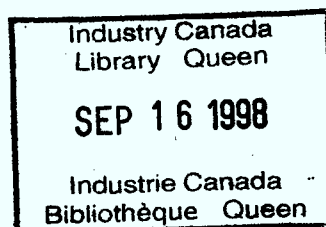


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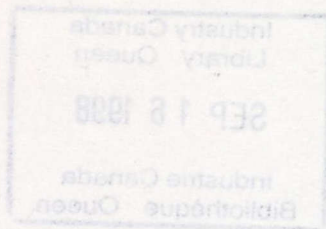


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DEVELOPMENT IN THE DISTRIBUTION
SYSTEMS FOR CANADIAN PERIODICAL,
BOOK AND NEWSPAPER PUBLISHERS

A report prepared for the
Research and Statistics Directorate
Arts and Culture Branch/
by
Dr. I.A. Litvak and Dr. C.J. Maule

Ottawa, 1980

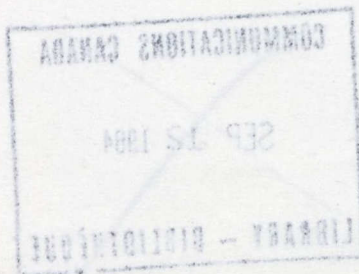




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INTRODUCTION

The purpose of this study is to examine the distribution systems employed by Canadian newspapers, periodicals, book publishers and libraries, in order to determine the economic factors affecting the use of existing systems, and the consideration being given to possible alternative systems. The results of the study are used to highlight the policy implications for the print media industries in Canada.

The study is divided into three parts. Part I provides an executive summary of the findings, the policy implications and highlights areas for further research. Part II presents a conceptual framework in order to identify the nature of the distribution systems, and the structural economic characteristics of the print media industries which affect these systems. The elements of the channels of distribution are identified, together with the actors, the functions performed by them, their vertical marketing relationships, the controls exercised between the different levels of distribution, as well as the areas of conflict which characterise these relationships. An understanding of the conceptual framework is a prerequisite to explaining the elements and key issues studied.

Part III identifies the principal actors involved in publishing and distributing newspapers, periodicals and books in Canada. Selected aspects of the distribution systems employed by the publishers are described and analysed, including the impact of emerging technologies on existing distribution arrangements. Reference is made to conditions of cost and service as they might impinge on some of these arrangements.

The material for the study was collected from personal interviews conducted by the principal investigators in Canada and the U.S., with newspaper, periodical and book publishers, national distributors, wholesalers, booksellers, libraries, organizations providing freight service, trade associations and government representatives, as well as from published reports and other secondary sources of information.

Conducted over a period of twelve weeks, this study should be viewed as a preliminary examination of distribution in the print media industries. Some of the topics, such as regional publishing and book ordering systems, have not been examined in previous studies. The distribution systems for newspapers, periodicals, mass paperbacks and books is a very large topic and the present study focuses on the English language print media industries. Other issues arise in the case of French language publications, including the greater distance from Canada to other major French language publishers and differences in the methods of distribution.

Particularly helpful assistance in carrying out this investigation was obtained from Mr. D. Rosborough, the project officer, Mr. J. Thera, Director, and other officials of the Secretary of State Department. In addition, we would like to acknowledge the excellent assistance and cooperation of many representatives of the print media industries.

PART I

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

1. An appreciation of the basic determinants and characteristics of distribution systems is necessary in order to analyse the existing and alternative distribution arrangements employed for periodicals, books and newspapers. Periodicals and books are distributed through short and long channel arrangements, which are conditioned by customer buying preferences, size of the publishing organization, the breadth of its product line and prevailing modes and costs of delivery. Conflicts that occur between the intermediaries in distribution channels are typically a response to changing economic conditions in the distribution system, which impact on the financial performance of the publishers and the intermediaries.

2. The distribution system for the print media industries, newspapers, periodicals, mass paperbacks and books, involves channels of distribution with intermediaries performing different functions. Within these channels flow information regarding orders, payment for the orders, printed materials, and property rights associated with the printed materials. All these aspects have to be understood in an examination of existing and alternative distribution systems.

3. There are particular obstacles to the promotion and circulation of Canadian publications in Canada, because these publications are a small fraction of total publications available, and because the distribution system in terms of many of its leading and critical intermediaries such as publishers and national distributors are either foreign controlled and/or based outside of Canada. As a result of this system, many of the smaller Canadian publishers tend to have limited access to the major channels of distribution, and this narrows their scope for realising the potential benefits from the mass marketing of publications.

4. Canadian Federal and Provincial governments have chosen to treat publishing as a cultural key sector of the economy. Policies and programs have been introduced which are supportive of Canadian publishing at various levels, e.g., the author, publisher, manufacturer, and distributor. Some of these policies, such as Bill C-58, the Foreign Investment Review Act, and the Ontario Government's Paperback and Periodicals Distributors Act, are aimed directly at the issue of foreign ownership; other are supportive of the print media industry and do not necessarily distinguish between Canadian-owned and foreign-owned firms.

5. The print media industries are international industries in terms of their source of material, publication, printing and distribution. Consequently, Canadian publishers publish material written by foreign authors, and Canadian authors may publish their work with foreign publishers for distribution in Canada, as well as elsewhere in the world. Many of the foreign owned publishers in Canada are largely Canadian marketing intermediaries (wholesalers) for their foreign parents and for other foreign published material. The implications of this fact must be carefully noted in any discussion of Canadian publishing and the role of publisher-agents.

6. The corporate landscape of the print media industries is populated by a wide variety of firms, large and small, diversified and single line, vertically integrated forwards and backwards, and of various nationalities. Ease of entry allows small firms to exist, at least for a period of time, and these firms tend to confine their activities to particular segments of the market. Large corporate entities, the media conglomerates, operate alongside the smaller firms and their activities are confined neither to one particular media industry nor to one nation state. The impact on Canada of the growth and operations of media conglomerates deserves special study, because the survival of small indigenous publishers hinges on their ability to gain access to the mass market distribution system. At present, this system is heavily dominated

by the operations and activities of foreign conglomerates, although some Canadian conglomerates may be emerging.

7. Canada has less than 5% of the world's English speaking population and these Canadians provide a potential market for the publications of the world's English language print media industries. Only a small fraction of new English language books are published in Canada. Most new titles are published in the U.S. and U.K. The challenge for distribution systems is to make all these titles available to the widespread Canadian population, and to ensure that the Canadian titles are not overwhelmed and receive adequate exposure. At present imports account for 72% of books sold in Canada. A similar distribution situation applies in the case of periodicals and mass paperbacks.

8. Since only a fraction of the available publications is actually published in Canada, both foreign and Canadian publications are distributed in Canada by the same channels. With this overflow circulation, the presence of Canadian publishers is dwarfed by the foreigners. The distribution system contains a wide variety of corporate and contractual arrangements involving vertical integration, foreign and Canadian ownership, mergers, concentration, and diversification. Any particular government policy regarding distribution is likely to have a differential impact on firms in the system because of their different corporate features.

9. Many of the magazines and mass paperbacks merchandised in Canada are of U.S. origin. U.S. publishers tend to employ U.S. associated distributors to cover both the U.S. and Canadian markets. Publishers who control their own national distribution organization generally handle the magazines and mass paperbacks of other publishers as well.

10. Prior to the expansion of Paperjacks (General Publishing) and the establishment of the joint undertakings involving Canadian mass paperback publishers and U.S. publishers, such as Macmillan-NAL and Seal (McClelland & Stewart-Bantam), the Canadian publishers lacked the marketing resources to embark on a program of direct mass paperback marketing. One of the major benefits of the marketing arrangements between the Canadian and U.S. publishers is in the promotion of national imprints. This allows the Canadian publishers to gain greater access to the distribution system for Canadian authored works, in addition to ensuring that they are well placed at the retail level.

11. Magazine and mass paperback sales at newsstands are growing at a significant pace, as consumers alter their traditional buying habits. According to magazine industry sources, "the growing increase in single copy magazine sales at the expense of subscriptions is due largely to increased subscription costs and the decline in the postal service." This trend is expected to continue and for this reason, the success of Canadian periodical and mass paperback publishers hinges on their ability to gain access to the wholesalers' serviced retail accounts.

12. The problem of accessibility can be approached in a number of ways. First, encourage the establishment of a new national distributor organization that would include some of the most successful periodical publishers in Canada - a joint venture arrangement. An organization comparable to that of Select Magazines in the U.S., involving such participants as Reader's Digest, Maclean-Hunter, T.V. Guide and Torstar, would provide Canadian paperbacks and periodicals with better access to the mass marketing system through greater influence with wholesaler serviced retail accounts. The establishment of such an organization would require a commitment by the participants to handle a minimum percentage of Canadian mass paperback titles.

Second, the CRTC option could be considered. In this instance, legislation might be designed to ensure that a certain percentage of Canadian authored titles be given space on retail shelves. Problems of control (monitoring), assigning responsibility (retailer versus wholesaler), and determining who is to assume the commercial risks associated with such guarantees are but a few of the key problems related to this policy thrust.

13. The use of private carriers in the United States in lieu of the Postal Service is an accepted fact and may account for more than 50% of total subscription circulation by the early 1980's. The figure is lower in Canada for the following reasons: the Canadian postal service is felt to be more efficient and less costly than that of the U.S.; alternate delivery capabilities are still in the formative stages in Canada; and most Canadian publishers lack the product breadth to achieve distribution and transportation economies from grouping related products such as newspapers, magazines and mass paperbacks.

One of the U.S. pioneers in experimenting with alternative delivery systems is Better Homes and Gardens which since 1971 has employed a technique referred to as "distribution marketing" i.e., the delivery of other materials to offset the cost of magazine delivery in urban areas. Through this technique, the majority of subscriber copies of the magazines will be delivered through "private delivery" at a cost below that charged by the U.S. postal service. Tying in local advertising, soliciting new subscribers, promoting other Better Homes and Gardens products such as books and craft kits, and sampling products advertised nationally in a particular issue of the magazine are but a few of the elements that make up a "distribution marketing strategy."

14. The print media industries are testing alternative distribution systems because of changing cost conditions. The implications of these alternative systems can only be understood by examining all stages in the channels of distribution.

Larger publishers have become increasingly involved with alternate delivery experiments. Smaller publishers have also been involved but in a piggyback arrangement with the more dominant firms. By merging delivery of smaller magazines with larger publications, a cost-efficient delivery density can be achieved. In such arrangements the standardization of the procedures and relationships between distributors and publishers must be established in order to reduce the costs of entry in alternative delivery for the smaller publishers. This is already happening, and is being facilitated with the employment of EDP technology by publishers, national distributors and wholesalers.

The prime candidates for establishing an alternate delivery capability are the newspapers, and a major Canadian newspaper firm is carrying out a feasibility study at this time for possible implementation in two years. Coalitions of magazine, newspaper, and book publishers may develop as a means for expanding and promoting local and national private carrier organizations.

15. In the distribution system for Canadian published and non-Canadian published books in Canada certain underlying forces are at work. Cost factors are favouring the operations of chain versus independent bookstores in the areas of shipping, transmitting orders via telecommunication hook-ups, and spreading the cost of fixed overheads. Independent stores are being adversely affected by increased labour costs and the associated costs of handling and shipping numerous small orders from a multitude of publishers. Chain stores are thus able to provide improved service to customers, especially for fast moving items. Independent stores are becoming specialist stores, but their markups make it difficult for them to provide adequate service. Independent stores do, however, provide a wider selection of books than that which is offered by the chain stores. The consumer benefits in terms of cost and delivery time where orders can be shipped in bulk the status of orders can be confirmed quickly.

16. Canadian publishers with agency arrangements are finding that they are being increasingly "bought around", as a result of improved service which is being given to Canadian libraries and booksellers by U.S. and U.K. sources of supply. This problem is due partly to the recent zero tariff rating for books entering Canada, but more importantly to the rapidly evolving book ordering systems in the U.S. by firms such as Bowkers, Ingrams, Baker & Taylor and Brodart. In the U.K., a sophisticated book teleordering system has been introduced by the Software Sciences Group, which facilitates the ordering of books and the fulfillment of orders, benefitting the publisher, wholesale and retail bookseller and customer. New book ordering systems also affect the commercial activities of Canadian book wholesalers. An examination of these evolving ordering systems shows that they vary widely in terms of their cost to the user, from \$50 a year to over \$10,000 a year. Such direct cost comparisons are not meaningful unless the different services provided by each system are compared.

17. The cost of transportation is an important variable in determining distribution efficiency, and over-all profitability of book publishers, wholesalers and retailers. The geographic span of Canada, the small size of many Canadian-owned publishers and booksellers, coupled with the need to maintain a reasonable product line (breadth) in a limited (size) market create a situation where the cost of freight to independent, small booksellers is unduly high.

To help overcome the problem of ordering small unit shipments from many publishers, independent booksellers could set up mini-consolidation arrangements with their publishers. These arrangements can be conducted in the warehouse of the publishers. By employing the consolidation strategy, booksellers will be able to save on transportation (freight) costs, as well as to improve on the quality and speed of delivery. The government should consider promoting discussion of the benefits and mechanics of consolidation strategies for the industry, in cooperation with the industry, through sponsorship of regional seminars

from coast to coast. The benefits of a consolidation strategy apply to publishers, wholesalers, booksellers and customers.

18. Book distribution in Canada will have to adapt to the changing cost conditions including those associated with the new teleordering systems. In order to assist in this adjustment process, it is suggested that there should be an in-depth study of the total book distribution process from author through to reader, including the activities of publishers, wholesalers, commissioned sales agents, libraries and booksellers. In this context, the new book ordering systems should be examined.

