detailed sales price calculations, showing all individual types of costs, sales price with and without VAT, circulation, rebate and associated publisher's margin, while another group of publishers grouped costs in accordance with the attached tables. Some publishers have submitted corresponding calculations for each year separately, while other publishers have submitted one calculation for the entire observed period. Although the majority of publishers submitted separate calculations for textbooks and other teaching aids, the calculations submitted by some publishers referred to the textbook set as a whole, as a result of which it was not possible to perform a comparative analysis of the submitted calculations.

Below is a presentation of the average structure of the sales value of textbooks in 2020 (printing costs, other costs (total), rebate and publisher's margin), for eleven market participants where the submitted data enabled such a display.

Table no. 5 - Average textbook sales price structures in 2020

Ser. no.	Publishing house	Printing costs	Other expenses	Rebate	Publisher's margin
1	Klett	16,8%	53,6%	17,3%	12,3%
2	Freska	17,2%	59,8%	16,0%	7,0%
3	Novi Logos	13,6%	53,9%	16,9%	15,7%
4	BIGZ	16,0%	72,0%	n/a	12,0%
5	Zavod za udžbenike	[...]	[...]	[...]	[...]
6	Gerundijum	16,8%	58,7%	15,9%	8,6%
7	Eduka	[...]	[...]	[...]	[...]
8	Infotehnika	13,8%	48,7%	25,0%	12,5%
9	Krug	[...]	[...]	[...]	[...]
10	Matematiskop	17,3%	48,8%	15,0%	18,9%

Ser. no.	Publishing house	Printing costs	Other expenses	Rebate	Publisher's margin
11	M&G Dakta	[...]	[...]	[...]	[...]

Source: CPC calculations based on the data submitted by publishers

Based on the presented table, it can be concluded that printing costs represent, individually, a significant item in the calculation of the selling price of textbooks for all observed publishing houses, and on average for the observed eleven participants, they make up 19% of the selling price, while individual values range between 10.8% and 30.9%. Textbook printing costs represent the most significant production cost and the only cost in this category that occurs in all textbook editions, while other categories of production costs (author's fees, proofreading, reviews, text assembly, design, etc.) occur only in textbooks selected in the respective year.

Other operating costs, which in the specific presentation are production costs except for the printing costs (mainly copyright fees) and indirect costs, make up an average of 46% of the sales price, but the deviations between individual publishing houses are significant, and for most of them the share of these costs ranges between 40% and 60%. In the very structure of indirect costs, the differences between the observed publishing houses are major, but in most cases, administrative (overhead) costs, salary costs for employees, sales and marketing costs and funds allocated for the digitization of textbooks are singled out.

Rebates for customers range from 15% to 25% of the selling price at publishers who have shown this element separately, which is about 18% on average for nine market participants. Publisher's margin is on average 20% of the selling price of textbooks, while individual values significantly deviate from the average and range between 7.0% and 61.8%.

7.3. Analysis of textbook retail prices

The analysis of the retail prices of textbooks was carried out by combining the data on the retail prices of textbooks with VAT, which the publishers submitted as an integral part of the calculations of the selling prices of the textbooks, with data from the official websites of the publishers, in case of missing and/or incomparable data from the calculations. For publishers who have shown prices without VAT in their calculations, VAT has been added to make the data comparable.

The analysis of retail prices included the first four grades of elementary school. For each subject, the retail prices of textbooks and other teaching aids that make up the textbook set (workbook, teaching sheet, etc.) are shown separately. For publishers who submitted separate calculations of textbooks by year, prices for each year are shown separately, while for other publishers, unique calculations of retail prices are shown²⁸.

When interpreting the following data, it should be borne in mind that schools choose textbooks or textbook sets (textbook + workbook) for each subject separately, and that based on the choice of textbooks or textbook sets for all subjects, a set of textbooks is formed for each grade of elementary schools. Since very few publishers are able to offer a complete set of textbooks, schools mostly choose to combine textbook sets from different publishers for

²⁸ BIGZ submitted calculations only for the subjects that were chosen for the first time in that year, and that year is marked in the table. For Vulkan, the data was taken from the official website and refers to the year 2021.

different subjects. Bearing in mind that 3238 schools were registered in the Republic of Serbia at the beginning of the 2020/2021 school year, and that each school independently chooses a different set of textbooks for each grade, precise data on prices were not available. For the reason stated above, the subject analysis is limited to the available data on the prices of textbooks or textbook sets of those publishers who had such textbooks on offer and who made the requested data available to the Commission, while for publishers who submitted unique calculations of textbook sales prices, it is assumed that those prices were also valid in 2020.

The composition of textbook sets varies from one publisher to another, and some publishers combine, for example, a textbook and a workbook, while others sell them separately. Also, bearing in mind that the analysis is based on data from the previous three years, and that for the textbook sets of certain publishers it was not completely clear which elements represent the mandatory and which the optional part of the textbook set (for example, exercise collections, etc.), the presented prices of the textbook sets may differ slightly from the actual prices in certain cases. It should also be borne in mind that specialized publishers of textbooks for foreign languages can and usually have higher prices for textbook sets for English, but their data are not shown in the following tables, for the reason that these publishers do not have textbooks for other subjects.

Table no. 6 - Retail prices of textbooks for the first grade of elementary school

Serial number	Subject	Klett			Novi Logos			Freska			Vulkan	BIGZ	Eduka			Zavod za udžbenike	Gerundijum	Kreativni centar	
		2018	2019	2020	2018	2019	2020	2018	2019	2020	2021	2018	2018	2019	2020				
1	Serbian language	1.670	1.580	1.970	1.930	1.930	2.080	1.750	1.750	1.970	1.770	1.840	1.750	1.840	1.540	1.998	1.826	1.500	
1.1.	Reader	690	890	890	850	850	900	670	670	790	690	700	690	720	770	696	660	890	
1.2.	Reading book	690	690	690	690	690	790	690	690	790	690	690	690	720	770	675	682	610	
1.3.	Workbook	290		390	390	390	390	390	390	390	390	450	370	400		627	484		
2	Mathematics	1.430	1.430	1.880	1.480	1.480	1.550	1.390	1.390	1.490	1.420	1.460	1.380	1.440	1.500	2.200	1.617	1.520	
2.1.	Textbook	1.430	1.430	1.490	1.480	1.480	1.550	1.390	1.390	1.490		710	600	690	720	750	1.100	792	630
2.2.	Workbook			390							710	860	690	720	750	1.100	825	890	
3	World around us	890	890	1.280	1.310	1.310	1.380	1.190			1.300	1.880	880	920	1.320	1.324	1.342	1.300	
3.1.	Textbook	890	890	890	720	720	790	620			750	680	880	920	1.320	716	770	650	
3.2.	Workbook			390	590	590	590	570			550	1.200				608	572	650	
4	Music	690	690	690	670	670	690	650	650		670	650	550	600	660	693		600	
5	Artc	650	650	690	590	590	690	740			990	600	500	550	600	759	693	600	
6	English language	1.000	1.000	1.180	1.180	1.180	1.280	960	960	1.190		0	0	770	920	990	880		
6.1.	Textbook	590	590	690	1.180	1.180	1.280	960	960	1.190				770	920	990	880		
6.2.	Workbook	410	410	490															
7	The digital world						650				640							600	
Price for the textbook sets (1+2+3+4+5+6+7)		6.330	6.240	7.690	7.160	7.160	8.320	6.680	4.750	4.650	6.790	6.430	5.830	6.270	6.610	7.854	5.478	6.120	
Without the digital world		6.330	6.240	7.690	7.160	7.160	7.670	6.680	4.750	4.650	6.150	6.430	5.830	6.270	6.610	7.854	5.478	5.520	
Without English language and The digital world		5.330	5.240	6.510	5.980	5.980	6.390	5.720	3.790	3.460	6.150	6.430	5.060	5.350	5.620	6.974	5.478	5.520	

Source: CPC calculations based on the data submitted by publishers

Based on the table here provided, it can be seen that in 2020, only Novi Logos was able to offer a complete set of textbooks for the first grade of elementary school, at a price of RSD 8,320.00, which at the same time represents the most expensive set of textbooks in 2020. However, if we exclude the subject “digital world”, which was included in the curriculum in the school year 2020/2021, a total of four publishers offered a set of textbooks for the first grade in 2020, two of which belong to the Klett group²⁹. The prices of textbook sets from these four publishers without the digital world subject, in 2020 ranged from RSD 6,610.00 (Eduka) to RSD 7,854.00 (Zavod za udžbenike).

²⁹ Only three publishers submitted the sales price calculation for the “Digital World” subject, two of which did not offer an English textbook.

If the English language subject is also excluded from the set of textbooks, where a large number of schools opt for textbooks from specialized publishing houses, in 2020 seven publishers were able to offer a set of textbooks, at prices ranging from 5,520.00 dinars (Kreativni centar) up to 6,974.00 dinars (Zavod za udžbenike).

When comparing the prices of textbook sets for the first grade in 2018 and in 2020, for the publishers who presented data for all three years (Klett, Novi Logos and Eduka)³⁰, it can be concluded that prices were increasing among all three publishers, by 21% (Klett), by 16% (Novi Logos) and by 13% (Eduka). During the observed period, some publishers introduced additional elements in the textbook set (for example, a maths workbook and “the world around” us at Klett) or textbooks for a new subject (Novi Logos, digital world), which certainly contributed to the growth of the retail price set of textbooks.

If, instead of textbook sets, textbook sets for each subject are observed separately, it can be concluded that in 2020, the most expensive textbook set for the Serbian language, English language and the Digital world was Novi Logos, for mathematics and music - Zavod za udžbenike, for “The world around us” - BIGZ, and Vulkan for art.³¹

In the other lower grades, a smaller representation of publishers with a larger number of textbooks or textbook sets for a certain grade is noticeable.

Table no. 7 - Retail prices of textbooks for the first grade of elementary school

Serial number	Subject	Klett			Novi Logos			Freska			Vulkan	BIGZ		Eduka			Zavod za udžbenike	Gerundijum	Kreativni centar	
		2018	2019	2020	2018	2019	2020	2018	2019	2020	2021	2019	2018	2019	2020			Old edition	New edition	
1	Serbian language	2.005	2.200	3.010	2.630	2.530	2.810	2.210			2.520	2.630	1.760	1.820	1.950	3.350		1.580	2.290	
	Latin	450	450	590	620	520	590	490			570	610	550	550	590	944			890	
	Reading book	690	690	790	750	750	850	680			750	910	690	720	770	979			630	750
	Workbook	345	490	590	620	690	750	490			580	600	520	550	590	710			560	
	Grammars	520	570	650	640	570	620	550			620	510				717			390	650
	Worksheets			390																
2	Mathematics	1.775	1.430	1.880	1.480	1.870	1.940	1.390			1.440	1.460	1.380	1.440	1.500	3.658	1.617	1.320	1.550	
	Textbook	690	1.430	1.490	740	1.480	1.550	1.390			720	600	690	720	750	1.483	792	610	650	
	Workbook	740			740						720	860	690	720	750	1.534	825	710	900	
	Teaching sheets	345		390		390	390									641				
3	World around us	1.625	990	1.480	1.480	1.230	1.380	890			1.270	1.320	1.350			1.723	1.342	1.200	1.400	
	Textbook	690	990	1.090	740	690	790	890			720	720	690			975	770	600	700	
	Workbook	590			740	540	590				550	600	660			748	572	600	700	
	Teaching sheets	345		390																
4	Music	690	690		670	670	690	590			680	680	590	600	660	737		750	650	
5	Arts	650	890		620	690	690	850			810	650	590			821	693		600	
6	English language	1.000	1.000	1.180	1.490	1.490	1.490	1.190	1.190		1.100	990	1.090			880				
	Textbook	590	590	690	820	1.490	1.490	1.190	1.190		1.100	990	1.090			880				
	Workbook	410	410	490	670															
	Price for the textbook sets (1+2+3+4+5+6)	7.945	7.200	7.550	7.750	8.410	9.000	7.120	1.190		6.720	7.840	6.660	4.950	4.110	11.169	3.652	4.850	6.490	

Source: CPC calculations based on the data submitted by publishers

Based on the attached table, it can be concluded that in 2020, four publishers offered a complete set of textbooks for the second grade of elementary school, at prices ranging from RSD 7,550.00 (Klett) to RSD 11,169.00 (Zavod za udžbenike).

The price of a set of textbooks for the second grade of the publishing house Klett was reduced by 5% in a three-year period, the publishing house Eduka removed certain textbooks for the second grade from its offer in 2019 and 2020, while Novi Logos increased the price of a set of textbooks by 16%. Kreativni centar submitted the calculations of the sale prices of textbooks

³⁰ Freska was omitted due to incomplete sets of textbooks in 2019 and 2020.

³¹ The information for Vulkan was taken from the website and refers to the year 2021.

for the second grade separately for old and new editions, based on which it can be concluded that the price of a set of textbooks³² of this publisher, increased by 34%.

If, instead of the entire set of textbooks, we look at the textbook sets for each subject separately, it can be concluded that in 2020, the most expensive textbook set for all subjects except English was owned by Zavod za udžbenike, while the most expensive for English was the Novi Logos textbook set.

Table no. 8 - Retail prices of textbooks for the first grade of elementary school

Serial number	Subject	Klett			Novi Logos			Freska			Vulkan		BIGZ		Eduka			Zavod za udžbenike	Kreativni centar	
		2018	2019	2020	2018	2019	2020	2018	2019	2020	2021	2019	2018	2019	2020	Old edition	New edition			
1	Serbian language	1.555	1.555	2.030	2.030	2.030	2.290			1.970	2.030	1.900	1.210	1.270	770	1.950	1.840	1.500		
	Reading book	690	690	790	760	760	850			790	750	740	690	720	770	750	750	750		
	Workbook	345	345	590	620	620	750			590	620	470	520	550		650	610			
	Grammars	520	520	650	650	650	690			590	660	690				550	480	750		
2	Mathematics	1.775	1.775	1.490	1.480	1.480	1.940			1.490	1.460	1.450	1.380	1.440	1.500	1.945	1.750	1.750		
	Textbook	690	690	1.490	740	740	1.550			1.490	730	1.000	690	720	1.500	650	550	800		
	Workbook	740	740		740	740					730	450	690	720		650	1.200	950		
	Teaching sheets	345	345				390									645				
3	Nature and society	1.625	1.625	1.190	1.480	1.480	1.680			1.190	1.440	1.460	1.380	1.440	1.440	1.100	1.400	1.500		
	Textbook	690	690	1.190	740	740	890			1.190	1.440	740	1.380	1.440	770	650	720	750		
	Workbook	590	590		740	740	790						720		670	450	680	750		
	Teaching sheets	345	345																	
4	Music	690	690	690			690			690	690	690			660	550	1.000	650		
	Textbook	690	690	690			690			690	690	690			660	550	500	650		
	Workbook																500			
5	Arts	740	740	690			690			990	710	690	590	660	660	550	1.200	600		
	Textbook	740	740	690			690			990	710	690	590	660	660	550	500	600		
	Workbook																700			
6	English language	1.000	1.000	1.180			1.680			1.280		1.370			1.280	1.000				
	Textbook	590	590	690			890			690		820			690	550				
	Workbook	410	410	490			790			590		550			590	450				
Price for the textbook sets (1+2+3+4+5+6)		7.385	7.385	7.270	4.990	4.990	8.970			7.610	6.330	7.560	4.560	4.810	6.310	7.095	7.190	6.000		

Source: CPC calculations based on the data submitted by publishers

Based on the attached table, it can be concluded that in 2020, four publishers offered a complete set of textbooks for the second grade of elementary school, at prices ranging from RSD 6,310.00 (Klett) to RSD 8,970.00 (Zavod za udžbenike).

The price of a textbook set for the third grade from the Klett publishing house, which was the only one to have a complete set of textbooks in all three observed years, was reduced by 2% in the three-year period, which is partly the result of the removal of certain elements from the composition of the textbook sets for certain subjects (workbook and worksheets for mathematics and nature and society) in 2020. Kreativni centar submitted the calculations of the sale prices of textbooks for the third grade separately for old and new editions, based on

³² which excludes English language textbooks and art textbooks - old edition

which it can be concluded that the price of a set of textbooks of this publisher, decreased by 17%.

If, instead of textbook sets, textbook sets for each subject are observed separately, it can be concluded that in 2020, the most expensive textbook set for the Serbian language, nature and society and English language was Novi Logos, for mathematics Zavod za udžbenike, for art - Freska, while for music, the price of the textbook set was identical with the majority of publishers.

Table no. 9 - Retail prices of textbooks for the fourth grade of elementary school

Serial number	Subject	Klett			Novi Logos			Vulkan	Eduka			Zavod za udžbenike	Kreativni centar	
		2018	2019	2020	2018	2019	2020	2021	2018	2019	2020		Old edition	New edition
1	Serbian Language	1.555	1.555	1.870	2.070	2.070	2.230	2.050	1.210	1.270	1.380	1.950	1.750	1.750
	Reading book	690	690	790	790	790	850	770	690	720	790	750	730	730
	Workbook	345	345	390	630	630	690	620	520	550	590	650	570	570
	Grammars	520	520	690	650	650	690	660				550	450	450
2	Mathematics	1.775	1.775	2.030	1.480	1.480	1.580	1.480	1.380	1.440	1.510	1.897	1.573	1.573
	Mathematics-textbook	690	690	790	740	740	790	740	690	720	750	717	773	773
	Workbook	740	740	850	740	740	790	740	690	720	760	533	800	800
	Teaching sheets	345	345	390								647		
3	Nature and society	1.625	1.625	1.870	1.480	1.480	1.680	1.440	1.380	1.440	1.490	1.100	1.370	1.370
	Textbook	690	690	790	740	740	890	1.440	690	720	770	650	670	670
	Workbook	590	590	690	740	740	790		690	720	720	450	700	700
	Teaching sheets	345	345	390										
4	Music	980	980	980				690	590	660		715	1.040	1.040
	Textbook	690	690	690				690	590	660		715	520	520
	Workbook	290	290	290									520	520
5	Arts	690	690	690		650		690	590	660		550	1.050	1.050
	Textbook	690	690	690		650		690	590	660		550	500	500
	Workbook												550	550
6	English language	1.000	1.000	1.180			1.680					1.000		
	Textbook	590	590	690			890					550		
	Workbook	410	410	490			790					450		
	Price for the textbook sets	7.625	7.625	8.620	5.030	5.680	7.170	6.350	5.150	5.470	4.380	7.212	6.783	6.783

Source: CPC calculations based on the data submitted by publishers

Based on the attached table, it can be concluded that in 2020, only two publishers offered a complete set of textbooks for the fourth grade of elementary school, of which Klett was the most expensive with a price of RSD 8,620.00. The price of a set of textbooks for the third grade from the publishing house Klett, which was the only one to offer a complete set of textbooks in all three observed years, increased by 13% in the three-year period. Kreativni centar submitted the calculations of the sale prices of textbooks for the fourth grade separately

for old and new editions, based on which it can be concluded that the price of a set of textbooks from this publisher remained unchanged.