19. Such a study should encompass all stages of distribution, rather than focussing on only one or a few levels in the process. The study should examine the impact on each of the principal sets of actors of alternative book distribution systems. This examination should note the differences between the actors, e.g.: Canadian publishers which publish and carry agency lines, those which only publish, and those which are principally agents; Canadian book wholesalers which cater to library, to trade or to library and trade customers; chain bookstores which publish as well as retail books and those which retail books and other articles; independent stores which are not vertically integrated and those which provide both retail and wholesale service.

The present study found that a wide variety of contractual and institutional arrangements exists at each stage of the book distribution system. Consequently, any proposed change in the cost of doing business is likely to have a differential impact on the actors, and therefore some opposition to any proposal can be expected.

AREAS FOR FURTHER RESEARCH

To obtain up-to-date and adequate information for the development of government policy on publishing, certain topics require detailed examination. It is recommended that the topics be dealt with together

rather than separately because of their interrelationship and because of the vertical integration which causes changes at one level to affect changes at another. Specific topics for study include the following:

- I Corporate concentration and the growth of vertically integrated media conglomerates in North America.
- II The role and impact of computers and telecommunications equipment in the publication and distribution of the print-media industries.
- III A study of the structure, conduct and performance of the Canadian retail book industry, with special emphasis on the emergence of the retail chain store, and the feasibility of implementing a net book agreement.
- IV The impact of government procurement powers as a means of promoting a viable publishing industry in Canada. This examination should include an analysis of the impact of existing and potential federal, provincial and municipal government incentives to authors and publishers.
- V A study of the future commercial viability of the Canadian publisher-agent arrangements and of national wholesalers in the print media industries. Such developments as teleordering systems, revisions to domestic copyright legislation, international copyright conventions, and Canadian and U.S. antitrust considerations should be included.
- VI An examination of the feasibility of a private national carrier capability emerging in direct competition with the postal service. Private carriers will tend to compete with the more profitable segments of the postal service and therefore aggravate the postal deficit. Canada Post's method of allocating costs and establishing rates will therefore influence the emergence of private carriers.

PART II

THE DISTRIBUTION FRAMEWORK

A THE DISTRIBUTION SYSTEM

Distribution is the term applied to the process of moving goods from producer to the ultimate customer. It is usually thought of in the physical sense. In marketing goods and services, however, much more than simple movement of physical objects is necessary. Knowledge of who has the correct item, credit, service, and technical information are a few of the ingredients which must also be provided. Thus people and institutions are frequently involved in distribution without ever physically coming into contact with the product, or with one another.

For this reason, a channel of distribution may be defined as a sequence of marketing institutions, including middlemen, which facilitates transactions between producers and final users. The number of facilitating institutions can be very small when the producer sells directly to the customer, or quite large, when several types of middlemen perform successive operations in the product's distribution. The first case is called a short channel, the second a long channel. An example of both channels used in the distribution of a periodical is shown in Exhibit I.

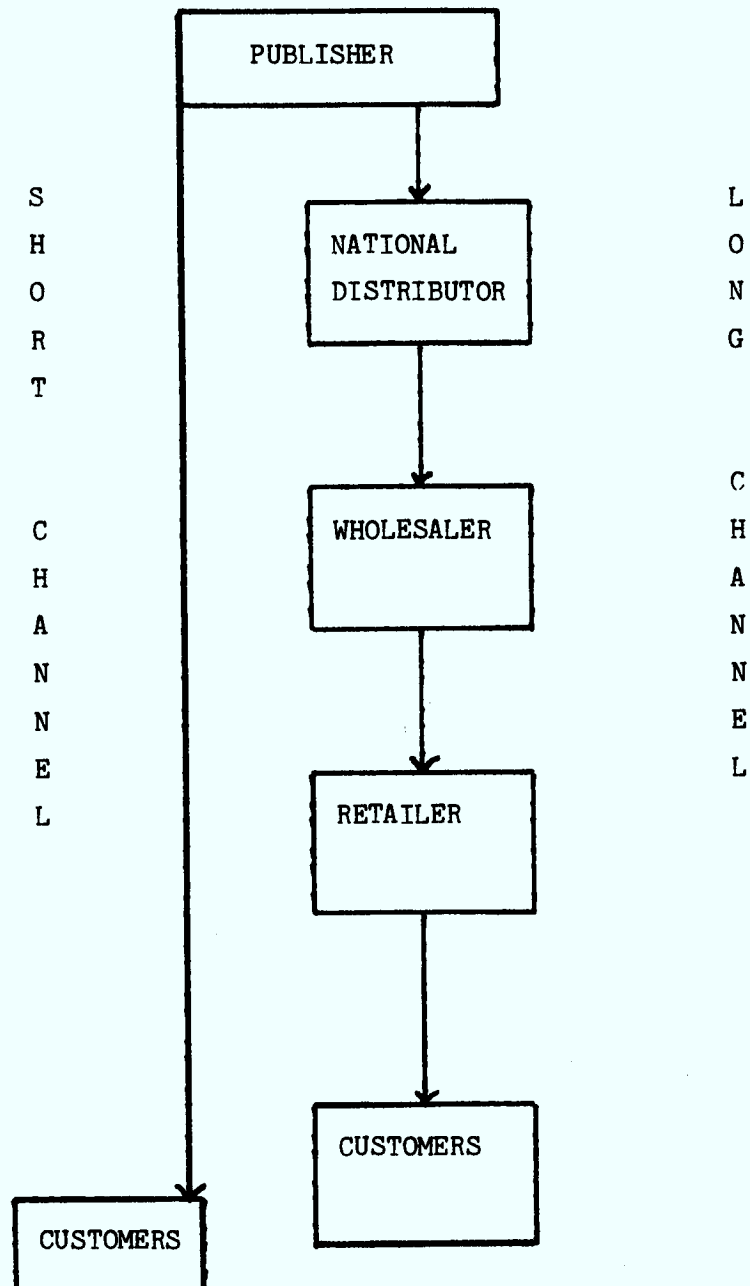
Channel length or complexity depends on the number of services required, and the manner in which they will be accomplished. Over the years, specialists have developed within channels when certain services required greater attention than others.

THE MARKETING CHANNEL

Every producer seeks to link together the set of marketing intermediaries that best fulfills the firm's objectives. This set of marketing intermediaries is called the marketing channel, trade channel or channel of distribution. The relationship among the participating concerns is symbiotic in that they are usually dissimilar but work together for mutual advantage. While cooperation should be the dominant theme among the members of a marketing channel, conflict is often no less pronounced.

EXHIBIT 1

PERIODICALS: EXAMPLE OF SHORT AND
LONG CHANNELS OF DISTRIBUTION



As previously noted, marketing channels range from the simple to the complex. The short channel consists of the direct sale of goods by producer to ultimate customer. A longer marketing channel shows at least one selling intermediary between the producer and ultimate customer. If the middleman is a retailer, his function is to purchase the producer's goods and resell them at a profit. The still longer marketing channel involves two or more different and vertically related selling intermediaries. The most common example of this two-stage marketing channel consists of wholesalers and retailers standing between the producer and final customers. Wholesalers and retailers are generally utilized in industries where there are several producers and a large number of final customers who buy the product in small quantities. They function to simplify the network that links producer to customer and therefore reduce the costs of distribution.

A long marketing channel may consist of three selling intermediaries, as in Exhibit 1, where a national distributor intervenes between the publishers and the wholesalers. From the publisher's point of view, the problem of control increases with the number of stages, even though the publisher may deal only with the stage just below him.

THE NEED FOR MIDDLEMEN

Why is the publisher generally willing to delegate some of the selling job to intermediaries? The delegation usually means the relinquishment of some control over how and to whom the products are sold, and appears to place the firm's destiny in the hands of intermediaries. Since producers are free in principle to sell directly to final customers, there must be certain advantages or necessities for using middlemen. Some of the major factors are:

- Many producers lack the financial resources to embark on a program of direct marketing.
- Direct marketing may require some producers to become middlemen for the complementary products of other producers, in order to achieve mass distributional efficiency.

- Some producers, who have the required capital to develop their own channels, often can earn a higher return by increasing their investment in other phases of their business.

The use of middlemen can be attributed to their superior efficiency in the performance of basic marketing tasks and functions. Middlemen or intermediaries, through their experience, their specialization, their contacts, and their scale often offer more economies than the producer can achieve on his own.

The chief functions of selling intermediaries are to assemble the lines of many producers into a product assortment of potential interests to buyers, and to break bulk to meet the customer's scale of need. The marketing goal of matching supply and demand requires carrying out a number of specific marketing functions:

1. Contactual - searching out buyers and sellers.
2. Merchandising - fitting the goods to market requirements.
3. Pricing - selecting a price high enough to make production possible and low enough to induce customers to buy the goods
4. Promotion - conditioning the buyers or the sellers to a favourable attitude toward the product or its sponsor.
5. Order processing - handling information and the billing of orders.
6. Physical distribution - transporting and storing the goods.
7. Termination - consummating the marketing process.

It is not a question of whether these functions must be performed, but rather who is to perform them. All of the functions have two things in common: they use up scarce resources, and they can often be performed better through specialization. To the extent that the producer performs them, his costs go up and his prices have to be higher. In delegating some of these tasks to middlemen, the producer's costs and prices are lower, but the middleman must add a charge to cover the use of scarce resources.

The issue of who should perform various channel tasks is largely one of relative efficiency and effectiveness. To the extent that specialist intermediaries achieve economies through their scale of operation and their know-how, the producer can gain through transferring some of the channel functions to their charge.

An important point to note is that marketing functions are more basic than the particular institutions that perform them. Changes in the number of channel stages and/or types of selling intermediaries largely reflect the discovery of more efficient ways to combine or separate the economic work necessary for presenting the customer with meaningful assortments of goods.

CHANNEL CAPTAINCY

The longer and more complex the channel arrangements become, the greater the need for direction and coordination of channel activities. Each middleman in the channel has his own goals and preferences for his stage of the operation. These goals and preferences usually conflict with one another for example:

- The producer would like to have ample stocks on retailers' shelves, but the retailer does not want his money tied up in more than what he feels is the minimal necessary inventory.
- Middleman complain that the producer does not provide adequate advertising and product information, while producers state that their distributors do not use the material they provide.
- Producers rarely feel that middlemen are selling their products aggressively enough, while middlemen say that they must spread their selling effort over a wide range of products to stay in business.

- Producers continually search for ways to obtain more market information. Middlemen, on the other hand, fear that producers will sell directly if they find out enough about the middleman's customers.

These conflicts result in a power play for control over the channel system, and the most powerful channel member ends up as the channel director or "captain". As a channel captain he is in a position to give directions to and make demands on other channel members. He can condition prices, trade discounts, credit terms, amount of advertising and service, sales and promotion effort, etc.

The producer of a nationally advertised product can often exercise control over the rest of the channel and is usually thought of as the channel captain. However, this need not be the case, since a strong wholesaler may refuse to handle a producer's product unless certain conditions are met. A retailer or agent middleman with strong customer loyalty may dictate terms to his suppliers. Power can also accrue to one party in the channel by default through indifference on the part of other channel members.

The producer may be forced to relinquish control because another channel arrangement is more efficient, or the one he desires is not available to him.

No matter how it develops, the emergence of a channel captain is necessary and of benefit to the distributive system. A distribution channel without guidance is directionless, each member pursuing his own ends, frequently to the detriment of others. A captain can integrate the individual channel members into a coordinated unit, all pursuing the same well defined policies to accomplish common objectives. This limits any short term individual pursuits which could harm the channel system, and assures a concerted effort toward overall continuing channel success.

The factors which must be considered in developing a channel are many.

CHANNEL DESIGN

Channel decisions are typically studied from the vantage point of the producer in search of distributional effectiveness. This perspective is still the most relevant because most existing channels are dominated by the producers. Nonetheless, some channels are "captained" or dominated by other participants, such as the retailing chains.

The development of dominant retailers largely reflects the existence of economies of scale and assortment in distribution exceeding those available in production. The emergence of powerful associations of middlemen who dominate certain channels illustrates that opportunities also exist for a collectivization of power by middlemen to countervail the strength of individual producers.

The major steps in designing an effective channel system consist in determining the channel objectives and channel constraints, and distinguishing and evaluating the major feasible channel alternatives.

The starting point for the effective planning of channels is a clear determination of which markets are to be the target of the company's marketing effort. In principle, the choice of markets is not a problem of channel design but precedes it. It is part of the determination of overall company product-market objectives. In practice, however, the choice of markets and choice of channels are interdependent. A firm may discover that markets it would like to serve cannot be served profitably with the available channels. Each producer shapes his specific channel objectives from major situational constraints stemming from the customers, products, intermediaries, competitors, company policies, and the environment. The implications of each factor for channel-design objectives will be discussed briefly.

(a) Customer Characteristics. Channel design is greatly influenced by such characteristics of the customers as their number, geographical distribution, purchase frequency and average quantities bought, and susceptibility to different selling methods. When the number of customers is large, producers tend to use long channels with many middlemen on each level. The importance of the number of buyers is modified somewhat by the degree of their geographical dispersion.

(b) Product Characteristics. Each product has a bundle of attributes. Some attributes, such as product content, colour and hardness, may have no bearing on channel design; other attributes, such as time-use (perishability), bulk, degree of product standardization, service requirements, and unit value, often have very important implications for channel design.

(c) Middleman Characteristics. Channel design also takes into account strengths and weaknesses of different types of intermediaries in handling such tasks as transit, advertising, storage, and contact intermediaries also differ in their requirements for credit, return privileges, training, and frequency of shipment. In addition, the number, locations, size variations, and product assortments of intermediaries differ and affect the design of channels.

(d) Competitive Characteristics. The channel design is also influenced by the channels that competitors use. The producers in some industries want their products to compete in or near the outlets carrying competitors' products. This often means using the same middlemen.