If, instead of textbook sets, textbook sets for each subject are observed separately, it can be concluded that in 2020 the most expensive textbook set for mathematics and nature and society was Klett's, for Serbian language and English language, by Novi Logos, while for music and art, Kreativni centar had the most expensive textbooks.

8. Assessment of competition conditions on the textbook market by publishers

Market participants- textbook publishers were asked to express their opinion on the issue of their own perception of the conditions of competition in the textbook market for primary education and the existence of entry barriers and/or other obstacles that they believe have influenced and may influence the development of competition in the market in question, especially in terms of the possibility of new publishers or innovative teaching aids entering the market.

Based on the publisher's response, it could be concluded that the frequent changes in the legislative framework and the choice of textbooks for a period of four years for two grades each, represent a significant barrier to entering the market, as they significantly limit, and in certain cases prevent, access to new schools. Publishers state that frequent changes in regulations require them to gradually plan the process of creating textbooks and not to enter into hyper production, because it happened that in that process they encountered a number of obstacles, in the form of late accreditation or even the absence of accreditation for certain textbooks, as well as the impossibility of penetration into individual schools.

The participants also pointed to insufficient transparency of the market as a result of the failure of the relevant ministry to publish the electronic register of textbooks, from which data on the choice of textbooks by schools would be publicly available. The publishers believe that it is no coincidence that the register has not been published for years, and that publishing the register would clearly show which publishers are represented in which schools and to what extent, which would ensure that the choice of textbooks, and thus the market, would be much more transparent. Publishers also state that in many cities it was very difficult to obtain data on what was chosen in which school, although according to the Law on Textbooks there was an obligation to publish this data on school websites or to have them displayed on notice boards.

Publishers state that business conditions in the textbook market have changed a lot in the last twelve years, since the market opened up to private publishers. Following the liberalization of the textbook market, as they say, there was a need for new, more advanced textbooks, and the publisher's focus was on innovation, quality and quality design. They believe that today the competition is greater, but that with the increase in the number of publishers, the quality of textbook content decreases and that it is no longer a criterion for its selection. Some publishers have also expressed their opinion that specialized publishers, who are engaged in publishing textbooks for a small number of subjects, are more important for the quality of textbooks.

However, as the most significant obstacle to access to schools, almost all participants cite corrupt activities by certain large publishing houses, which ensure that their textbooks are included in the curriculum in as many schools as possible. Publishers believe that due to the presence of corrupt activities and unfair competition, the entry of new publishers into the market is difficult and slow, and that corruption in the textbook market does not contribute to better quality textbooks in primary schools, better teaching or better student achievements, which should be the goal in teaching and education in general.

Publishers who stated the existence of corrupt activities refer to Article 36 of the Law on Textbooks, which stipulates that the publisher is prohibited from making a preschool institution, school and employee receive any donation, gift or representation made in a direct or indirect manner, in any amount or form, except for representations of low value and free copies of textbooks that the publisher provides, in order to enable the selection of textbooks. The publishers point out that despite the laws and regulations that have been passed, it seems as if the practice of donations that are not within the legal framework has continued, perhaps to a lesser extent, but in the same schools and involving the same actors. Donation, according to them, is not mandatory, but such habit is considered common and normal, even in some cases desirable.

One publishing house states that major corruption in the textbook market took place in 2015, when for the first time the law stipulated that textbooks be selected for a period of four years. According to this publisher, at that time the *Klett* group publicly advertised that teachers who bought 20 sets would receive a tablet, and an additional condition was the signing of a contract with the obligation to use the textbooks for two years. As an example of corruption in publishing, this publishing house cites seminars that were organized for school principals in the country and abroad, and participants to the education process or their family members became representatives of foreign publishing houses. The gifts were trips, whiteboards, laptops, tablets, mobile phones and finally money. When one cycle of textbook approval was completed, a person holding an important and responsible position moved from the Institute to *Klett*, and the person who is the author of Serbian language textbooks in the same publishing house was appointed director of the Institute. According to this publisher, since such actions are not sanctioned, some publishers have started publicly advertising what they give away to teachers and schools, even though the Law on Textbooks clearly regulated what is allowed and what is not and what the sanctions are implied. As a result of the above, as they say, representation in schools grew, and the quality of textbooks was no longer important.

One market participant stated that the distribution of 800 free tablets to teachers at one time contributed to the corruption in the textbook market, as school principals signed a contract with the *Klett* Group. After that, several multi-day gatherings were organized for principals of elementary schools, and didactic boxes were distributed free of charge to those who opted for their textbooks.

Another publishing house cites the *Klett* publishing house as an example of corruption, which, according to the allegations made, publicly promised schools a set of didactic materials on its website if they chose their physics textbooks. According to this publisher, it can be easily verified that many schools in their statement of reasons for the choice of textbooks written to the teaching council also mentioned those gifts as a reason for such choice.

Market participants believe that the publishing house *Klett* holds a monopoly on the textbook market in Serbia owing to its aggressive policy of promoting its textbooks. In this regard, as a special problem, some publishers cite cooperation with large distributors of textbooks, which represent the "extended arm" of the publishing house *Klett*.

The publishers state that the owners of the distribution houses, through various methods, directly influence the principal, teachers and lower-grades teachers to choose *Klett* Group textbooks. On the other hand, according to some publishers, the *Klett* group helps its distributors to expand as much as possible in the market by refusing to cooperate with distributors that are not under their control and sending letters to schools covered by a distributor that is not theirs, offering them alternative distribution houses with whom they operate. Thus, according to them, distributors under the control of the *Klett* group are consolidated, and distributors are additionally required to guarantee that there will be no resale of textbooks to other participants in the market in the form of promissory notes and an accurate list of schools with which the distributor works.

One publishing house believes that certain publishers had "privileged" distributors and in that way exerted inappropriate and impermissible influence on school principals and teachers' councils to choose the textbooks of that publisher. Through its privileged distributors, the publisher delivered various didactic boxes and didactic suitcases to schools, in which, in addition to printed materials, manuals and textbooks, there were also funds that always exceeded the allowed business entertainment gifts.

Most publishers believe that the quality of their own editions is high and that textbooks deserve more representation, which leads them to think that the choice of textbooks is not only determined by the quality of the edition.

In its response, the publishing house *Vulkan* listed several problems it faced when it entered the textbook market, among which it particularly pointed out that at the Frankfurt Fair in October 2018 it successfully concluded negotiations with a Polish company that owns a platform for digital textbooks (with which, as stated, the *Klett* group and Kreativni centar cooperate), after which, upon returning to Belgrade, they were informed by the latter that the *Klett* group had contacted them and threatened to terminate cooperation with them in all other countries in which it operates, if they conclude contracts with *Vulkan*. In the Commission's subsequent request to state whether there are other platforms that perform similar activities and whether they have contacted, negotiated and/or established cooperation with them, *Vulkan* replied that they use the platform of the Hungarian company, which they opted for when the Polish company canceled their cooperation, but that the Polish platform was more economical in the long run.

[...]

In accordance with the above-mentioned answers is also the answer of the public publisher, who stated that in December 2012, the Anti-Corruption Agency³³ in the "Report on the analysis of the procedure for approving textbooks and selecting textbooks in schools" identified as many as nine key findings that represent a risk for the emergence of corruption, and based on the facts observed in business practice during the approval and selection of textbooks, as well as the shortcomings of the regulations when it comes to the approval

³³ At that time, the Anti-Corruption Agency, available at: https://www.acas.rs/wp-content/uploads/2012/12/Izvestaj_o_analiz_postupka_odobravanja_udzbenika_i_izbora_udzbenika_u_skolama.pdf

procedures of textbooks and the selection of textbooks (the procedure for giving an expert assessment of the quality of textbook manuscripts is not regulated, references are not prescribed for persons who give an expert assessment of the quality of textbooks, criteria for the selection of textbooks in schools are not provided, etc.).

This publishing house further states that, in addition to unfair competition on the market, the reduced volume of business in the period after the opening of the market for private publishers was also influenced by the Institute's unequal position in relation to private publishers. This, they say, is the result of the Institute's undefined position as a public publisher, because the activity of publishing textbooks is not regulated as an activity of general interest. As reason for their unequal position, they cite extremely unfavorable provisions of the Law on Textbooks, primarily those related to the obligation to issue unprofitable textbooks, the obligation to apply all laws that treat the Institute as a public authority, and not as a company that generates income on the market, as well as the objective impossibility of the Institute to compete with the competition according to its rules, in the process of selecting textbooks in schools.

Of the analyzed participants in the market, only the *Klett* publishing house stated that the entry of new publishers into the market is possible, because there are no significant entry barriers. According to this participant, achieving a stable and sustainable market position is a demanding process, and it is up to the publishers to ensure their presence on the market and preserve their market position with their quality. In this sense, this company states that some teachers are used to the high quality of textbooks from certain publishers and that for this reason they use textbooks from one publisher for many years.

9. The second research phase – distributor analysis

Based on the data and documentation submitted by the textbook publishers in the first phase of the research, ten distributors were identified who represent the largest buyers of textbooks for primary education and who further sell these textbooks mainly to primary schools, through organized procurement of textbooks, but also to bookstores, other distributors and in their own retail stores. In view of the above, in the second phase of the research, the Commission addressed the identified textbook distributors with a request for information, who were requested to provide data on the purchase and sales value of textbooks for primary education by textbook publishers, as well as on the structure of income from the sale of primary education textbooks, for primary education, by sales channels. The distributors were also asked to declare themselves on a number of issues concerning their business relationship with customers and suppliers (publishers), which will be explained in more detail further below.

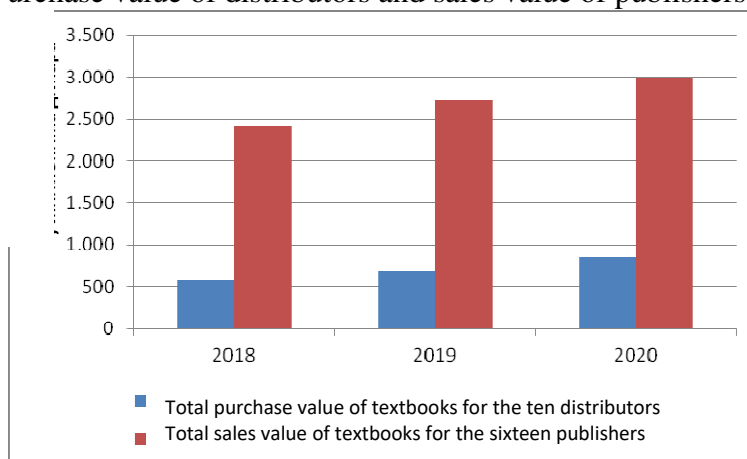
Based on the responses of ten distributors, the total purchase value of the sold textbooks for primary education, the total sales value and the associated price difference, i.e. the gross margin, were calculated. For distributors who submitted data on total business costs, with or without allocation to suppliers or publishers, the corresponding net margin was also calculated by subtracting total business costs from the total gross margin.

Given that a small number of distributors allocated business costs to publishers, as well as that for certain distributors in some or all years the sum of the total purchase value of sold textbooks and total business costs exceeded the total sales value of textbooks, it was not possible to carry out a comparative analysis of the net margins. However, what was possible

to conclude, based on the data of market participants whose net margins were positive, is that they generally range from 1% to 3% of sales value, except for two distributors where they are significantly higher and amount to between 10% and 20%.

If the total purchase value of the ten distributors included in the second phase of the research is compared with the total sales value of publishers in the observed years, it is concluded that the ten largest buyers of textbooks account for between 24% and 28% of the total sales value of textbooks for primary education.

Diagram no. 8 - Purchase value of distributors and sales value of publishers

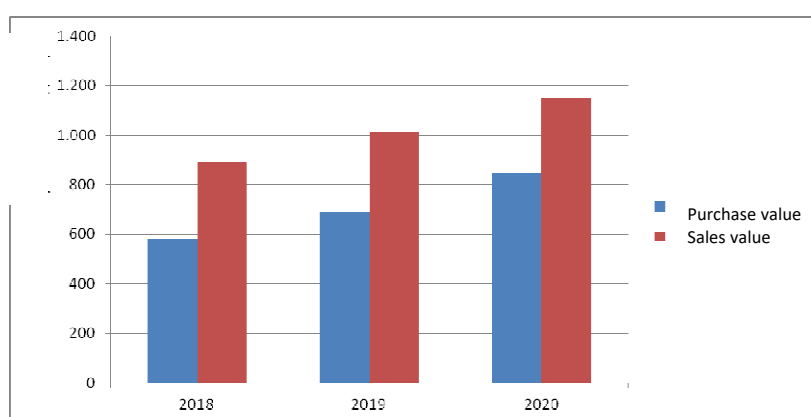


Source: CPC calculations based on publisher and distributor data

9.1. Analysis of purchase value³⁴, sales values and gross margins

The total purchase and sale value of textbooks for elementary education for the analyzed ten distributors has a growing trend and in the observed three-year period increased by 47% and 20% respectively.

Diagram no. 9 - Total purchase and sales value of textbooks (2018-2020)

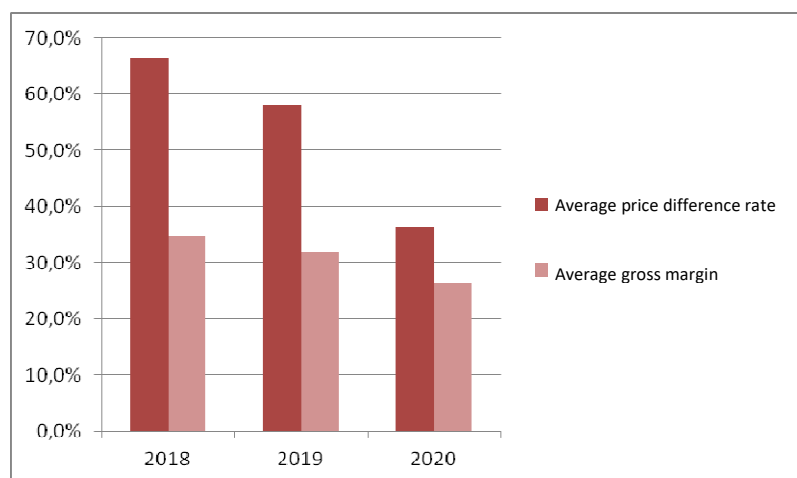


Source: CPC calculations based on the distributor's data

As a result of the faster growth of the total purchase compared to the total sales value, the average price difference rate³⁵ decreased from 66% in 2018 to 36% in 2020, while the average gross margin³⁶ in the same period decreased from 35% to 26%.

³⁴ Purchase value of sold textbooks

Diagram no. 10 - Average Price Difference Rate and Average Gross Margin (2018-2020)



Source: CPC calculations based on the distributor's data

The Klett Group is the primary supplier of textbooks for primary education when it comes to large textbook distributors. Its share in the total purchase value of the textbooks of the observed ten distributors is relatively stable in the observed period and amounts to about 55%. Next on the list of largest textbook suppliers among publishing houses are BIGZ and Akronolo, with shares of about 8% and about 7% respectively, followed by [...] and [...] with shares of about 6% and about 5% respectively [...] increased its share in the total purchases of the analyzed distributors from 3% to 6% in the [...] period of its presence on the textbook market for primary education. In 2020, the observed six publishers together accounted for about 86% of the distributors' total purchases of primary education textbooks.

If we look at the structure of the total sales value of textbook distributors by publisher, an almost identical conclusion can be drawn. The Klett group leads the total sales value, whose share decreased from 60% to 56% in the three-year period. They are followed by BIGZ and Akronolo with stable and almost identical shares in the sales value of around 7%, followed by [...] and [...] with stable shares of around 6% and around 4% respectively. [...] textbooks in the [...] period increased their share in the total sales of distributors from 4% to 7%. In 2020, the observed six publishers together accounted for about 87% of the total sales value of the analyzed textbook distributors, when it comes to textbooks for primary education.

The gross margin of distributors in the observed period differed significantly depending on the supplier. Above the average gross margin in 2018 was achieved by the sale of textbooks by three publishers, in 2019 by the sale of textbooks by four publishers, and in 2020 by the sale of textbooks by seven publishers.

Diagram no. 11 - Gross margin per publisher (three-year average)

XXX

Source: CPC calculations based on the distributor's data

³⁵ The price difference rate is calculated according to the formula: $(\text{sale value} - \text{purchase value}) / \text{purchase value}$

³⁶ Gross margin is calculated according to the formula: $(\text{sales value} - \text{purchase value}) / \text{sales value}$

Observed on a three-year average³⁷, the average gross margin was 31%.

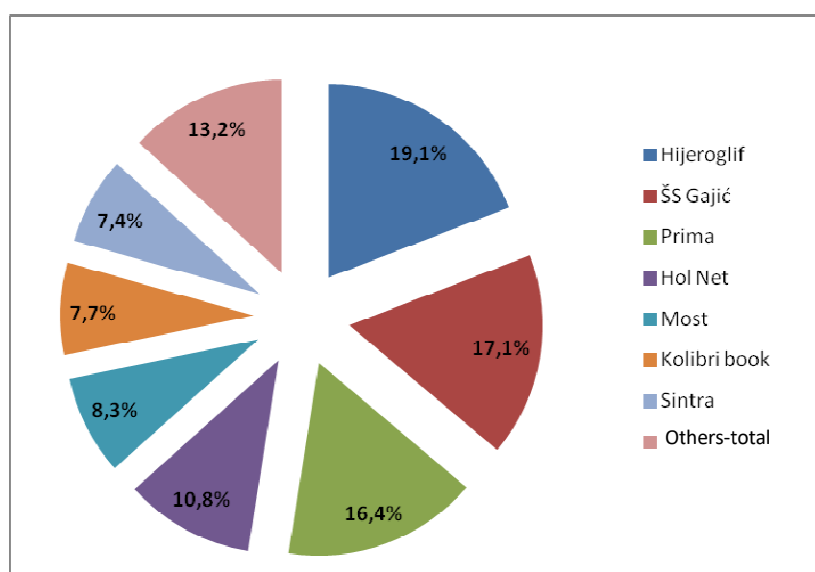
XXX

Bearing in mind that the large distributors of textbooks are intermediaries in the chain between textbook publishers and their (end) customers, the following text first analyzes the structure of the upward market of the purchase of textbooks from publishers, and then the structure of the downward market of further sales of textbooks to schools, bookstores and other customers.

9.1.1. Structure of the textbook procurement market

Three distributors stand out on the primary education textbook procurement market: Hijeroglif, Gajić and Prima, with relatively stable or slightly decreasing shares in the total purchase value of textbooks sold by ten distributors, which in a three-year average³⁸ amount to around 19%, 17% and 16% respectively. Hol Net is also on the list of the largest buyers of textbooks among distributors, with a market share that has been declining in the observed period and which, in a three-year average, amounts to about 11%. These four distributors together make up about 63% of the total purchases of textbooks for basic education by the ten largest buyers of textbooks in the observed three-year period and 16% of the total sales value of textbooks by publishers.