(e) Company Characteristics. A company's channels are also influenced by the company's size, financial strength, product mix, past channel experience, and overall marketing policies. The company's overall size in the industry determines the extent of its markets and the size of its larger accounts; it also determines the company's ability to secure the cooperation of intermediaries it elects to use. Its financial strength determines which marketing tasks it can handle and which ones to delegate to intermediaries.

(f) **Environmental Characteristics.** Channel design is further influenced by such environmental factors as economic conditions and the law. Legal regulations and restrictions also affect channel design, e.g., door to door selling. Through a host of federal and provincial statutes and judicial and administrative decisions, the law has sought to prevent certain channel arrangements which "may tend to substantially lessen competition or tend to create a monopoly."

The next step in channel design is to distinguish the channel alternatives facing the firm. In many industries, most competitors use the same types of intermediaries and thus the firm does not really face alternatives. In some industries, however, producers use quite different but well-defined alternative marketing channels.

The number of intermediaries used at each stage is influenced by the degree of market exposure sought by the company. Three degrees of market exposure can be distinguished.

1. Intensive distribution. Producers of convenience goods such as newspapers, periodicals, mass paperbacks and books seek intensive distribution; that is, the stocking of their product in as many outlets as possible. The dominant factor in the marketing of these goods is their place utility, i.e., their ready accessibility at the outlet.

2. Exclusive distribution. Some producers deliberately limit the number of intermediaries handling their products. The extreme form of this is exclusive rights to distribute the company's products in its territory. This policy may go along with exclusive dealing, where the producer requires the dealers not to carry competing lines: this situation is not common in the publishing industry.

3. Selective distribution. Between the two policies of intensive and exclusive distribution stands a whole range of intermediate arrangements which have been called selective distribution. Selective distribution involves the use of more than one but less than all the intermediaries which are willing to carry a particular product. It is used by both established companies with good reputations and by new companies seeking to get distributors by promising them selective distribution.

MARKETING TASKS

Every producer faces a certain set of tasks in moving his goods to the target markets. The role of intermediaries is not to increase the number of these tasks but to perform them more efficiently. As a minimum, these tasks include the following:

- T = transit, the work of transporting the goods.
- A = advertising, the work of informing and influencing buyers.
- S = storage, the work of carrying out an inventory which orders are filled.
- K = contact, the work of searching for and negotiating with buyers over terms.

In arranging the tasks to be performed by different types of intermediaries in the channel, the producer must also determine the most effective mix of conditions and responsibilities. The "trade channel relations" mix is capable of many variations and introduces a still further dimension of channel alternatives. The main elements in the trade relations mix are the price policies, conditions of sale, territorial rights, and the specific services to be performed by each channel member.

Finally, each channel alternative must be evaluated for its overall implications by criteria. The first is economic; i.e., what does each channel alternative imply about the firm's ability to remain competitive. The second is related to control; i.e., what does each

channel alternative imply in the way of possible sources of channel conflicts? The third is adaptive; i.e., what does each channel alternative imply about the firm's flexibility in meeting new competitive and distributional challenges?

CONTROLLING THE CHANNEL AND VERTICAL MARKETING RELATIONSHIPS

The producers' incentive for controlling the function of their channel stems from three sources: poorly trained middlemen, the coordination of otherwise heterogeneous decisions, and intrasystemic competition. The value of control where middlemen have insufficient experience, or possibly lack the time or interest in acquiring an adequate background, is obvious. When left to their own devices, such middlemen often make decisions which serve neither their own nor their suppliers' interests. When producers can show these firms how to improve their operations, a solid basis for control can be established.

The producer has four basic ways in which to affect the middleman's financial return: (1) reduce the intensity of intrasystemic competition; (2) enhance the demand-generating power of his marketing program; (3) raise the monetary incentives for the middleman; and (4) improve the middleman's marketing practices.

The level of control that the producer attains over one middleman will affect his ability to control the others in his distribution system. Similarly, loss of control over one will undermine his influence over the others. The producer who attempts to exercise control inconsistently within his channel will eventually erode much of his power to control.

Middlemen may vary greatly in their skill, knowledge, and general competence. Deficiencies may be temporary or permanent in character, and some may be more easily corrected than others. For many multiproduct middlemen, the problem may be the high cost in time and money

of keeping fully informed about the detailed market developments of all the products they handle.

Regardless of the nature and extent of the problem, the producer's opportunity to alter the middleman's financial return exists if he can provide the middleman with product marketing programs that both recognize changing market conditions and adapt to special middleman problems of space limitation, high personnel turnover, increasing labor costs and high carrying and ordering costs. Wholesaler support programs involving operating manuals, professionally prepared advertising programs, inventory control systems, and accounting systems is but one example of such assistance and cooperation.

The willingness of a middleman to accept supplier authority is heavily dependent upon the number and value of alternatives the middleman holds. Where these alternatives are numerous and easily obtainable, the termination of relationship with a supplier that might result from rejecting control does not bear a heavy penalty. On the other hand, if the supplier's product represents all or substantially all of the middleman's business, he is likely to be more amenable.

The ability of a customer to make special demands upon a supplier will depend upon the importance of the customer to that supplier. In cases where a customer takes only a small amount of business from a supplier, and this volume of business is considered by the supplier as unlikely to rise, then it would seem improbable that the customer's requests or demands will be responded to. (1) At the other extreme where a customer takes such a large proportion of a supplier's total sales that a situation of "partial integration" or "vertical quasi-integration" (2) exists, then the supplier is likely to be very responsive to the customer's demands. In the latter situation the supplier may well absorb, in the short run, a considerable portion of the costs arising from the customer's problems.

Generally speaking, the middleman's willingness to tolerate the supplier's authority is determined by a number of factors: middleman dependence upon his supplier, the relative status of supplier and middleman, the accepted role of the middleman, social patterns of business exchange, and bureaucratic rigidity within the supplier organization.

The need for control in distribution systems emerges because coordination left to competitive market forces alone often results in less than optimal decision patterns for both the operators of the system and for the customers they serve. Control problems occur because efforts by one firm in the system to influence the others has a differential impact upon the values of system members. This differential impact is peculiar to multi-firm channels where the task is more difficult than in vertically integrated systems.

Within the channel system, three forms of conflict may occur. First, there is horizontal competition such as middlemen of the same type; for example, independent bookseller versus independent bookseller. Second, intertype competition which is horizontal competition between different types of middlemen in the same channel sector such as chain store versus independent store. Finally, there is vertical conflict which exists between channel members at different levels, e.g., between independent stores and wholesalers.

SUMMARY

An appreciation of the basic determinants and characteristics of distribution systems is necessary in order to analyse the existing and alternative distribution arrangements employed for periodicals, books and newspapers. For example, periodicals and books are distributed through short and long channel arrangements, which are conditioned by customer buying preferences, size of the publishing organization, the breadth of its product line and prevailing modes and costs of delivery. Conflicts that occur in and between the channels are typically a response to

changing economic conditions in the distribution system, which impact on the financial performance of the publishers and the intermediaries.

An understanding of the basic economic conditions affecting the print media industries, as well as an understanding of distribution systems, is necessary in order to focus on select issues of policy concern.

B PRINT MEDIA INDUSTRIES - SELECTED ECONOMIC ASPECTS
STRUCTURAL CHARACTERISTICS

Newspapers, periodicals and books are three segments of the print media industry, and as such have a number of common economic characteristics which permit some general discussion. The three segments require the authoring of written material, news stories, editorials, articles and manuscripts, the manufacture of the newspaper, periodical or book, and their distribution to a large number of readers.

One major difference between the segments is that newspapers and periodicals place heavy reliance on advertising as a source of revenue, while books do not. The print media industry competes with the electronic media industry, radio and television, both for authored material and for advertising. In the Canadian situation this competition comes from outside Canada, especially from the U.S., as well as from inside Canada. The phenomenon of "overflow circulation" noted in the case of periodicals, also occurs in the case of books, and to some extent in the case of newspapers, e.g., Wall St. Journal, New York Times, Daily Express and Financial Times. Radio and television overflow from the U.S. is also experienced by Canadians on a day-to-day basis.

The distribution of Canadian newspapers, periodicals and books is affected by the extent and nature of the competition between the print media industries and the electronics media industries, and between the Canadian and U.S. media industries. The fact of foreign ownership of publishers (book and periodical) and of distribution channels (national distributors, wholesalers and bookstores) in Canada complicates the analysis. In order to focus on the topic of distribution, it is necessary to have some appreciation of the basic economic characteristics of the print media industries. It is recognised that there are differences between newspapers, periodicals and books, and while some of these differences will be noted and contrasted, the discussion at this stage will be directed at the three segments as a group. Later sections will deal with selected issues in each segment of the print media industries.

ENTRY

Entry into the print media industry is extremely easy or open at the stage of authoring an article or manuscript. As a result of his/her basic education, everyone views himself/herself as a potential author, and the marriage of ideas (creative ability) with pen and paper seems to present no deterrent to entry. General printing facilities are also readily available, numerous and accessible through the yellow pages of a telephone directory. Distribution presents a bit more of a problem, but if the audience is known the postal system can be used to reach the readers. Clearly there are all sorts of qualifications to this description of entry, in that the print media industry involves primarily a few very large newspaper publishers, book publishers and periodical publishers whose operations are based on firm and plant economies of scale and scope. However, there are a large number of weekly newspapers and periodicals with small circulations and small book publishers. The existence of these small publishers and the start-up of new ones each year is evidence of ease of entry. Their frequent demise or request for government support suggests that they may not be soundly based or that conditions deter their growth and success.

However, entry at the publishing stage does not assure entry into effective channels of distribution. The print media industry is characterised by corporate dualism, the existence of both large and small firms, and the access to channels of distribution faced by large firms may be different than that for small firms. Many small Canadian periodical and book publishers contend that they are excluded from having their products carried by marketing intermediaries which utilize channel arrangements that enjoy mass market appeal. Corporate dualism is reflected in the industry associations in Canada, where the large and small newspaper, periodical and book publishers tend to belong to different industry groupings. Government policy that assists one group may not be beneficial to the other group.

PRODUCT DIFFERENTIATION

Ease of entry at the author level is really another way of saying that the product of each author is different and is intended to be different. Consequently, there is a high level of product differentiation in the print media industry. Each book, article and editorial is different from any other book, article and editorial, and the objective of publishers is to publish something that no one else has published, or in the case of a daily newspaper, where there are common stories from news-wire services or syndicated columns, in a format different from that of other newspapers.

Rather than stress this very fine degree of product differentiation, a more aggregated approach would note the difference between trade-books, textbooks, reference books, literary books, quality paperbacks, mass paperbacks, etc. For periodicals, product differentiation can be clearly seen by standing in front of a magazine stand, where in recent years there has been a blossoming of new special interest magazines.

As a result of product differentiation the publisher has to collect authored material from a large number of sources, and distribute it to an even larger number of readers, who have to be made aware of its existence. While the main emphasis in channels of distribution is on the stage from publisher to reader, the channels also include the stage from author to publisher. A Canadian author may well be attracted to using a foreign publisher if it results in greater marketing exposure through a superior distribution arrangement.

CONCENTRATION, DIVERSIFICATION AND INTEGRATION

It is difficult to examine concentration, diversification and integration without first understanding entry and product differentiation. Prominent features of the corporate landscape in North America are media conglomerates with interests in newspaper, book and periodical publishing,

film making, radio and television. In addition these conglomerates may be vertically integrated into printing, pulp and paper, distribution systems and finance companies, and diversified into non-media related business. The post-industrial society has been described as an information-based society. The media conglomerates and the telecommunications firms are leading corporate entities in this stage of economic development, and are at the cutting edge of effecting new distribution arrangements.

There are economic reasons for the existence of the media conglomerates. These include the fact that transaction costs of doing business are reduced when transactions take place within a firm, than when they occur on an arm's length basis. For example, an author employed by a company (or on a long term contract with a company) can often deal with a publisher, and a distribution system under the same corporate umbrella, more cheaply than if the author has to contract first with the publisher and then with a distributor.

A second economic reason for media conglomerates is that the costs of producing a manuscript are almost all associated with the cost of producing the original manuscript: the costs of reproduction of subsequent copies are minimal. This circumstance is one of the rationales for the issuance of copyright, because without it the incentive to write would be reduced. A similar rationale applies to inventors and the patent system.

The media conglomerate's interest in an authored work is that the same work can often be used in a number of media, books, periodical and newspaper articles, radio, television, plays and films. By marketing the total package, the media conglomerate becomes an extremely efficient and profitable channel of distribution for an author's work. Careful timing and coordinated promotion can provide the potential for tremendous sales. The problems of course are for the author who is not tied in with a conglomerate, and the publisher and distributor who has to compete with one.

While corporate dualism stresses differences in the size of firms in the same line of business, and the subsequent difference in degrees of concentration, corporate diversification and integration result in another type of corporate entity in the publishing-distribution game. These characteristics present a problem for government policy, because the needs and response of a small non-integrated literary book publisher in the Prairies, or a small specialised periodical publisher in Newfoundland, will be quite different from that of a media conglomerate in central Canada, such as Torstar, Southam or Maclean-Hunter. In order to be effective, government policy has to be selective in identifying its targets within an industry, and thereby be not susceptible to the charge of discrimination.

Concentration, diversification and integration has a special dimension in the distribution of mass paperbacks and periodicals. There are a number of instances where the publisher and the national distributor are vertically integrated as with Maclean-Hunter and Coast to Coast in the case of periodicals, and Harlequin with respect to mass paperbacks. This type of vertical integration is rare in Canada because with very few exceptions, the national distributors in Canada are U.S.-owned and domiciled, and are subsidiaries of large U.S. publishers.