Diagram no. 12 - Structure of the textbook procurement market (three-year average)



Source: CPC calculations based on the distributor's data

If the procurement structure is observed by years, it can be concluded that only the three largest distributors did not change their positions in the three-year period. In 2018 and 2019, Hol Net (14% and 11% respectively) and Most (9% and 8% respectively) were in fourth and fifth place, while in 2020 Kolibri was in fourth place (10%), and Sintra on the fifth (9%).

³⁷ Calculated as a simple arithmetic mean of annual gross margin values

³⁸ A weighted average calculated as the sum of purchases for all three years

Seven out of ten distributors who were the subject of the analysis in the observed three-year period were predominantly oriented towards procurement from the Klett group of companies, so that the purchase value of the textbooks sold by the Klett group accounted for more than 50% of the total purchase value of the textbooks sold by those companies. The largest share of purchases from the Klett Group in the total purchases of textbooks for primary education was observed at the Hijeroglif company, where it amounts to about 70%, and the smallest is at the Hol Net company, where that share does not exceed a third of the total purchase value of sold textbooks.

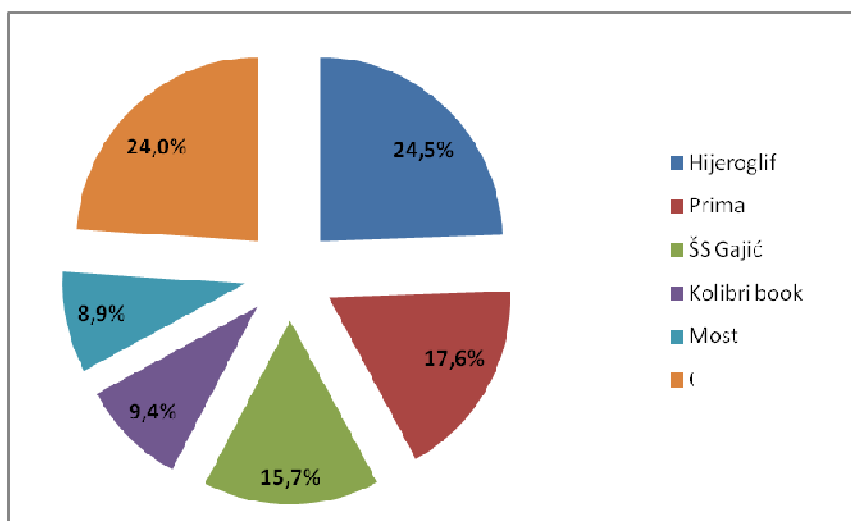
If Klett Group is excluded as the largest supplier, the procurement structure of individual distributors is relatively homogeneous and without significant changes from one year to another. For example, in 2020, four distributors procured textbooks from all 16 publishing houses included in the analysis, two distributors procured from all but the Educational Centre publishing house, and Most, Hol Net and Dubrava cooperated with the fewest publishing houses. At the same time, publishing houses that were not included in the analysis accounted for an average of only 1% of the total purchases of the observed distributors, and only Gajić purchased somewhat significant amounts of school textbooks from other publishers, and they made up 4-5% of the total purchases of this distributor.

Most of the observed publishing houses cooperate with all ten distributors included in the analysis, and the Educational Centre publishing house has the narrowest customer network among the large distributors.

In order to gain insight into the structure of textbook buyers of the publishing house Klett and its affiliated companies Novi Logos and Freska in a three-year period, a comparison was made of the total purchase value of this publisher's textbooks for the observed ten distributors and the total sales value of textbooks of the Klett group. On the basis of the obtained indicators, it was concluded that the ten largest customers account for a quarter, or 26% of the total sales of textbooks for elementary education of the Klett Group.

In order to identify the largest customers of the Klett group among the distributors, the total purchase value of the textbooks sold by the publishing house Klett and its affiliated companies Novi Logos and Freska in a three-year period was calculated for each distributor. Based on the obtained values, it could be concluded that, among the distributors, the biggest customers of the Klett group are Hijeroglif, Gajić and Prima, which together make up 58% of the total purchases from the Klett group by the observed distributors in the analyzed period and 15% of the total sales value of this publisher's textbooks.

Diagram no. 13 - The largest customers of the Klett Group among the analyzed distributors

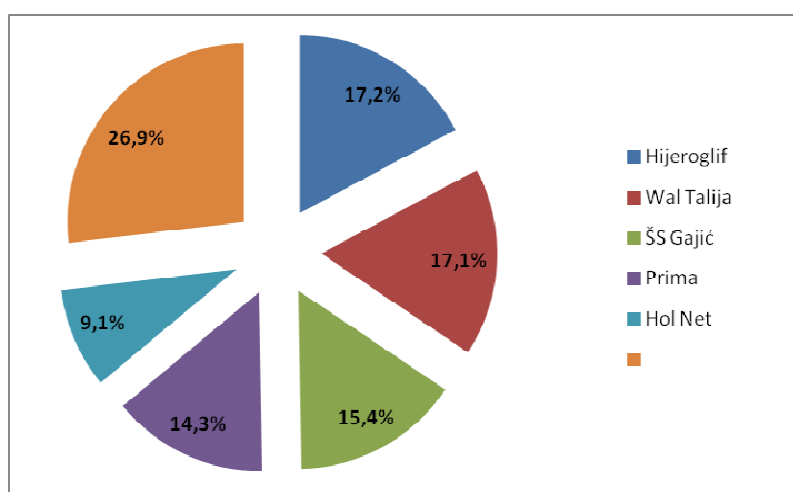


Source: CPC calculations based on the distributor's data

9.1.2. Structure of the textbook sales market

Four distributors dominate the market of textbooks sales for elementary education- Hijeroglif, Wal Talija, Gajić and Prima - with relatively close shares in the total sales value of textbooks by distributors, which in a three-year average amount to between 14% and 17%. These four participants account for about 64% of the total sales of textbooks for elementary education by the observed distributors in the three-year period.

Diagram no. 14 - Structure of the textbook sales market (three-year average)

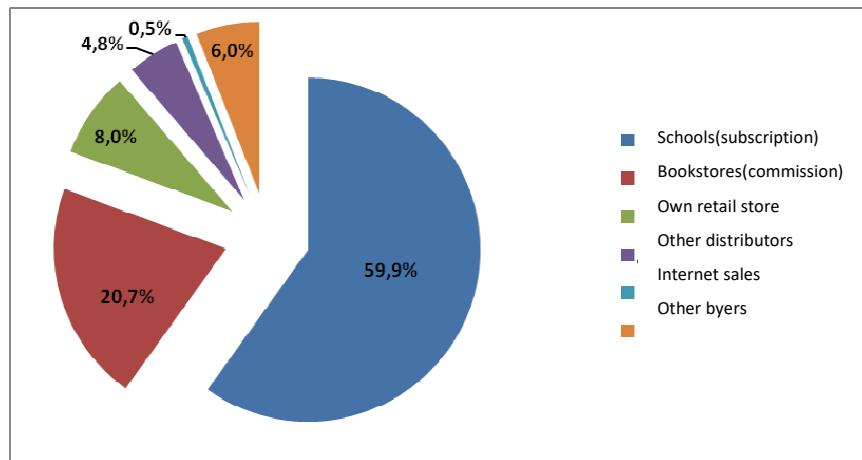


Source: CPC calculations based on the distributor's data

The distributors that are the subject of the analysis sell textbooks for primary education mainly to schools during the subscription period. The share of this sales channel in the total sales revenue of distributors in the three-year period is relatively stable and amounts to around 60%. About 20% of the distributor's income from the sale of textbooks is represented by commission sales to bookstores, about 8% is income from sales in their own sales facilities,

income from sales to other distributors is about 5%, while internet sales are negligible and do not exceed 1%.

Diagram No. 15 - Distributor's income structure from the sale of textbooks (2018-2020)



Source: CPC calculations based on the distributor's data

Observed at the level of individual distributors, it can be concluded that the structure of the market is colorful. The largest number of distributors, i.e. eight of them, cooperate with schools, four distributors cooperate with bookstores and sell the same amount to other distributors, and only two distributors showed internet sales in the income structure. Sales in their own sales facilities were also shown by two distributors, one of whom is exclusively oriented to this sales channel.

Of the distributors who cooperate with bookstores, two are predominantly (over 70%) oriented towards this sales channel, while for the remaining two, this sales channel participates with 2-5% in total revenues.

Five distributors generate over 90% of the total revenue from the sale of textbooks by selling them to schools during the subscription period, while the share of revenue from sales to schools in the total revenue of one is slightly higher than bookstores and amounts to around 50%.

The amount of approved discounts in relation to the gross revenue from the sale of textbooks for primary education was shown by five of the ten distributors that are the subject of the analysis. Three out of five distributors grant a discount to other distributors in the amount of 10% to 20% depending on the year, one distributor grants a 13% discount in their own stores, and two in the category of other customers in the amount of 17-20%. In the total gross income from sales of individual distributors, the share of discounts does not exceed 13%.

Based on the above, it was concluded that distributors generate around 60% of revenue from sales to schools during the subscription period, around 20% of revenue is generated from sales to bookstores, while the remaining 20% of revenue is generated from sales to other distributors, internet sales and sales in their own retail stores.

9.2. Procedure for cooperation with publishers and pricing policy

For the purposes of a comprehensive analysis of relations in the supply chain and further sales of textbooks for primary education, distributors were asked to explain the way in which **cooperation between distributors and publishers** in the textbook market takes place, as well as to state whether they have ever been in a situation to refuse cooperation with a publishing house and, if so, to state the reasons thereto.

Based on the submitted answers, it could be concluded that cooperation with publishers is mainly formalized through business-technical cooperation contracts in the form of regular sales contracts or subscription contracts. Two distributors stated that in addition to subscription and regular sales, they also do commission sales, while one company stated that commission sales are minimal, considering the size of the bookstore's sales premises.³⁹

The process of cooperation with publishers works by ordering textbooks from the publisher through purchase orders, where the exact number of each title they need is entered, as well as the name of the school where the textbooks will be used. After that, the publishers send a preliminary invoice, which is paid in several monthly installments, and the period when they will withdraw the textbooks from the warehouse is also agreed with the publishers.

One of the distributors stated that the method and procedure of cooperation is identical with all the publishing houses whose textbooks they distribute. According to this distributor, based on the lists that the schools supply them with, they contact the publisher individually to purchase textbooks. Publishers provide them with a contract proposal with recommended prices and terms of sale.

All distributors declared that they had no reason to refuse cooperation with any publisher, and two companies added that the procedure of cooperation with all publishers is fair and professional.

When it comes to the **pricing policy**, one part of the question was related to the ability of distributors to influence the formation of the retail price of textbooks, as well as whether the method of determining the price depends on the publisher whose textbooks they distribute.

Based on the responses of the distributors, it could be observed that all distributors sell textbooks at recommended prices, with the possibility or not to have an impact on them. One participant stated that with commission sales, they exert no influence on the prices, while with other types of sales, textbooks are treated like any other goods. Two distributors stated that they are free to form the price, while one stated that they are not conditioned by prices, but that it is the practice to sell textbooks at recommended prices. Three distributors answered that they have no possibility of influencing the prices, while one stated that they, as a distributor, do not participate in the formation of prices, but want to apply recommended prices so that their customers can rely on their business consistency and accountability. One participant stated that they are not able to influence the formation of the retail prices of

³⁹ By examining the contracts submitted by the textbook publishers, it was established that commission contracts are also concluded with individual customers who are not included in the analysis, with the fact that some publishers call these contracts "contracts on the joint sale of books", but in terms of their content, they are a classic commission sale.

textbooks, because even in a situation where they would form the prices themselves, they would be higher than the prices found on the publisher's websites, and therefore parents would decide to buy directly from the publisher.

In order to analyze the pricing policy, the distributors were also asked to state whether the costs they bear in connection with the sale of textbooks for primary education differ depending on the sales channel, depending on the publisher whose textbooks they further distribute or perhaps on some other basis.

Based on the submitted answers, it could be concluded that the distributor's operating costs neither differ depending on the publisher whose books they distribute, nor on the sales channel.

Distributors state that the operating costs depend on the number of customers and the number of textbooks sold, and not on the geographic location, publisher or sales method. According to one distributor, the costs are divided into the costs of delivery, advertising, hiring employees, used materials and renting additional space, etc., and not by sales channels, because textbooks are sold throughout the year together with other items and there is no possibility of keeping, separating or classifying costs according to sales channels.

One distributor stated that delivery costs vary depending on the distance from the school attended by the children of the parents who buy textbooks through them, while another stated that it is impossible to allocate the costs to publishers, because employees who pack textbooks or other stationery are not paid per textbook or type of office and school material, they already work for an agreed salary. This participant further states that when delivering textbooks by express mail or using their own vehicle, the shipment is not separated by the title of the textbook or the publisher, as well as that the warehouse space is paid for by the square meter or the agreed price, regardless of which textbooks or office materials will be stored.

In addition to the costs, the distributors were asked to explain **the way in which the amount of earnings (margin or commission) of the distributor is determined**, as well as to indicate whether it depends on the sales channel (other distributors, bookstores, schools, internet sales, etc.), of the subject or grade in which the textbook is used and/or from the publisher whose textbooks are further distributed.

Based on all the submitted answers, it could be concluded that the distributor's earnings are the rebates determined by the publishers and that it differs depending on the publisher. Half of the covered distributors stated that the rebate amount is higher when it comes to subscription contracts, due to advance payments, unlike the regular sales contracts. One participant stated that the rebate is defined by the publishers and that some give volume and shipping discounts.

One distributor explained that the publisher's margin or earnings are the same for all grades, but differ by subject (foreign language and technical material). Another explained that within their operations, the margin does not differ by sales channels (bookstores and internet sales), but it differs when selling to other legal entities in the country, depending on the agreed cooperation - whether it is an advance payment, compensation or similar conditions governed by the agreed sales relations. Three distributors indicated that distributor margins do not depend on the sales channel, subject or grade.

Based on the above, it was concluded that the majority of distributors do not independently form the retail price of school textbooks, but sell textbooks at the publisher's recommended prices, and that the distributor's earnings depend on the method of sale (subscription, regular sales, commission), i.e. on the publisher's rebate policy.

9.3. Procedure of cooperation between distributors and primary schools

The analyzed distributors were also asked to explain the manner and the procedure of cooperation with primary schools in order to realize the selection of textbooks, as well as manner in which they are involved in the promotion of textbooks as distributors. In addition, they should have stated whether in the observed period they were in a situation to refuse cooperation with an elementary school and, if so, to specify the reasons for such action.

Based on the submitted answers, it could be concluded that the distributors cooperate with the Council of Parents. All distributors contacted by the Commission stated that in no school were they in a situation to refuse the cooperation with the Parents' Council. The distributors also stated that they are in no way involved in promotional activities related to the sale of textbooks, but that such promotional activities are carried out by publishing houses, and teachers are the ones who select the textbooks.

The cooperation process begins with distributors sending their offer to the Parents' Council in a sealed envelope marked "*Offer for the organized procurement of textbooks. Do not open. To be submitted to the Council of Parents*". On the basis of several offers, the most favorable bidder is chosen by voting, after which the distributors are informed about the final decision and further cooperation is then launched. The cooperation continues as the school sends lists of already selected textbooks by grade, on the basis of which individual approvals are made for each parent. The consents contain a list of textbooks for a specific class where parents mark which textbook they will buy, basic information that each parent fills in (child's name and surname, grade and class, contact phone number and parent's signature that they agree to purchase textbooks through a distributor) and an example of a payment slip with company information and contact number. Parents pay for textbooks in several monthly installments directly to the distributor's current account. The textbooks are delivered to the school in the pre-arranged premises, after which the parents are informed about the exact date of collection. Each parent receives a packed set of textbooks with a fiscal receipt for their child.

When it comes to cooperation with elementary schools in the process of selecting textbooks, distributors, as well as publishers, were asked to indicate whether schools prefer to choose textbooks or textbook sets from the same publisher for all subjects in a certain grade or opt for textbooks or textbook sets from different publishers and whether there is a difference depending on the grade (from the first to the fourth and from the fifth to the eighth). It was also necessary to state whether the school's commitment to one or more publishers differs depending on whether it is a school located in a larger or smaller city, that is, an urban or rural environment, or perhaps on some other basis. If, during this period, free products or preferential prices were available, in the case of the purchase of entire textbook sets, such data also needed to be provided.

Regarding the distributor's answer to this question, it could be concluded that the majority believes that when choosing textbooks, there are no rules when it comes to the presence of a certain publisher by subject and by grade, while several of the distributors included stated that

in practice, one publisher is present in all subjects from the first to the fourth grade, while this practice is not so prevalent in higher grades.

Distributors state that in lower grades, teachers generally choose the same publisher for subjects and grades due to a similar methodical approach, cross-subject correlation, use of electronic textbooks, and the platform used by the publisher. Thus, as they claim, the learning process is made easier for students, and it enables parents to more easily monitor the results achieved.

When it comes to higher grades, according to the distributors, the publishers mostly differ by subject, with the practice being that teachers in the fifth grade decide to use a certain publisher for their subject, and then continue to use the same publisher in all other grades, as to achieve continuity in work and connect areas more easily.

Regarding the representation of publishers by different geographical areas, the participants stated that there is no difference when it comes to urban or rural areas. What could be observed, when it comes to the distribution of textbooks is that most distributors distribute textbooks throughout the territory of the Republic of Serbia, but that they have the largest presence in the area where the company is headquartered.

In this regard, Hijeroglif states that it is more represented in the territory of Niš, Sintra in the territory of Novi Sad and Vojvodina, Gajić, Wal Talijska and Hol Net in the territory of Belgrade, while Most stated that they distribute to the greatest extent in the Šumadija district. Spirit and Dubrava stated that they distribute only in the territory of Belgrade, while Prima and Kolibri stated that they distribute in the entire territory of Serbia. As for orders received from other geographical areas, only Gajić and Spirit stated that they send orders outside of Belgrade by express mail.

Based on all of the above, it was concluded that the practice of choosing the same publisher by subjects and grades is mostly characteristic of the lower grades of elementary school. Distributors primarily serve local markets, i.e. the districts where the company's headquarters are located, while in the territory of the city of Belgrade, considering the size and number of primary schools that belong thereto, several distributors operate.

9.4. Assessment of competition conditions on the textbook market by distributors

When it comes to the conditions of competition on the textbook market, the distributors, as well as the publishers, were asked to declare themselves regarding the existence of possible barriers and/or other obstacles that they believe have influenced and may influence the development of competition, especially in terms of opportunities for entry of new publishers/distributors or innovative teaching aids.

The analyzed distributors stated that they did not perceive the existence of any obstacles or entry barriers, that the conditions of competition are favorable and that there is a great deal of respect among the distributors. Participants in the textbook distribution market state that new publishers, as well as new distributors and bookstores, are constantly appearing on the market, and that everyone acts in a fair manner and that there is room enough for everyone to cooperate. One distributor stated that competition among bookstores as their only

competitors, is reflected in the span of their product range, quality of service and customer habits.