In the case of book distribution, concentration is reflected in the increasing importance of chain bookstores. The pressure placed on independent trade bookstores is similar to pressures which have developed in other areas of retailing, and results from identifiable economic forces. The chain store outlet is most readily associated with food retailing, but has also occurred in the case of drugs, hardware, automobile accessories and sporting goods. Names such as Dominion Stores, Safeway, Boots, Home Hardware, Canadian Tire, and Arlingtons are associated with this development.

One observer has described the retail evolution in North America as follows:

In a period of about a decade after World War I, a limited number of very large mass distributors captured significant minor fractions of various national and local distributive markets, including those involving groceries, drugs, auto accessories, and the like. Their intrusion either displaced or seriously reduced the earnings of numerous small and non-integrated wholesalers and retailers. It introduced more vigorous competition into the distributive trades generally, and forced numerous structural adaptations by the small and medium-sized enterprises that survived in these trades. Of all this complex of effects, the one which served as the basis of pleas for public policy interference was the displacement of or loss of earnings by small retailers and wholesalers. These groups were vociferous and politically effective in securing public intervention of a sort generally designed to preserve competitors (themselves) by restricting competition in the distributive trades. The most effective organized groups were retail druggists and independent grocery wholesalers. But they had many allies in the distributive trades, and some qualified support from groups of manufacturers of consumer goods with nationally advertised brands. (3)

The economic forces which led to these changes included the economies of scale associated with mass purchasing, display, national advertising and selling. For the consumer, convenience (cost saving) is provided when one-stop shopping replaces numerous stops. the disadvantages are that the consumer may buy the good with less service or information, and provide part of the handling costs by having to select the items off a shelf and bring them to a cashier. In effect a chain store and an independent store selling the same item actually sell a different item, because one is sold with less service than the other. The

grocery retail trade adjusted to these forces by segmenting the market between chain stores, delicatessens and corner grocery stores, with the delicatessens selling specialty items, and the corner stores providing convenience in terms of location and hours of opening. It should be noted that developments are still taking place as delicatessens become incorporated in chain stores, e.g., Ziggys in Loblaws, and the corner stores become chains, e.g., Mac's Milk and Pinto.

Studying the developments which have taken place in other areas of retailing is helpful in understanding the economic forces at work in book retailing. The chain book stores are a factor of increasing importance and are providing competition to existing independent stores. The chains do, however, differ from each other. For example, Cole's is vertically integrated as a publisher and remanders books as part of its bookselling business; W.H. Smith sells books, periodicals, stationery and games and has a library wholesaling operation; Classics sells books only; the department stores have book departments with various types of books; and some independent stores are becoming mini-chains by increasing their outlets.

Not only are there differences among the chain bookstores, but already independent stores are beginning to adapt by divesifying into wholesaling operations to supply libraries, and by extending the range of products sold. The survival of the independent bookstore will probably depend on its ability to adjust, either by becoming a specialty store, or by diversifying or integratnig. The independent bookstore would benefit by reducing the costs of acquiring books, for example by dealing with one source of supply both for ordering and payment. However, other areas of retailing indicate that the process of change is irreversible.

The deliberations of the Distribution Task Force of the Book and Periodical Development Council reflect the issues discussed by Professor Bain in his treatment of the evolution of distribution systems. It is interesting to speculate why similar developments affecting other retail

business in North America have emerged only recently in the case of bookselling, particularly in view of the fact that in Canada concentration at the retail level is significantly higher than in the U.S.

In sum, the nature and extent of concentration, diversification and integration will give rise to different distribution problems and opportunities for different corporate entities, and to policy needs to recognise these differences explicitly.

PRODUCT CHARACTERISTICS

One striking difference between newspapers, periodicals and books is the time value (perishability) of the product. Daily newspapers are valued by the reader for their same day receipt, weekly news magazines for their same week receipt, monthly magazines for their monthly receipt, and best-selling books for their instant availability, or for a short delay between the publicity surrounding the book and its availability. A delay in receiving reference and text books, except for certain users and certain times of the year, is usually acceptable. The best organised and most efficient distribution systems tend to be found in the cases of publications which have a high time-value factor, namely daily newspapers and periodicals. For these publications the channels of distribution are well defined. In the case of books, the channels are less well organized and there frequently exist parallel channels, some short and some long, for the same publication, with a different entity being the channel captain in each case.

Time plays another role in the market. Whereas second-hand newspapers have little more than scrap paper value for recycling, there does exist a second-hand market for old periodicals, such as Penthouse, Playboy, True Romances, and Better Homes and Gardens. This causes periodical distributors to employ resources to undermine the second-hand market, by requiring unsold periodicals to be returned, accounted for, and then destroyed. In the case of books, apart from second-hand bookstores, the failure of a new book to sell will lead to it being remaindered

through existing stores. Another consequence of time-value is that there may be considerable price discrimination and loss-leader selling practised in the industry.

For the print media industries, the distribution system involves a complex and costly returns system for newspapers, periodicals and books. Although a retailer may take title to the printed product, the fact that there are generous return privileges, means that the retailer is little more than an agent for the publisher or his representative.

GOVERNMENT SUPPORT

The print media is not a regulated industry, in the sense that industries such as public utilities, air transport, trucking, agricultural marketing boards and energy are regulated. However, print media firms are regulated to some extent, in that they are incorporated and are subject to libel laws, competition policy, the Foreign Investment Review Act, occupational safety regulations in the printing industry, Bill C-58 re the deductability of advertising expenditures, provincial orders in council re book acquisitions, provincial regulations on periodical distribution, and many other policies.

The print media industries are considered to be a cultural key sector of the economy and this explains why, in addition to regulatory policies, there are federal and provincial financial assistance programs for print media firms, administered by the Secretary of State, the Canada Council and the Ontario Arts Council. Any new policy or initiative concerning distribution which alters an existing policy will have to be cognisant of how it fits with what is already there. The differences in corporate profiles and the range of existing policies, considerably complicate the introduction of something new.

One final aspect of the general economics of the print media industries is the use of computers to control machinery, and to collect and process information related to distribution. The importance of this subject became evident through constant references to it during interviews and discussions. The marriage of the computer and telecommunications industries, and especially the development of micro-processors or computers on a chip, is revolutionizing distribution systems.

At the point of sale, cash registers are linked to computers, and thereby perform accounting functions, inventory control and even placing orders. Computers are used in library book acquisition, cataloguing and circulation control. Periodical and book distributors use computers to control ordering, returns and billings. The use of intelligent terminals linked to computers is clearly labour saving and reduces delivery times.

The problem in the case of Canada is that the transmission of information can be undertaken through the use of the telephone network, which does not respect national boundaries, so that by reducing the cost of transmitting information the sourcing of material can occur in a number of different countries. If at the same time there are economies of scale in book distribution, and the size of the U.S. market, but not the Canadian market, allows these economies to be realized, then developments in computers and telecommunications favour sourcing in the U.S. to the detriment of promoting the Canadian publishing industry.

SUMMARY

An understanding of the structural characteristics of the print media industry is a prerequisite to explaining the nature of the existing and evolving distribution arrangements, the identification of channel captaincy, the division and specialization of the marketing tasks, and the direction and forms of channel control. A dominant characteristic is the

degree of forward vertical integration by the major publishers into distribution, in the case of periodicals, paperbacks and newspapers. Concentration in this case refers to production and wholesaling. The situation with respect to book publishing is somewhat different, where channel captaincy is increasingly being shared by the major publishers, and the retail chain bookstores.

The dimension of foreign ownership, specifically U.S., which results in injecting corporate concentration from abroad into Canada, provides added competition for existing Canadian publishers, and high entry barriers for new entrants both in publishing and distribution, unless they are resigned to filling niches in the market. An exception to this observation is the case of the few emerging Canadian media conglomerates, such as Maclean-Hunter, Torstar and Southam.

FOOTNOTES FOR PART II

- (1) See M.A. Adelman, "The Large Firm and Its Suppliers", Review of Economics and Statistics, Vol. XXXI, No. 2, May 1949, pp. 113-118.
- (2) See H.J. Blois, "Vertical Quasi-Integration", Journal of Industrial Economics, Vol. XX, No. 3, July 1972, pp. 253-272.
- (3) Joe S. Bain, Industrial Organization (Wiley & Sons, New York, 2nd Ed., 1968), pp. 609-610.

PART III

SELECTED ASPECTS OF THE DISTRIBUTION SYSTEM

A PERIODICALS, MASS PAPERBACKS AND NEWSPAPERS

STATISTICAL OVERVIEW

Periodicals

Periodicals sold in Canada consist of two types, those which are published in Canada, and those which are published abroad and sold in Canada by way of "overflow" circulation. In the former group, more than a thousand periodicals are listed and distributed between five categories, roto magazines, religious magazines, scholarly journals, consumer magazines, and business magazines. The number in each category together with its circulation for 1977 is shown in Exhibit 2. Change in the periodical industry in Canada is reflected in the fact that between 1976 and 1977, 129 new periodicals were started up and entered the industry and 91 publications were terminated. Most of these were in the consumer and business categories. Consumer magazines had slightly more exits than entrants, 52 versus 48, while new business magazines totalled 79 and exits were 38.

EXHIBIT 2

CANADIAN PUBLISHED PERIODICALS,
NUMBER AND CIRCULATION BY TYPE, 1977

<u>Type of Periodical</u>	<u>Number</u>	<u>Circulation</u> '000
Roto Magazines	16	9,703
Religious Magazines	23	907
Scholarly Journals	5	13
Consumers Magazines	302	24,698
Business Publications	<u>655</u>	<u>8,044</u>
Total	1,001	43,365

Source: Statistics Canada, Newspapers and Periodicals, 1976-1977, Cat. 87-625, Feb. 1979.

Advertising in Canadian periodicals totalled \$166 million in 1977. This represents about 12% of advertising in all the major media groups, a share which has remained unchanged since 1970. Consumer magazines' share of advertising revenue was 2.5% in 1970 and 2.7% in 1977, after a decline in the intervening years.(1) In 1977, the Canadian consumer magazines with the largest per issue circulation were Reader's Digest, TV Guide, Chatelaine and Maclean's.

A recent report concludes that U.S. consumer magazines circulate in Canada about one-third of the copies of Canadian consumer magazines. About 70% of the U.S. circulation is accounted for by 42 magazines each with a per-issue circulation in excess of 40,000. The largest U.S. magazines are National Geographic, Woman's Day, Family Circle, Penthouse, Playboy, and the National Enquirer. These magazines are distributed in Canada both on a subscription basis and through newsstands. Subscription copies are usually trucked to Canada where they clear customs and then enter the Canadian postal system.

Mass Paperbacks

There is little statistical information concerning the Canadian mass paperback industry. Some industry representatives believe that total retail sales in 1978 exceeded \$125 million dollars. One way to verify it is to estimate the number of units sold, multiplied by the average selling price. Some 500 million units are sold annually in the U.S., and if one uses the 10 to 1 yardstick, one could "guesstimate" that in 1978 some 50 million units were sold in Canada. The average retail price is in the area of \$2.50. It should be noted that the market for mass paperbacks appears to be better developed in Canada than in the U.S., and consequently the ratio might understate the Canadian unit volume of sales.

Approximately 70% of the mass paperback titles sold in Canada are of U.S. origin, in excess of 20% is non-North American, and about 5% is Canadian in origin, i.e., authored by Canadians. Thus, the major source of supply is the U.S., and in the case of non-North America it is

primarily the United Kingdom. U.K. publishers have minimal access to the wholesalers' serviced accounts, relying largely on direct marketing. Although imports play a dominant role in the distribution of mass paperbacks, the actual physical printing of these "imported paperbacks" is increasingly taking place in Canada.

Exhibit 3 lists the Canadian market share enjoyed by each of the major publishers of mass paperbacks - Canadian and foreign - for 1977. These figures are drawn from the 1977 Paperback Unit Sales Survey which represents book line sales reports from 16 Canadian wholesalers with a total unit sale of 13.5 million. The unit sales are considerably below the 50 million unit total for two reasons: first, wholesalers account for approximately 70% of total paperback distribution in Canada, with the remainder handled directly by the publisher, i.e. to retail accounts, typically the chain variety; and secondly, the survey involved only 16 of some 39 wholesalers, albeit it included many of the major wholesalers in Canada. In spite of these limitations, both publishers and wholesalers view the sales share figures to be a reasonable facsimile of the market share position enjoyed by the publishers in Canada.

Newspapers

A recent Statistics Canada survey lists 122 daily newspapers, 979 community newspapers, in addition to 110 ethnic newspapers, 87 university newspapers and 16 pop weeklies. The daily newspapers, 90% of which are broadsheets and 10% tabloids, have a circulation in excess of 5 million, and the community newspapers have a circulation of almost 10 million. For the daily newspapers, the total revenues are \$849.1 million (\$661.4 million advertising revenues and \$187.7 million sales revenues): the weekend supplements earn \$30.8 million in addition (\$25.8 million advertising revenues and \$5.0 million sales revenues). The non-daily newspapers earn \$112 million in advertising and sales revenue with advertising accounting for three-quarters of the total. The community newspapers are part of this total, along with ethnic and university newspapers and the pop weeklies.(2)

EXHIBIT 3MARKET SHARE ESTIMATE FOR THE
WHOLESALE SERVICED MARKET - 1977

	Sales % of Total Sales
BALLANTINE TOTAL	5.0
CAPITAL-Belmont Tower TOTAL	0.8
Fawcett Books	7.2
Popular Library	2.7
CBS/FAWCETT TOTAL	9.9
Collins-Fontana	0.1
Pan Books	0.1
Above Combined	1.1
COLLINS TOTAL	1.3
CURTIS TOTAL	1.0
DELL BOOKS TOTAL	8.7
GENERAL	0.6
G & G Womans Wkly. Lib.	3.6
Harlequin Books	11.7
Harlequin Presents	6.8
HARLEQUIN TOTAL	18.5
Warner Books	4.3
Pinnacle Books	2.0
INDEPENDENT TOTAL	6.3
Avon Books	5.3
Jove/Pyramid	1.6
ICD TOTAL	6.9
Berkley Books	2.2
Beeline Books	1.3
Leisure Books	0.3
Major Books	0.1
Zebra Books	0.3
Other Kable Books	0.6
Above Combined	0.3
KABLE TOTAL	5.1

...cont'd.

EXHIBIT 3 cont'd.

	<u>Sales % of Total Sales</u>
Signet Books	5.6
Daw Books	0.2
Above Combined	0.2
NAL TOTAL	6.0
PDC/Ace Books	2.0
Paperjacks	1.8
Pocketbooks	6.1
Playboy Press	0.7
Above Combined	0.5
PAPERJACKS TOTAL	9.1
SELECT-BANTAM TOTAL	12.6
MISCELLANEOUS	2.6
<u>TOTAL</u>	<u>100.0</u>

Source: CPDA News, October 1978, p. 36.

A detailed treatment of newspapers in Canada by way of statistics, ownership and issues was provided in the 1970 Report of the Special Senate Committee on Mass Media. Three developments of note since that time are the continued development of media conglomerates in North America, including newspapers; telecommunications developments which now allow regional editions of papers, such as the Wall Street Journal, to be published in different places, but with editorial copy produced in one place; and the further development of the rights market, which allows editorial copy to be marketed through a variety of print and electronic media.

Newspaper distribution overlaps with periodical distribution, in that "roto" magazines are circulated with newspapers, and some newspapers are distributed using the national distributors and territorial wholesalers, which also handle periodicals and mass paperbacks. A general similarity exists because both newspapers and periodicals solicit advertising, and knowledge of their market is critical in the setting of advertising rates. In the U.S., the impact of cross-media ownership on advertising rates is being examined intensively by the Federal Communications Commission.(3)

THE DISTRIBUTION SYSTEM

National Distributors

The national distributor is the dominant financial, administrative and marketing intermediary between publishers and wholesalers for periodicals, mass paperbacks and to some extent for newspapers. He is responsible for co-ordinating allotment requirements, retailer distributions, promotional activities, and payment of accounts to publishers, but does not handle the product physically. A number of magazine and mass paperback publishing companies own/control the operations of key national distribution firms in the United States and Canada.

Since many of the magazines and mass paperbacks merchandised in Canada are of U.S. origin, U.S. publishers tend to employ or contract with their U.S.-based national distributors to cover both the U.S. and Canadian markets. The principal national distributors for North America, along with a selection of some of the major titles handled by them, are shown in Exhibit 4. The only large Canadian distributor is Coast to Coast Distributing Company, which is owned by Maclean-Hunter Publications.

Publishers who own their own national distribution organization generally handle the magazines and mass paperbacks of other publishers as well. For example, in the case of Coast to Coast, in addition to handling the Maclean-Hunter magazines such as Chatelaine, Miss Chatelaine, Maclean's, and Financial Post, it also handles a number of smaller, independent Canadian magazines listed in Exhibit 5. Parallel examples can be found in the case of U.S. national distributors, one of which is a joint venture involving a number of U.S. publishers, e.g., Select Magazines Inc.

A number of U.S. national distributors maintain a presence in Canada, e.g., Select Magazines Inc., and International Circulation Distribution. Both of these operations are located at 120 Sinnott, Scarborough, Ontario, which is also the address of Metro Toronto News Co.,

EXHIBIT 4NATIONAL DISTRIBUTORSA. U.S. Distributors (Distributing to Canadian Wholesalers)

	Major Title(s)
CBS-Fawcett Publications Inc. Greenwich, Connecticut	Woman's Day, Ambiance, Mechanics Illustrated
Curtis Circulation Co. West Caldwell, New Jersey	Penthouse, Glamour, Ladies Home Journal, Mademoiselle, Vogue
Dell Publishing Co. Inc. New York, New York	Dell Purse Books and Crosswords
Independent News Co. New York, New York	Playboy, Tiger Beat, National Lampoon, National Enquirer, New Woman
International Circulation Distributors New York, New York	Good Housekeeping, Cosmopolitan, House Beautiful, Harper's Bazaar
Publishers Distributing Corp. New York, New York	Nothing Major
Eastern News Company New York, New York	Hockey News, Architec- tural Digest
Select Magazines Inc. New Yor, New York	Reader's Digest, Redbook, Better Homes & Gardens, McCalls, Family Circle, Time
Triangle Publications Inc. Radnor, Pennsylvania	Seventeen Magazine
Johnston Publishing Chicago, Illinois	Ebony

B. Canadian Owned National Distributors

Master Media Inc. Oakville, Ontario	Canadian Living, Select Home Designs
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...cont'd.

EXHIBIT 4 cont'd.

Harlequin Enterprises Ltd.
Don Mills, Ontario

Harlequin Books

Paperjack Ltd.
Markham, Ontario

Paperjack and Pocket
Books

Toronto Life
Toronto, Ontario

Toronto Life

T.V. Guide
Toronto, Ontario

T.V. Guide

Whitman Golden Ltd.
Cambridge, Ontario

Gold Key Comics

Coast to Coast Distributing Co.
Toronto, Ontario

Maclean's, Chatelaine
Miss Chatelaine, The
Financial Post and
small Canadian
magazines

Gordon & Gotch
Toronto, Ontario
(Canadian and British owned)

Mayfair, Club
International,
Saturday Nite

Source: Industry interviews.

a major territorial wholesaler. U.S. national distributors employ Canadian field sales representatives who promote the display and sale of client magazines and mass paperbacks. A common pattern of distribution is one in which publishers ship their magazines and mass paperbacks directly from printers to local wholesalers, who, in turn, deliver and merchandise the magazines to retail dealers in their geographic areas.

Major U.S. publishers have vertically integrated upstream (printing) and downstream (distribution) to gain control over manufacturing and distribution. Substantial economies of scale can be realized in both areas, particularly in distribution. Maclean-Hunter is one of the few major Canadian publishers to have pursued this integration strategy to date. Smaller publishers have shied away from doing their own distribution because they are unable to achieve the economies of scale involved in this activity.(4)

About a dozen U.S. national distributors account for more than 50% of the mass market paperbacks and magazines sold in North America. These organizations are owned primarily by communications conglomerates such as:

<u>Parent Company</u>	<u>National Distributor</u>
Columbia Broadcasting	Fawcett Marketing Services
Doubleday	Dell Distributing
Warner Communications	Independent News Company
Hearst	International Circulation Distributors
Times Mirror	New American Library (NAL)
Gulf & Western	Pocket Books Distribution
AMREP Corporation	Kable News Company
Filmways	Publishers Distributing Co
A Co-operative Venture which includes Readers Digest	Select Magazines

EXHIBIT 5COAST TO COAST DISTRIBUTING COMPANY
PUBLICATIONS DISTRIBUTEDMaclean-Hunter Publications

Audio Scene
 B.C. Fishing Guide
 B.C. Outdoors
 Canadian Aviation
 Canadian Secretary
 Canadian Yachting
 Chatelaine
 Financial Post
 Financial Post Travel Guide Series
 Home Decor Canada
 Maclean's
 Miss Chatelaine
 Pacific Yachting
 Photo Canada
 Racquets Canada
 Ski Canada
 Ski Canada's Guide to Cross
 Country Skiing

Maclean-Hunter French Publications

Chatelaine
 L'actualité

U.S.A.

Harvey Comic Group

Client Publications

Atlantic Insight
 Camping Canada
 Camping Canada Camp-
 Ground Directory
 Canadian Business
 Canadian Consumer
 Canadian Farmers Almanac
 Canadian Workshop
 Carguide
 Common Cents
 Cycle Canada
 Early Canadian Life
 Fugue
 Hockey Today
 Ice Sports Guide
 Last Post
 Maple Leaf Magazine
 Ontario Out of Doors
 Perception
 Performance
 Snowmobile Canada
 Snowmobile Canada
 Annual
 Snowmobile Sports
 Snowmobile Sports Annual
 Toronto Kids Magazine

Client Publications -
French

Guide de L'acheteur
 Hockey Aujourd'hui
 Moto Journal
 Vie et Camping

Of the foregoing national distributors, NAL and Pocket Books Distribution handle books only. Pocket Book Distribution no longer operates as a wholly U.S.-owned national distributor in Canada. This phenomenon resulted in 1976 from the fact that, following the Gulf & Western acquisition of Pocket Books and Simon and Schuster in 1975, the Foreign Investment Review Agency blocked the sale of Pocket Books in Canada. The Canadian buyer turned out to be General Publishing which, through its Paperjacks Ltd. company, publishes 30 to 35 Canadian mass-market titles and re-issues another 35 titles annually. General Publishing markets its line of Paperjacks and Pocket Books through Paperjacks Ltd.(5)

Other mass paperback publishers of note in Canada are Harlequin, McClelland & Stewart, and Macmillan of Canada. In the case of the latter two, joint ventures with U.S. organizations condition their product-mix in Canada. McClelland & Stewart and Bantam established a partnership in 1977 to publish Canadian titles under the imprint of Seal, employing Bantam's expertise in distribution. A year later, in 1978, Macmillan and NAL formed a partnership to publish Canadian titles under the Signet imprint.

Harlequin, which is controlled by Torstar, is the giant in the Canadian group, and ranks impressively in the U.S. context as well. Of the three Canadian mass paperback organizations, two are effectively controlled by Canadian communications conglomerates - Torstar and Maclean-Hunter. The U.S. scenario of media ownership and diversification seems to be unfolding in Canada as well.

A detailed list of the functions performed by a national distributor would include the following: solicits and processes orders; bills and collects; authorizes returns of unsold units and credits them. The national distributor may also provide start-up capital for new publishing ventures, so as to improve the cash flow position of wholesalers by paying in advance of actual collections, and to protect the publisher by absorbing some of the possible loss if a wholesaler goes bankrupt.

As previously noted, the national distributor does not warehouse magazines and mass paperbacks, and as a general practice, he does not take title to the orders he processes. Publisher's Weekly describes the publisher-national distributor relationships as follows:

The basis of a publisher-national distributor relationship is a contract, renewable and/or renegotiable every two or three years. Commissions can be based on cover prices, net billings or net profits. There are no commissions until there are sales, but some national distributors bill some services separately, usually on some cost-plus basis.

Some national distributors say there is no such thing as a "Standard" commission because no magazine or book line presents "standard" distribution requirements and opportunities. Principal variables include the amount of servicing required on the part of the national distributor and the relative stability and expected longevity of the publications in question.

Territorial Wholesalers

There are some 41 territorial wholesalers of periodicals and mass paperbacks in Canada, listed in Exhibit 6. Thirty-nine of these organizations are member firms of Periodical Distributors of Canada (PDC), a trade association. The wholesaler functions as the physical distribution link between publishers of periodicals and paperback books and the thousands of retail outlets which display this merchandise in all ten provinces. All but four of the wholesalers are wholly Canadian-owned. Two are owned 50 per cent by Canadians and the other two are subsidiaries of non-Canadian companies.

The wholesalers carry on their operations within defined geographic limits, and assume responsibility for providing adequate retail distribution of the publishers' products to a total of more than 12,000

EXHIBIT 6TERRITORIAL WHOLESALERS IN CANADABritish Columbia

1. Valley News Agency Ltd.
Courtney
2. Mainland Magazine Service Ltd.
New Westminster
3. Gundy's News Service Ltd.
Prince George
4. Conacher News Ltd.
Trail
5. Vancouver Magazines Services Ltd.
Richmond
6. The Monahan Agency
Vernon
7. Stan V. Wright Ltd.
Victoria

Alberta

8. United News (Wholesalers) Ltd.
Calgary
9. Provincial News Co.
Edmonton
10. General News Co.
Lethbridge
11. Northern Periodical Dist. Ltd.
Grand Prairie

Saskatchewan

12. Regina News Ltd.
Regina
13. Mid-Western News Agency Ltd.
Saskatoon

Manitoba

14. Canadian News Co. Ltd.
Winnipeg

Ontario

15. Ottawa Valley News Co.
Ltd. Arnprior
16. General News Co.
Brantford
17. Kent News Service
Chatham
18. Cornwall News Distributors
Cornwall
19. Trent News Co.
Cobourgh
20. Mountain City News Co.
Ltd. Hamilton
21. Kingston News Service
Kingston
22. Teck News Agency Ltd.
Kirkland Lake
23. Kitchener News Co. Ltd
Kitchener
24. National News Co.
Ottawa
25. Seaway News Co. Ltd.
St. Catharines
26. Metro Toronto News Co.
Scarborough
27. Sudbury News Service
Ltd. Sudbury
28. Western Ontario Dist.
Ltd. London
29. Central News Co.
Thunder Bay
30. Windsor News Co.
Windsor
31. Lakeland Distributors
Barrie
32. High Point Trading
Scarborough

...cont'd.

EXHIBIT 6 cont'd.Quebec

- 33. Benjamin Montreal News Reg'd.
Montreal
- 34. Agencie Provinciale 1972 Inc.
Ste. Foy
- 35. Sherbrooke News Co.
Sherbrooke

New Brunswick

- 36. Saint John News Co.
Moncton
- 37. Saint John News Co.
Saint John

Newfoundland

- 38. H.H. Marshall Ltd.
St. John's

Nova Scotia

- 39. H.H. Marshall Ltd.
Halifax
- 40. H.H. Marshall Ltd.
Sydney

P.E.I.

- 41. H.H. Marshall Ltd.
Charlottetown

Source: Industry interviews.

retail outlets. They regularly distribute 1,500 different weekly and monthly periodicals as well as 500 to 700 annuals or one-time publications, plus up to 4,000 new mass market paperback titles annually.