10. Contractual relations in the textbook market for primary education

10.1. General observations

For the purposes of the sector analysis, the publishers of primary education textbooks were asked to submit contracts with the ten largest buyers of primary education textbooks, which were in force in the period from 2018 to 2020, with all possible annexes, protocols and additional agreements, pertaining to the sale of textbooks.

Based on the review of the collected contracts, in terms of the distribution model, it could be concluded that there are three textbook sales models on the market in parallel, and in particular:

- (1) sale of subscription textbooks,
- (2) regular sales and
- (3) commission sales.

Publishers generally have several sales models, with the same or different distributors, which are in force in parallel, and some of them refer to different periods during one year (subscription sales and regular sales).

Contracts concluded with textbook buyers are generally standard, with each publisher usually having one model contract for each type of contract, concluded with distributors each year, which governs the basic commercial terms for that type of contract.

Regarding commission sales, this relationship is specific, when viewed as a vertical agreement, which should be considered separately from regular sales models, bearing in mind that these contracts can, under certain conditions, be excluded from the scope of the application of competition protection rules. This distinction is particularly significant in terms of the legal treatment of provisions in various contracts that determine the retail price, bearing in mind that under certain conditions such provisions in commission sales contracts would not be covered by the prohibition in terms of Article 10 of the Law, which will be discussed further below.

10.2. Potential limitations observed in contracts

Contractual relations were analyzed from the point of view of possible application of Article 10 of the Law, which in paragraph 1 stipulates that restrictive agreements are those agreements between market participants whose aim or consequence is to significantly limit, distort or prevent competition in the territory of the Republic of Serbia. Paragraph 2 of the same article of the Law sets forth that restrictive agreements can be contracts, certain provisions of the contract, explicit or tacit agreements, agreed practices, as well as decisions on the form of association of market participants, which, in particular, directly or indirectly

determine purchase or sale prices or other terms of trade. Article 10, paragraph 3. of the Law stipulates that restrictive agreements are prohibited and void, except in cases of exemption from prohibition in accordance with the Law.

In the course of the analysis, a large number of contracts were identified that contain provisions that determine resale prices, that is, contracts between publishers and distributors, in which publishers determine the retail prices of textbooks, explicitly or (rarely) implicitly. Bearing in mind the large number of such provisions and their presence in different types of contracts throughout all observed years and with almost all publishers, it could be concluded that the determination of retail prices by publishers in the observed market is the rule rather than an exception.

The Law on Textbooks,⁴⁰ Law on Issuing Publications,⁴¹ Law on the Fundamentals of the Education and Training System⁴² and the Law on Elementary Education and Upbringing⁴³ do not govern the issue of determining the retail price of textbooks by publishers. Such a provision is not foreseen in the Law on Copyright and Related Rights.⁴⁴

The publisher's ability to determine the retail price of books is found in the Special regulations for book sales,⁴⁵ which are not regulations in the rank of law and whose legal force is problematic in light of general regulations on competition protection and the rule that each market participant (including participants at different levels of the distribution chain) sets prices independently.

Given that the determination of resale prices is not expressly provided by law, as a rule or as an exception to regulations relating to the protection of competition, i.e. as a permitted practice, these provisions would, until such a regulation is enacted, be subject to the general prohibition from Article 10 of the Law.

With regard to the problem of determining the price of textbooks in resale, and taking into account the wide spread of this practice on the one hand, and justified interests for textbooks to have the same price throughout the territory of the Republic of Serbia (for example, to ensure access to elementary education under equal conditions), this issue should be solved at the level of the educational system. The decision on the possible regulation of the price of textbooks should be made only after a careful assessment of all relevant circumstances and a detailed analysis of the consequences of price regulation in relation to leaving the formation of the price to the laws of the market, especially bearing in mind the specifics of the market, the absence of choice by end customers and the absence of *inter- brand* competition, which does exist in other markets.

In addition to the provisions on determining the price of textbooks in resale, the prevalence of provisions was observed, obliging distributors to sell textbooks only to schools and end users, as well as the obligation of publishers to report on sales achieved by schools. In this way, the variety of sales channels can be reduced and the distribution and sale of textbooks can be concentrated, without clear indications as to whether these are selective distribution systems

⁴⁰ "Official Gazette of RS", no. 27/2018

⁴¹ "Official Gazette of RS", no. 37/91, 53/93, 67/93, 48/94, 135/2004 and 101/2005 - st. law

⁴² "Official Gazette of RS", no. 88/2017, 27/2018 - st. law, 10/2019, 27/2018 - st. law and 6/2020

⁴³ "Official Gazette of RS", no. 55/2013, 101/2017, 10/2019 and 27/2018 - st. law

⁴⁴ "Official Gazette of RS", no. 104/2009, 99/2011, 119/2012, 29/2016 - CC decision and 66/2019

⁴⁵ "Official Journal of the SFRY", number 19 of April 20, 1984, notice no. 13

and whether such systems would be justified at all, bearing in mind that the end customer has no choice when purchasing textbooks.

10.3. Commission sales as a type of sales model

Commission agreements belong to agency agreements,⁴⁶ which may, under certain conditions, be excluded from the scope of application of the rules on competition protection. Regarding this type of sales model, the Commission issued an opinion in 2012 that refers to both groups of contracts, which clarified in which cases such sales are considered restrictive and when not.⁴⁷

In accordance with the aforementioned opinion, in terms of the application of Article 10 of the Law, the agreement will be qualified as an agency agreement if the agent **bears no risk at all, or bears only insignificant risk** in connection with: concluded and/or negotiated contracts for the account of the principal; by specific investment made into the specific market and for that area of activity and other activities that the principal requires in the same relevant product market. In the light of the above, the risks related to the activities of providing agency services in general⁴⁸ are not the subject of this assessment.

In terms of the application of Article 10 of the Law, the agreement will be considered an agency agreement in cases where ownership of the purchased or sold goods is not acquired by the agent, i.e. when the agent him/herself does not provide contractual services, whereby the agent:

- does not participate in the costs related to the procurement/sale of contractual goods or services, including the transport costs of the goods;
- does not create and maintain at its own expense, warehouse stocks of contract goods, including costs of financing stocks and costs of loss or damage to stocks, whereby it can return unsold goods to the principal without payment of compensation, unless it is a case of liability of the agent for omissions in its activities (e.g. when the agent failed to apply reasonable security measures with the aim of avoiding damage or loss of goods);
- does not assume responsibility towards third parties for damage caused by the product sold, unless as an agent he/she is responsible for his/her own omissions in this regard;
- does not assume responsibility for non-performance of the contract by the customer, unless he/she is responsible for his/her own failures in this regard;
- is not directly or indirectly obligated to invest in sales promotion, such as participation in the principal's advertising and marketing budget;
- has no market-specific investments made into equipment, premises or training of its staff;
- does not undertake other activities on the same relevant product market at the request of the principal, unless those activities are fully reimbursed by the principal.

The opinion further states that, in case of cumulative fulfillment of all previously listed conditions, **the agent's activity (sales or procurement) would be part of the same**

⁴⁶ Agency contracts in the sense of regulations on competition protection, both in the EU and in our legal system, imply contracts in which the "agent" is authorized to negotiate and/or conclude contracts on behalf of another person ("principal") either in the name of the agent (commission sales) or on behalf of the principal (trade representation) and for the procurement of goods or services for the principal or the sale of goods or services of the principal.

⁴⁷<http://www.kzk.gov.rs/kzk/wp-content/uploads/2012/10/UGOVOR-O-KOMISIONU-I-PRAVA-AGENTURA.pdf>

⁴⁸ For example, the dependence of the agent's commission on the success of the sale or the cost of providing sales space

principal's activity. Given that in such a case the **principal bears the financial and commercial risks** regarding the sale or procurement of contractual goods or services, all obligations imposed on the agent in connection with concluded or negotiated contracts on behalf of the principal would not be covered by the application of Article 10 of the Law.

In terms of the above, the opinion particularly points out that there are certain restrictive provisions of the agreement, which constitute obligations on the part of the agent, and which are considered "intrinsic" to the agency agreement, and **Article 10 of the Law would not apply thereto:**

- limitation of the territory in which the agent can sell goods or services;
- limiting (determining) customers to whom the agent can sell goods or services;
- the prices and conditions under which the agent must sell or purchase goods or services.

Bearing in mind the above, if the agreement meets the above-mentioned criteria of an agency agreement, the provisions that determine the retail price, as well as the provisions that determine or limit the customers to whom the agent can sell textbooks, in such agreements, would not be covered by the prohibition of restrictive agreements in the sense of Article 10 of the Law.

Contrary thereto, if these provisions were to be found in agreements that do not meet the criteria of an agency agreement, they would fall under the general prohibition of restrictive agreements in the sense of Article 10 of the Law. In that case, it would be necessary to analyze the goal or consequences of each individual restriction separately, as well as in relation to other potential restrictions contained in the contract.

11. Concluding considerations and recommendations

11.1. Findings and conclusions of the analysis

- 1) **Demand on the textbook market for primary education is price inelastic.** In a free market, supply and demand for most products are price elastic, which means that price changes affect supply and demand. There is no price competition in the market in question, because the end consumers (students or parents) do not choose textbooks based on price, but according to what the school or teacher determines. Bearing in mind that the textbooks are selected for a period of four years, competition on the textbook market is reduced to competition for the market, and the publisher chosen by the school has a guaranteed market for the selected textbooks in the next four years. Inelastic demand, as an important factor in the growth of prices in the observed market, resulted in the growth of publishers' sales revenue by about 24% in the period from 2018 to 2020, although the number of students decreased by 3%.
- 2) **The textbook market for primary education is a highly concentrated market dominated by the Klett Group.** In 2020, the value of the Herfindahl-Hirschman index was 3.391 points, while the Klett Group's market share was 56.2%. The concentration ratio of the first four publishers in 2020 ranged between 78% and 84%. Depending on the grade, the share of the largest textbook publisher (Klett) is between 50% and 60%, while the share of the next largest participant (BIGZ) does not exceed 11%. Taking into account the market power of the Klett Group, whose market share in the observed period was

significantly higher than 40% and significantly higher than the first next competitor's share, as well as relevant economic and other indicators, the Commission concludes that there is a well-founded assumption of the existence of a dominant position on the observed market.