Member firms of PDC estimate that they supply the bulk of all periodical and paperback titles sold by Canadian retailers exclusive of daily and community newspapers. "This represents an estimated retail value of approximately \$175 million, and gives direct employment to about 2,000 full-time employees earning in excess of \$22,000,000 annually in 1977. Approximately 20 percent of the paperback book titles distributed by member firms are of Canadian origin. Up to 104 of the periodical titles handled by PDC are also of Canadian origin."

Retail Outlets

Retailers take care of the actual sales to the customer. They receive the magazines and mass paperbacks from publisher/wholesalers and handle them through the single copy sales system. Retail outlets include the following categories: grocery and supermarket, drug, convenience, stationery, book and department stores, and hospital, airport, bus, railroad, hotel and street stands.

There are in excess of 12,000 retail outlets in Canada, and it is estimated that newsstand net sales in 1978 exceeded \$200,000,000. Approximately 2,500 active magazine titles vie for space on the newsstands, an increasing number of which are Canadian titles such as Maclean's, Chatelaine, Toronto Life, Canadian Business, Canadian Consumer, Select Home Designs, Ontario Out of Doors, etc. An important point to note is that 20% of all titles produce about 80% of all sales.

Magazine and mass paperback sales at newsstands are growing at a significant pace as consumers alter their traditional buying habits. According to magazine industry sources, "the growing increase in single copy magazine sales at the expense of subscriptions is due largely to

increased subscription costs and the decline in postal services." This trend is expected to continue because consumers are reluctant to prepay subscriptions and will continue to exhibit a preference to purchase magazines on an issue-by-issue basis in local retail outlets.

Supermarkets are the fastest growing outlets for magazines and paperbacks. This growth is attributed to several factors: the increase in the number of working women; a shift in group distribution; an increase in leisure time; and the impact of television which has stimulated an interest in reading and writing.(6)

Growth in supermarket sales is not without its problems for the other channel members - wholesaler, national distributor and publisher. For example, there is an allowance for chains and independent retailers commonly referred to as RDA (Retail Display Allowance). These allowances may be negotiated directly between the publisher and the chain, involving or not involving the national distributor/wholesaler.

In 1977, newsstand sales of magazines in the U.S. exceeded that of subscriptions for the first time. The market share figure for newsstand sales was 52.1%. This fact was not lost on bookstores, nor on wholesalers. Charles Levy Circulating Company of Chicago, a wholesaler, notes the following advantages of stocking magazines on bookstore shelves:

1. Although the magazines discount (20 %) is low, the turnover may be four or five times that of books.
2. Magazines, because of their turnover, are often sold before the store has paid for them and this means that stores can get away with minimal financing of their magazine inventory.

3. Stores can improve their discount arrangements up to 10% with RDA's. The retail display allowance contract is typically arranged and/or authorized between publisher and retailer. It is usually given in the form of an additional 10% of cover price on all sales, or in some cases, in the form of a rack payment program set up for the retailers, mostly chains.
4. Magazine sales tend to generate regular bookstore traffic because such customers often return on a regular basis to purchase their magazines.

Channel Conflict

Wholesalers contend that their role as middlemen in the industry has been misunderstood and underestimated by both their suppliers and customers. This has resulted in an "adversary attitude between national distributors and wholesalers, and perhaps even more so between the national distributors' field representatives and wholesalers." (7) The negative perception, both fact and fiction, seems to permeate the entire distribution system, involving all channel members.

Where else does the retail customer hate doing business with his wholesaler supplier and many try to circumvent him at every turn: what other industry does the wholesaler of the product feel as though his supplier is being unfair to him and not always honest; and in what other industry does the national distributor look down upon his local wholesale distributor as inefficient and occasionally crooked; and where else does the ultimate producer, the publisher, look down at his national distributor and say that his national distributor is doing a rotten job, and proceeds to go out and hire his own people to fill in the gap. (8)

Some of the foregoing problems arise from the fact that many wholesalers in Canada claim that they can barely manage to survive on existing gross margins. For example, wholesalers in Canada gross around 23% and their costs of operations often exceed 22%, with the efficient ones operating at around the 20% level. Thus, the operating profits as per cent of net sales range from 1% to 3%. This is viewed as an insufficient return to invest in new equipment and the recruitment of competent and professional manpower. Thus,

Many wholesalers make their entire profit from service charges, sales of waste paper and other incidental revenues, and believe it or not, don't make a nickel profit on the sale of their products. This is a devastating indictment on this industry because if you can't make any profit selling your merchandise, what are you going to become? You're going to be tempted to cut every corner. You're going to be tempted to lie about affidavits. You're going to do all sorts of things that wholesalers have been criticized by the publishers and national distributors for doing. You're going to become a backwards operator. You're going to become an inefficient operator. This is the total reverse of what it should be and it's never going to change so long as profit margins are kept in such tight rein.(9)

The financial performance of the Canadian periodical distributors parallels that of their U.S. counterparts, for which there are data. The following findings were drawn from the 1978 U.S. performance analysis report:(10)

- cost of goods sold as a per cent of net sales was 76.41%.
- gross profit as a per cent of net sales was 23.59%.
- total operating expense was 19.59% Increased reliance on data processing, better equipment handling systems and more efficient physical plants reduced overall operating expenses from previous years; e.g. 20.17% in 1977.

- payroll expenses as a per cent of net sales was 13.20%. The figure for 1977 was 13.69% and this drop in 1978 indicates a continuing shift of payroll dollars to data processing costs.
- net income as a per cent of net sales was 3.06%.
- the sales mix was 23.5% (books), magazines and newspapers (75%), and miscellaneous (1.5%). The sales mix for Canada approximates the following percentages: mass paperbacks (25%), magazines and newspapers (70%); and miscellaneous (5%).

Magazines account for the bulk of the wholesalers' sales, and if current trends continue in terms of the sales and profitability-mix between magazines and books, "the wholesaler will find himself in the position where paperbacks will be nothing more than a loss leader. He will be doing 82%-85% of his volume in magazines and generating all of his profits from magazines".(11) This situation, however, might be altered if chains, e.g., variety, drug and discount stores will buy the bulk of their requirements from wholesalers and not directly from publishers. In part, this will be conditioned by the wholesalers' efforts to improve their sales, promotion and distribution capabilities.

While returns are the major problem facing the publisher, the problem of inadequate cash flow is the critical one facing the wholesaler. Although the wholesaler is not a "risk-taker" in the traditional sense because everything is returnable, nonetheless, the wholesaler is being squeezed by the national distributor who wants faster payment, while his customers, the retailers, are taking more time in paying their bills. This means that the ration of inventory and accounts receivable to publisher payable is becoming less attractive - i.e., the wholesaler has to put more of his own money into the business.

The operations and activities of the territorial wholesaler, a critical link in the channel, can be easily gleaned from an examination of

one such organization, Lima News Co. Ltd. (LNC)¹. LNC is the main regional wholesaler in its area. Typically, there is one regional wholesaler per area which carries periodicals, some newspapers, paperbacks, some cheap hard copy books and postcards.

LNC has 14 vehicles and employs some 40 persons. The firm deals with 10 to 15 national distributors and about 50 individual publishers. It supplies about 600 outlets, 450 of which it services and the remainder come to the warehouse to select their order and pay C.O.D. All outlets have fully returnable privileges.

U.S. periodicals are typically shipped in bulk to key points in Canada where they clear customs. Bulk is then broken and shipments are made to various points such as the city from which LNC operates. LNC does no customs clearance on these shipments. With weekly periodicals such as Newsweek and Sports Illustrated, the magazines are air freighted to LNC from the U.S. and LNC does the customs clearance. This is done in order to get the periodicals on the stand in time: some U.K. newspapers and periodicals are shipped by sea. LNC also handles on a daily basis the Toronto Star, Wall Street Journal and the New York Times. Delivery of newspapers is typically to hotels and newsstands in the downtown area. Maclean's and the Financial Post are sent by truck from Toronto.

LNC's outlets are increasingly the chain stores, e.g., United Cigar, Mac's Milk, Pinto, the grocery stores, and the drug stores (Shopper's City, Boots). LNC supplies W.H. Smith with periodicals but not paperbacks. The small independent retail outlet is declining in importance, because of zoning restrictions on retail outlets, and the fact that they cannot afford the high rental charges in shopping malls.

¹ Fictitious name

Some retailers place their orders with LNC, while for others LNC decides what will be delivered. Most outlets are visited twice a week, except for delivery of daily newspapers, and paperbacks are serviced once every two weeks. The returns are picked up and credited to the outlet. There is 100% checking of all returns by LNC, and all periodicals are shredded and sold as waste paper: newspapers are sold for waste paper unshredded. Periodicals are shredded because there is a second-hand market, and although dated periodicals are packaged in plastic and resold, wholesalers try to undermine the supply for the second hand market.

LNC has an educational division whereby it supplies teachers, schools and school boards as well as public libraries and some bookstores. The warehouse has display racks and teachers can come to select from these racks. LNC's operation is computerised. Publishers and national distributors determine how many copies of a periodical LNC will receive. This information is entered into LNC's computer which determines the allocation of the copies to the retail outlets, and decides who gets how many of each periodical. Orders are then made up and delivered. The returns are brought in and the information entered into the computer, and fed back to the publishers and national distributors, who then decide on how much to ship in the future. Returns run at 10% to 15% for magazines like Cosmopolitan, and up to 40% for cheaper magazines like Crossword Puzzles. The accounts payable (to publishers and national distributors) and receivable (from retail outlets) are all computerised as well.

MAGAZINE DISTRIBUTION

Magazines reach readers either as a result of paid subscriptions through the postal service, or through free delivery in the case of controlled circulation magazines, or through newsstand purchases. The key factors which influence the mode of distribution include the nature of the magazine, its circulation, frequency of issue, concentration of readers, and size and location of publishers.

Canadian magazines may be classified into four broad categories: the large circulation, traditional or paid-for magazines; the controlled circulation magazines; the small circulation, special interest magazines; and the newspaper-distributed magazines. In each of the four magazine categories, publishers may employ one or more of the following three delivery systems: mail, direct sale through retail outlets, and door-to-door house delivery. Each delivery system has its own channel of distribution network.

Traditional Magazines

The major traditional, paid-for Canadian magazines can be purchased directly at retail outlets or obtained by mail through the subscription route. In addition to "Canada" magazines, there are many foreign magazines, especially American, which overflow into Canada and account for a substantial part of total Canadian magazine circulation.

The delivery system employed by U.S. publishers of traditional magazines is similar to the Canadian mode - mail and direct retail sale. As previously noted, there are two marketing intermediaries between the publisher and the retailer - the national distributor and the territorial wholesaler.

Controlled Circulation Magazines

Controlled circulation magazines, the second category, is the fastest growing segment of the Canadian magazine market. These magazines are edited for a large, but select, audience and are delivered free to them. One of two delivery systems is employed by these magazine publishers; neither involves national distributors and wholesalers. The Comac group of magazines are delivered to select households through the "mail". Conceptually, the national distributor is the Canadian Post Office, and the magazines are typically shipped to the Post Office from the printer's premises, and thence to select household readers. The

publishers of the "Calendars" have their magazines delivered on a door-to-door basis and employ the services of "mailing houses" such as R.L. Polk & Co. Ltd.

It is with reference to controlled circulation magazines that the issue of using the Post Office, versus competing forms of delivery such as private carriers, emerges as an immediate and critical issue to the publishers in question. Comac Communications Limited publishes Homemaker's Magazine, Madame au Foyer, Quest Magazine, and City Woman. These publications are the largest of the controlled circulation magazines with a combined circulation of 2,400,000 copies per issue. They are Canadian owned, use original Canadian editorial content and are printed in Quebec.

Canada Post makes a marked distinction between "paid for" and "free" publications. Revisions in postal regulations in 1969 (before controlled circulation magazines were the main growth segment in Canadian magazine publishing) continued Second Class privileges for subscription magazines, while controlled circulation publications were placed in Third Class regulations, certain publishers of controlled circulation magazines must pay more than double the per copy mailing costs of direct competitors.

Furthermore, in the Third Class postal regulation, controlled circulation magazines are restricted in weight to 8 ounces per issue and this seriously limits the growth or evolution of a magazine. There is no similar restriction in Second Class.

From the standpoint of postal handling, subscription magazines label all copies according to postal requirements, and the magazines are pre-sorted by postal code. Comac magazines, on the other hand, circulate to selected postal walks and the magazines are bundled to the count required at each postal facility. Both subscription and controlled circulation magazines are bagged and tagged to postal requirements. On

arrival at the postal facility, subscription magazines must be handled again and sorted by postal walk. Comac magazines are distributed, in bundles, to the carrier for his route walk.

To date, private carriers, such as R.L. Polk, have been used by certain publishers of controlled circulation magazines when the weight of the magazines exceeds 8 ounces. At present, R.L. Polk appears to be the only alternate carrier to the Post Office, which has the potential for developing a national carrier capability. On a comparative basis, the postal service is still the superior delivery system because it is national, its delivery personnel are more dependable and recognizable, it has legal access to all points of delivery, and advertisers and their agencies have a decided preference for seeing the magazines in which they advertise handled by the post office and not by a private carrier. Controlled circulation magazine publishers' concerns and complaints are with the postal classification (third class) and only minimally with the postal service.

Special Interest Magazines

There are some 300 special interest magazines in Canada ranging from 800 to 474,000 in circulation. This third group is made up of Canadian and foreign magazines, and the delivery systems employed include national distributors (foreign and Canadian), territorial wholesalers and the Canadian mail. The Canadian Periodical Publishers' Association (CPPA) functions as a "national distributor" for some of its members by providing comparable services.

An example of the delivery system mix employed by a special interest magazine is a magazine which has a total circulation of 60,000 made up of paid subscription (50,000) and newsstand business (10,000). In the case of newsstand circulation, 40% are sold and 60% are returned. Thus the paid circulation is more in the neighbourhood of 54,000. The returns are recorded by the territorial wholesaler who receives the unsold magazines from his retail customers.