- 3) **The biggest buyers of textbooks are textbook distributors.** Around 50% of the total value of sold textbooks for elementary education is sold through this sales channel. Between 15-19% of the total value of textbooks sold by publishers is direct sales to bookstores, 15-17% is sales in the public procurement process, 4% is direct sales to schools or school cooperatives, sales in own sales facilities participates with 3%, internet sales account for 1-3%, while other sales channels together account for 8-10% of the total value of sold textbooks for primary education. Based on the collected data and information, the Commission concluded that textbook distributors are the most important intermediary in the distribution channels of textbooks for primary education.
- 4) **Textbook publishers grant the largest rebates and various forms of discounts to large textbook distributors.** Distributors generally buy textbooks during the subscription period and continue to supply schools and parents through organized procurement of textbooks. Rebates granted to textbook distributors are a very significant item in the structure of the selling price of textbooks and range from 15% to 35%. The largest discount in this category is granted by the companies belonging to the Klett group, where the share of the discount in the gross revenue from sales to distributors is around 33-35%, while the lowest discount is granted to distributors by importers of textbooks for learning foreign languages, where the share of the discount is [...]. Although the Klett Group stated that in accordance with the commercial policy it approves the same initial rebate according to the sales channel, the Commission, based on the analysis of the subscription sales contract for the year 2020/2021, stated that the basic rebates differ according to the distributors. Based on the submitted Contracts and the value of the sold textbooks, the Commission was unable to conclude that these rebates were volume-based. Based on the above, the Commission concludes that due to high rebates, there is a risk of Klett Group closing downstream markets to other publishers, which may lead to distortion of *inter-brand* competition. As form of a specific threat, the Commission points out to the possibility of paying fees to customers for the implementation of additional marketing activities, which would encourage those distributors who are dominated by Klett Group textbooks.
- 5) **A large number of publishers indicated the presence of illegal actions when it comes to promotional and other activities in the process of selecting textbooks.** Market participants stated that certain large publishing houses undertake illegal actions, in order to include their textbooks in the curriculum of as many schools as possible. Market participants stated that the choice of textbooks often depends on what is offered with the textbook to the individual or the school and is often conditioned by illegal pressures from certain groups or directors and the presence of corruption. As a result of the above, the same publisher is often chosen for the same subject in all grades, and in some schools textbooks from one publisher are even used for all subjects in all grades, which is especially common in lower grades. If the publisher's allegations are true, they cause concern for the Commission, given that they can lead to market restriction and distortion of *inter-brand* competition.

- 6) **The retail prices of textbooks do not differ during the subscription period and in regular sales, that is, in bookstores.** Retail prices are publicly available and can be found on the publisher's official websites, as well as on the relevant ministry's website. The Commission believes that the prices of textbooks in the subscription period should be lower than in regular sales. During the subscription period, the parents actually make an advance payment, and in that way they give free credit to the publishers and distributors, which is not in accordance with the usual commercial practice.
- 7) **The largest number of distributors stated that they sell textbooks at recommended prices.** The practice of selling textbooks at recommended prices also exists among distributors who stated that they have complete freedom in setting prices or that they are not conditioned by recommended prices, as a result of the distributor's desire to preserve its reputation in the eyes of the customer in terms of consistency and accountability in business. Distributors state that in the case of independent formation of prices, such prices would be higher than the prices found on the publisher's websites, and therefore parents would decide to buy directly from the publisher. The Commission notes that this way, *intra-brand* price competition among all participants in different distribution channels is eliminated.
- 8) **The setting of retail prices by publishers in the observed market is the rule rather than an exception.** The analysis showed that a large number of collected contracts contain provisions that determine the prices in further sales. In the contracts, the widespread of provisions obliging distributors to sell textbooks only to schools and end users was also observed, as well as the obligation of publishers to report on the achieved sales by schools, for which an additional rebate of 1-3% is approved.
- 9) **When setting the sales price of textbooks, publishers especially follow the price policy of publishers with a large and dominant presence.** The basic elements of the selling price of textbooks imply (1) the production cost, i.e. purchase value of goods sold, (2) estimated general operating costs and (3) publisher's margin, from which rebates to customers are covered.
- 10) **Publishers' margins range from 7% to 61.8%, while production costs are around 20% of the retail price of textbooks for all publishers.** The structure of the selling price also includes the textbook printing costs, which are the most significant production cost and range from about 11% to 30% of the textbook's retail price. Printing costs are the only cost in this category that occurs with all editions of textbooks, while other categories of production costs (author's fees, proofreading, reviews, text assembly, design, etc.) occur only with textbooks that were chosen in the respective year. In the structure of indirect costs, i.e. general operating costs, the differences between the observed publishing houses are major, but in most cases, administrative (overhead) costs, salary costs for employees, sales and marketing costs, and funds set aside for the digitization of textbooks are singled out.
- 11) **A third of the total sale of textbooks is realized during the subscription period.** The distributors that are the subject of the analysis sell textbooks mainly to schools during the subscription period. The share of this sales channel in the total sales revenue of distributors in the three-year period is relatively stable and amounted to around 60%. Bearing in mind that about 50% of the total value of sold textbooks is sold through

distributors, it can be concluded that about a third of the total sales of textbooks are realized during the subscription period.

11.2. Recommendations of the Commission

When making recommendations, the Commission, based on previously presented findings and conclusions, was guided by the goal of implementing the Law on Protection of Competition, which is the welfare of society and the benefit of consumers - students and parents.

- 1) **The Ministry in charge of education is hereby recommended to enable complete transparency in the process and procedure of textbook selection, primarily by continuously publishing an up-to-date register of textbooks.** Under the conditions of imperfect competition, which characterizes the textbook market, that is, when market imperfections are the result of a lack of information or information asymmetry, the most effective measures to eliminate inefficiency are those that increase the amount of information available to market participants. The law on textbooks adopted in 2018 provided for the existence of an electronic register of textbook publishers, which had not been formed at the time this analysis was launched. The majority of textbook publishers pointed out the consequences of failure to fulfill this legal obligation on the part of the relevant ministry, stating that the absence of a register prevents insight into the final choice of textbooks by schools and undermines the transparency of the market itself. The register of textbooks with individual votes of schools, by municipalities, for sets of textbooks, was published on the website of the ministry during the preparation of this report, with data related to the determination of schools in the 2021/2022 school year.
- 2) **The Ministry in charge of education is hereby recommended to formally define the issue of determining the retail price of textbooks.** As stated in the previous findings, the retail prices of textbooks are determined by publishers explicitly or implicitly in the form of recommended prices that are identical regardless of the sales channel and payment method. Given that the prices of textbooks according to the current legal solution are set freely, the prohibition of resale prices is applied to this market as a form of restrictive agreements in the sense of Article 10 of the Law. The current state of the textbook market leads to a misallocation of market participants' resources, higher retail prices of textbooks and a reduction in the well-being of students and parents. The findings of the analysis showed that the publisher's large funds are directed to marketing, promotional and other supporting activities, which could be used to improve the quality and development of new textbooks.
- 3) **The Ministry in charge of education is hereby recommended to clearly and unequivocally define permitted promotional and marketing activities, and to prohibit all other forms thereof.** In this way, the possibility of market participants being in an unequal position would be eliminated.
- 4) **The Ministry in charge of education is hereby recommended to prescribe clear, transparent and non-discriminatory criteria on the basis of which schools will choose textbooks, and to establish a mechanism for regular control of compliance with the prescribed criteria.** Access to schools could be of particular concern in the light of the

issue of publishers' access to digital platforms, through which access to textbooks is made possible. According to the statements of certain distributors, the digital platform used by the publisher is a significant factor when choosing textbooks in the lower grades of primary school, and choosing a publisher that uses a certain platform in the lower grade often means that the same publisher, i.e. its textbooks, will be chosen in the upper grade as well. In other words, the habits of teachers and students, acquired when using one platform, can negatively affect the choice of digital textbooks from another publisher, using a different digital platform.

- 5) **The Ministry in charge of education is hereby recommended to be the one to initiate a detailed cost analysis project in the value chain of the textbook market and the selection of financing models, as well as the procedure for the approval and selection of textbooks.** The aforementioned analysis should provide an answer to the question whether it would be justified to introduce the institute of the maximum retail price of textbooks, as well as to the question of introducing a system of public procurement of textbooks by schools, the justification of the choice of textbooks for a period of four years, given that it is primary education, the textbook renting model and others. Experiences in certain markets have shown that direct negotiations of certain institutions with publishers in the case of guaranteed sales can reduce the price of textbooks by 25% to 40%. The findings of this analysis pointed to very worrying differences that exist between textbook publishers, primarily in terms of margins and non-production costs.
- 6) **The Ministry in charge of education is hereby recommended to monitor the state of the textbook market annually.** Encouraging the development of competition in the market where the dominant company is present, requires monitoring the state of that market. This is necessary to identify potential problems in terms of both institutional gaps and market imperfections. In addition to quantitative data through mandatory surveys and statistical data on the textbook market, it is necessary to create a qualitative assessment that would explain the quantitative information. The document that would contain the above data could be in the form of an annual report.