The magazine uses two delivery firms, Firm X and Firm Y, to collect and deliver its magazines from its printer. Firm X delivers west of the Lakehead, and Firm Y delivers east of the Lakehead. However, Firm Y may not deliver beyond Montreal but arranges for transshipment to another carrier. Packages of magazines are labelled with labels supplied by the national distributor to the publisher, who records them and gives them to the printer for affixing to the packages. In effect, the national distributor determines how many magazines will be shipped to each destination for distribution by the wholesalers. The carriers may assemble magazines from several publishers for shipment, but this is arranged by the carrier and not the publisher.

Standard payment practice is as follows: 10% of the cover price goes to the national distributor, 20% to the wholesaler and 20% to the retailer, with the remaining 50% to the publisher, i.e., \$1.25 for the magazine priced at \$2.50. However, the publisher pays for the freight from printer to wholesaler. The freight cost ranges from 2.4 cents/copy from publisher to Toronto, to 53.6 cents/copy from publisher to Newfoundland. On a Newfoundland copy the publisher gets 71 cents (\$1.25-\$0.54), which is consumed in printing costs. Thus newsstand sales are not regarded as money makers compared to subscription sales. Newsstand sales are viewed as subsidised advertising, because they increase circulation on which advertising rates are based, and because tear out cards lead to additional subscriptions.

Delivery times, after the copies arrive in the wholesaler's warehouse, are up to 14 days for newsstand sales. For a monthly publication this means the April issue is sent out on April 1st and is on sale by April 14th. Sales would be affected if delivery was to be delayed. The magazine has used CN Express and Canpar, but found both were too expensive and took longer to deliver, and air freight is considered to be too expensive.

In general, most of the copies are delivered by truck from publisher (printer) to wholesaler, and from wholesaler to retailers. The shipping arrangements and costs are handled by the publisher, with or without the assistance of the national distributor. In most cases the shipping function is contracted out by the publisher to a transportation firm.

Some of the transportation firms group the shipments for a number of publishers, which may originate from one printer's premises, as a means of achieving firm economies in distribution. For example, Media-Can in Montreal consolidates shipments from the printer for Coast to Coast as a means of reducing transportation charges in its delivery to territorial wholesalers. Coast to Coast employs a traffic manager whose function is to maximize distribution efficiency while minimizing its costs.

The magazine's subscription sales are picked up at the printer by a mailing firm which affixes the mailing labels and posts the magazines at second class mail rates, about 18 cents to 20 cents/copy. Delivery time has been anything from 1 to 30 days. The problems are the length of delivery time and interruptions due to strikes, but no feasible commercial alternative to the Canadian post office has yet been found.

Newspaper Magazines

The fourth and final category of magazines is the newspaper distributed group. Circulation in this instance is primarily limited to Canada's 30 major cities and the delivery system includes both door-to-door and retail sales largely handled by the newspaper magazine publishers. The two key magazines in this group which occupy the first and second position of national market importance, ranked in terms of Canadian magazine circulation are Canadian Magazine, and Weekend Magazine/Perspectives.

Newspaper carriers, the youngsters in particular, are getting to be less reliable, harder to recruit and at the same time newspapers are getting bigger and heavier to carry. Thus, newspaper publishers are prime candidates for organizing their own carrier service and might, in turn, find it profitable to compete as private carriers for the business of magazines in large urban centres. This topic is dealt with in the section on newspapers.

MASS PAPERBACK DISTRIBUTION

The phrase "mass-market paperbacks" normally refers to special paperback editions issued by specialist mass-market paperback houses. ...The marketing of mass-market paperbacks in large quantities requires a specialized system of distribution leading to as many points of retail display and sale as possible. Access to these must be had even if the exhibit of individual titles can continue only so long as sales turnover remains rapid, competition for the display space being great. It is not surprising, therefore, that the marketing system best suited to the needs of mass-market paperback publishers in North America is the one which has developed for the marketing of most periodicals (apart from newspapers and apart from magazines that are distributed by mail directly to subscribers). (12)

In Canada approximately 70% of mass paperbacks are distributed through the system involving the wholesalers. The deeper involvement by the paperback publisher in direct distribution, coupled with the higher unit value of the product and the greater need to promote and service the product in question through rack sales has meant that publishers have invested more heavily in the establishment of their own, specialized sales force. For this reason, terms of sale differ between selling direct and selling through wholesalers. Publishers and their national distributors may receive 5% more on sales to accounts serviced directly to offset their higher selling costs.

A major benefit derived from servicing direct accounts is the lower return rate realized by the publishers. Industry sources contend that the return rate for direct (chain) accounts is 20%, and for wholesalers 50%. On a net sales basis, chain stores account for 41% of net sales while wholesalers account for 59%.

In the area of returns, the commercial practices of U.S. publishers differ significantly from the British. American publishers offer open returns privileges; the British publishers, on the other hand, limit returns to say 20% and "accept only books in mint condition returned within a half year". This difference in distribution strategy is a factor in limiting the market penetration achieved by British publishers in Canada.

The publisher's field sales force is very active at all levels of distribution even when wholesalers are used because in the case of the latter, mass paperbacks account for only about 20% of total sales, periodicals, 75%. The wholesalers devoted more time to servicing periodicals than mass paperbacks.

Generally speaking, periodical sales are more predictable, turnover is higher, and the product is more perishable (shortness of time value). These characteristics lend themselves to greater utilization of software programs in the area of inventory control and order processing. Distributing and servicing mass paperbacks tends to require greater effort on the part of the distribution intermediaries. For example, wholesalers will typically spend more time promoting the "best sellers" to retailers; the retail racks must be serviced to ensure that they are fully stocked with the "fast selling items"; publisher's promotional material must be put in place by the wholesaler and monitored to ensure that its prominence is not displaced; and inventory requirements are generally more difficult to determine.

Canadian Firms

Until recently, few Canadian publishers had a significant list of original Canadian titles, and Canadian mass paperbacks had minimal access to the distribution system. This situation has changed in recent years, since the emergence of a few noted Canadian publishers of mass paperbacks such as General Publishing, Macmillan, and McClelland and Stewart. In each instance their entry involves some marketing arrangement with a prominent American firm with Canadian mass paperback experience. Before highlighting these comparatively "new" and relatively significant mass paperback entrants, a quick review will be offered of Harlequin, a Canadian controlled publisher of mass paperbacks. Harlequin's unique content and marketing strategy has enabled it to become one of North America's leading mass paperback publishers.

Harlequin Enterprises Limited, controlled by Torstar, is Canada's largest publisher of mass paperbacks. In the area of promotion, Harlequin has been extremely successful through its practice of marketing books under imprints, or brand names. In 1978, Harlequin Books announced the formation of a new imprint, Worldwide Library, which is used to identify specific new products. The first venture to carry the new imprint was Mystique Books, released in 1979. Adapted from a successful line of French novels, the Mystique series is the first romantic suspense paperback to be marketed as a continuing series in North America. Eight titles will be published initially, followed by four new titles each month. The launch is supported by a major advertising budget allocated primarily to network television commercials and augmented by mass media publicity.

Because Harlequin books are purchased by imprint rather than by title or author, they can essentially be promoted as a single product. Advertising has played a significant part in increasing public awareness and readership. Imprint marketing also provides substantial benefits for the authors. It allows new authors to be introduced into a series where they can enjoy immediate success. It permits the use of advertising support at levels not possible for the works of individual authors.

"Imprint marketing" and the "series" concept employed by Harlequin result in a mass paperback product which resembles certain key marketing elements that characterize a successful periodical - specifically, brand loyalty resulting in repeat sales from the same customers. Many readers "have the same loyalty to the imprint that they might have to a magazine."

Direct sales through subscription is one of the distinguishing features of the Harlequin mass paperback distribution strategy. It is estimated that some 10% of Harlequin's mass paperback book sales are achieved through a direct magazine subscription strategy - to date, a unique phenomenon for the industry. The subscription strategy provides for a superior cash flow, full payment and minimal returns.

Harlequin formed a national retail sales organization in late 1977 to assume direct responsibility for Canadian sales representation both to wholesalers and to retailers. The direct service to retail accounts by Harlequin's own salesforce results in a lower return than that handled through the wholesaling network. In Canada, Harlequin's field salesforce is the largest in the industry.

Previous to 1977, the retail sales organization was handled through a joint venture involving a U.S. mass market publisher - NAL. In the United States, Harlequin's sales representation is handled by Pocket Books Distribution Corp., a division of Simon and Schuster. The interesting observation to note is that NAL, Harlequin's former joint venture partner in Canada, is now a participant in the Macmillan-NAL operation, controlled by another Canadian publisher - Macmillan (Maclean-Hunter).

In addition, Harlequin Enterprises Limited has been expanding globally with strong emphasis on the United States market - so much that it appears to be shifting its emphasis and parts of its headquarters infrastructure to the United States. Revenues for 1978 were \$126 million and the Company's publications were sold in over 80 countries and published in 15 different languages.

Harlequin undertook, in April 1978, a diversification into the magazine business through the acquisition of 78% of The Laufer Company. The purchase price was approximately U.S. \$9,300,000. Based in Hollywood, Laufer is a leading publisher of teenage and adult entertainment magazines, including Tiger Beat, Right On!, and Rona Barrett's Hollywood. Harlequin Magazines Inc. was established later in the year in New York. It will be the focal point of Harlequin's commitment to seek a significant presence in the North American magazine industry. Texas Woman, a regional life-style magazine published by a new Harlequin subsidiary, Paragon III Associates, has been launched and other U.S. opportunities are being examined.

Next to Harlequin, General Publishing is the first Canadian publisher to market a full line of mass paperback books. Some 30 to 35 Canadian titles are published annually, coupled with some 35 re-issues. General Publishing markets its line of Paperjacks and Pocket Books (U.S.) together through Paperjacks Ltd., which gives the firm a good share of the retail rack space. Net sales are in excess of \$5 million annually and approximately 86% of the Pocket Books line is presently printed in Canada. (13)

The "depressed" Canadian dollar and the general tight and costly supply and manufacturing situation in the United States (e.g. paper and printing capacity) has motivated firms such as General Publishing and Macmillan-NAL to have their imported mass paperback titles printed in Canada. Two major printers of such books are Universal Printer in Winnipeg and Ronalds Federated in Montreal and Toronto. Some of the printing involves the production of mass paperbacks that are destined for the U.S. market (e.g. Bantam Books U.S. places printing orders in Canada for the U.S. market). Mass market publishers prepay freight on their shipments to their customers.

Macmillan-NAL, besides publishing Canadian mass market paperbacks under the Signet imprint, merchandises Macmillan hardcover and

NAL paperbacks in Canada, earning a percentage of sales. Macmillan-NAL expects to publish about 20 books in 1979 with projected revenues of about \$1 million. In brief, Macmillan-NAL's distribution strategy is to market mass market paperbacks along with quality paperbacks and hardcover books. In areas like Toronto, Macmillan-NAL employs specialists for its different book lines. However, in smaller cities such as Halifax, all books are sold by the same sales representative to bookstores and wholesalers.

McClelland and Stewart's mass paperback distribution strategy involves the imprint "Seal" which is merchandised in Canada by the Bantam Canada organization. Bantam does not handle M & S' other book lines. M & S expects to achieve sales of \$14 million in 1979, and Seal Books is expected to account for \$1 million of this total.⁽¹⁴⁾

In sum, the combined publishing and marketing efforts of General Publishing, Macmillan and McClelland and Stewart, while not great in absolute terms, is, nonetheless, an important development in the mass paperback publishing industry in Canada.

NEWSPAPER DISTRIBUTION

The distribution system for two types of newspapers - daily and non-daily - will be considered. Daily newspapers are distributed to readers via newsstands and household delivery, as illustrated in Exhibit 7. For example, the Beaver¹ has a circulation of about 100,000 papers which is published in three editions, the "city" edition, the "country" edition and the "home" edition. The "city" edition is published first in an edition of about 20,000 of which 10% may be returned. This edition goes to newsdealers, newsstands and coin boxes within the city. Pickup is undertaken by independent truckers and delivery is made within 3 hours. The truckers may be firms in the delivery business or individuals with cars who work part time. Each trucker is given a delivery sheet indicating how many copies to deliver to each outlet - he then breaks

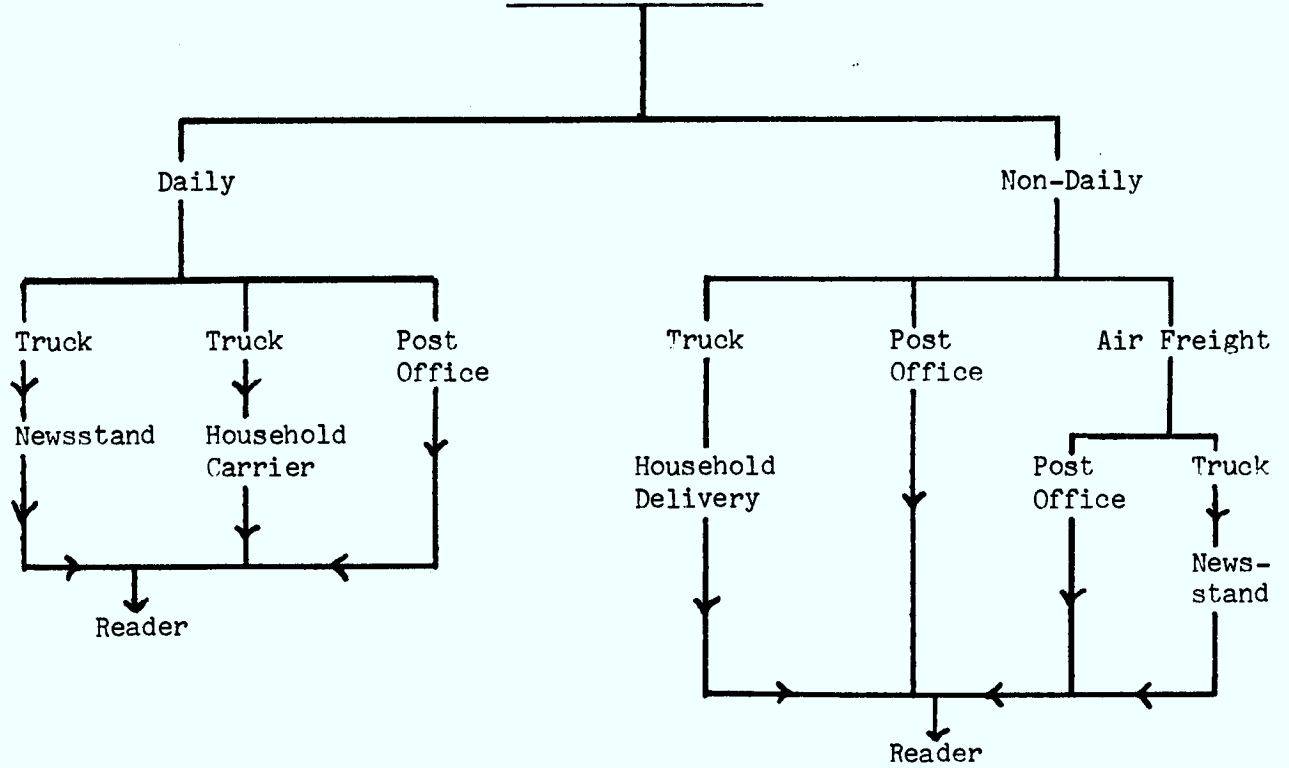
¹ Fictitious name

bulk, makes the delivery and picks up returns. The dispatcher decides whether for the next day the outlet should receive more or fewer newspapers. The newspaper bills the outlet on the basis of net sales, and the money is collected by a salesman/collector each week. The outlet is charged 15 cents for a paper sold for 20 cents: the newspaper pays the independent trucker. Box collection takes place about twice a week.

The second edition is the "country" edition, about 10,000 copies, which is distributed outside the city. About 10 independent truckers pick up the newspapers and deliver them to the newsdealers, the home delivery boys and to the motor route delivery. In some instances the truckers may deliver to other truckers before the final delivery is made.

The third edition is the "home" edition of about 70,000 copies, which are taken by Beaver-owned trucks to the individual carrier routes. The city is divided into 20 areas with one truck operating for each area. Each driver is responsible for an area in terms of delivery of newspapers and collection of money from the delivery boys. The driver, who is in contact with the office via two-way radio, works from 1 pm to 9 pm, and may have to deliver individual copies which are missed.

About 600 newspapers are delivered to readers by mail. These subscribers pay \$200 a year for a copy delivered outside Canada, and \$65 a year for a copy delivered in Canada. Most of this subscription pays for the postal charges: the postal rate is a third class newspaper bulk rate which varies with the per cent of news and of advertising in the paper. Although the subscription revenues from these copies probably do not contribute to the costs of their publication, the additional sales add to the paid circulation figures, which provide the promotional basis for establishing advertising rates and attracting advertisers. The newspaper publisher delivers the mail copies to the post office, and provides a detailed listing of paid for and free circulation, as well as the percentage of news and advertising in each copy. The Post Office then bills the paper according to the applicable rates.

EXHIBIT 7DELIVERY SYSTEM FOR NEWSPAPERS
PUBLISHER/PRIMER

Non-daily newspapers use a variety of delivery systems. For example, the Financial Post, which is a national weekly reaches its readers across Canada via truck, air freight, and the post office. For example, newsstand delivery in Ottawa takes place via truck to a territorial wholesaler in Ottawa, who handles periodicals and paperbacks as well. Vancouver delivery is undertaken via air freight from Toronto to Vancouver: subscription copies are then mailed while newsstand copies are handled by a territorial wholesaler. Some community newspapers are delivered free to households, some are distributed by the mail and others are sold through retail outlets.

The Bargainer¹

The Bargainer, uses an interesting delivery system which is important to examine because of the marketing techniques being developed. While not a traditional community newspaper, the Bargainer prints and distributes commercial and classified advertisements in an Ontario city area, and thus competes with community and daily newspapers as well as with other forms of printed advertisements. In addition, it competes with delivery systems such as R.L. Polk Ltd. and the Post Office. The Bargainer prints several regional editions within the city area, and sells advertising space on the basis of being able to reach a well-identified audience.

The city area is divided into 22 agent runs, each of which contains a number of census tracts, for which there is information about the socio-economic characteristics of the residents. Each of the 22 agents delivers the Bargainer, once a week, to about 30 carriers, each of whom delivers about 150 papers, making a total of over 650 carriers. The distribution system is computerised so that each agent run, census tract and carrier can be separated out. The publisher provides the agent with

¹ Fictitious name

enough papers for the carriers to blanket the residences each week. At present, over 90% of households and 14% of apartments receive the Bargainer. Apartment security measures present some problems of access, but usually arrangements can be made for carriers to enter the apartments, or for the superintendents to undertake the delivery.

The Bargainer will also arrange to have advertising fliers delivered with their paper, in which case the carrier gets two cents per copy for the paper delivered, plus one-half cent for each additional flier delivered. In effect the paper has two important assets: a delivery system which can deliver material to any part of the city, broken down into agent runs, census tracts and carrier routes, and an ability to identify the characteristics of the population in any part of the city. This ability is valuable in terms of showing to advertisers those persons to whom they may wish to sell. The distribution system is not as precise as the postal service in terms of the selectivity with which it reaches individual households, but for advertising purposes it can do an effective job.

A check is made of the Bargainer's delivery system, first by route agents, and secondly via a telephone check to a sample of households.

The type of delivery service provided by the Bargainer can compete with the Post Office on a weekly basis for the delivery of mail such as fliers. In so doing, it could siphon off postal business from the more densely populated lower cost postal routes and potentially leave the Post Office with the higher cost business. As an advertising medium, the Bargainer can compete with other advertising media such as daily and community newspapers and periodicals, and thus may affect the economic viability of these publications.

SUMMARY AND POLICY IMPLICATIONS

1. Many of the magazines and mass paperbacks merchandised in Canada are of U.S. origin. U.S. publishers tend to employ or contract with their U.S. associated distributors to cover both the U.S. and Canadian markets. Publishers who control their own national distribution organization generally handle the magazines and mass paperbacks of other publishers as well.

2. Major U.S. publishers have vertically integrated upstream (printing) and downstream (distribution) to gain influence over manufacturing and distribution. Substantial economies of scale can be realized in both areas, particularly in distribution. Maclean-Hunter is one of the few major Canadian publishers to have pursued this integration strategy to date. Smaller publishers have shied away from doing their own distribution because they are unable to achieve the economies of scale involved in this activity.

3. Prior to the expansion of Paperjacks (General Publishing) and the establishment of the joint undertakings involving paperback publishers and U.S. publishers, such as Macmillan-NAL, and Seal (McClelland & Stewart - Bantam), the Canadian publishers lacked the marketing resources to embark on a program of direct mass paperback marketing. One of the major benefits of the marketing arrangements between the Canadian and U.S. publishers is in the promotion of national imprints, such as Seal and Signet. This allows the Canadian publishers to gain greater access to the distribution system for Canadian authored works, in addition to ensuring that they are well placed at the retail level.

4. Magazines and mass paperback sales at newsstands are growing at a significant pace as consumers alter their traditional buying habits. According to magazine industry sources, "the growing increase in single copy magazine sales at the expense of subscriptions is due largely to increased subscription costs and the decline in postal service." This trend is expected to continue because consumers are reluctant to prepay

subscriptions, and will continue to exhibit a preference to purchase magazines on an issue-by-issue basis in local retail outlets. For this reason, the success of Canadian periodical and mass paperback publishers hinges on their ability to gain access to the wholesalers' serviced retail accounts.

5. While returns are the major problem facing the publisher, the problem of inadequate cash flow is a critical one for the wholesaler. Although the wholesaler is not a "risk-taker" in the traditional sense because everything is returnable, nonetheless, the wholesaler claims he is being squeezed by the national distributor who wants faster payment, while his customers, the retailers are taking more time in paying their bills. This means that the ratio of inventory and accounts receivable to publisher payable is becoming less attractive, i.e., the wholesaler has to put more of his own money into the business. Any policy which requires that wholesalers carry more Canadian titles will be strongly resisted unless these titles have mass market appeal, i.e. large circulation and quick turnover.

6. The problem of accessibility can be approached in a number of ways. First, encourage the establishment of a new national distributor organization that would include some of the most successful periodical publishers in Canada - a joint venture arrangement. An organization comparable to that of Select Magazines in the U.S., involving such participants as Reader's Digest, Maclean-Hunter, T.V. Guide and Torstar would provide greater access for Canadian paperbacks and periodicals to the mass marketing system through wholesaler serviced retail accounts. The establishment of such an organization would require a commitment by the participants to handle a minimum percentage of Canadian mass paperback titles.

Secondly, the CRTC option could be considered. In this instance, legislation might be designed to ensure that a certain percentage of Canadian authored titles be given space on retail shelves

and racks. Problems of control (monitoring), assigning responsibility (retailer versus wholesaler), and determining who is to assume the commercial risks associated with such guarantees are but a few of the key problems related to this policy thrust.

7. The small size of the Canadian market is an inhibiting factor to prospective publishers of Canadian titles. The U.S. open returns' policy further compounds this problem for would-be Canadian publishers. A small production run, with an easy returns' policy is hardly the market condition that instills confidence in would-be publishing entrepreneurs. Thus the need to deal with the concept of scope, i.e., sale of territorial and subsidiary rights, and not merely scale in a single product range becomes all the more important.

8. The role of the territorial wholesaler in any government-orchestrated effort cannot be underestimated. Industry sources suggest that two geographic wholesalers service some 40% of all the retail accounts in Canada. If this level of concentration exists, then their participation becomes critical in promoting an effective strategy towards increasing the exposure of Canadian authored mass paperback titles and Canadian periodicals.

9. The use of private carriers in the United States in lieu of the postal service is an accepted fact of life and may account for more than 50% of total subscription circulation by the early 1980's. The figure is lower in Canada for the following reasons: the Canadian postal service is felt to be more efficient and less costly than that of the U.S.; alternate delivery capabilities are still in the formative stages of development in Canada; and most Canadian publishers lack the product breadth to achieve distribution and transportation economies from grouping related products such as newspapers, magazines and mass paperbacks - products destined for delivery to common end users.

One of the U.S. pioneers in experimenting with alternative delivery systems is Better Homes and Gardens, which since 1971 has employed a technique referred to as "distribution marketing" - i.e. the delivery of other materials to offset the cost of magazine delivery in urban areas. Through this technique, the majority of subscriber copies of the magazines will be delivered through "private delivery" at a cost below that charged by the U.S. postal service. Tying in local advertising, soliciting new subscribers, promoting other Better Homes and Gardens products such as books and craft kits, and sampling products advertised nationally in a particular issue of the magazine are but a few of the elements that make up a "distribution marketing strategy."

10. One interesting delivery system currently employed in Canada which exhibits some of the elements of "distribution marketing" is that of the Bargainer. The Bargainer prints and distributes commercial and classified advertisements in a Canadian city, and thus competes with community and daily newspapers as well as with other forms of printed advertisements. In addition it competes with delivery systems such as R.L. Polk Ltd. and the Post Office. The Bargainer sells advertising space on the basis of being able to reach a well-identified audience. The Bargainer will also arrange to have advertising fliers delivered with their paper.

The type of delivery service provided by the Bargainer can compete with the Post Office on a weekly basis for the delivery of mail such as fliers. In so doing, it could siphon off postal business from the more densely populated lower cost postal routes, and potentially leave the post office with the higher-cost business. As an advertising medium the Bargainer can compete with other advertising media such as daily and community newspapers and periodicals, and thus may affect the economic viability of these publications.

11. Larger publishers have become increasingly involved with alternate delivery experiments. Smaller publishers have also been involved but in a piggyback arrangement with the more dominant firms. By merging delivery of smaller magazines with larger publications, for example, a cost-efficient delivery density can be achieved. One of the implications of such arrangements is that standardization of the procedures and relationships between distributors and publishers must be established in order to reduce the costs of entry in alternative delivery for the smaller publishers. This is already happening, and is being facilitated with the employment of EDP technology by publishers, national distributors and wholesalers in the channels of distribution.

The prime candidates for establishing an alternate delivery capability are the newspapers. A major Canadian newspaper firm is carrying out such a feasibility study for possible implementation in two years. Coalitions of magazine, newspaper, and book publishers may develop as a means for expanding and promoting local and national private carrier organizations.

B BOOKS

STATISTICAL OVERVIEW

Publishers

The Canadian market for books is estimated by Statistics Canada in its Book Publishing Survey to be about \$600 million, 85% English language and 15% French language. This market is serviced by three groups (1) Canadian publishers who publish their own titles but may also undertake some agency business, (2) exclusive agents who only handle agency business, and (3) other importers including wholesalers, retailers, libraries and book clubs (see Exhibit 8). The channels of book distribution are thus dominated by imports, 72% of the total book market. The agency business accounts for 36% of the book market and 49% of total imports. In addition, agency business represents 44% of the sales of those Canadian publishers which publish their own titles as well as handle agencies. Obviously, agency business is 100% of the sales of exclusive agents. The "buying around" activities of Canadian book purchasers take place via the "Other" category of imports. However, not all these purchases represent "buying around", because some books are imported from publishers which do not have agents in Canada.

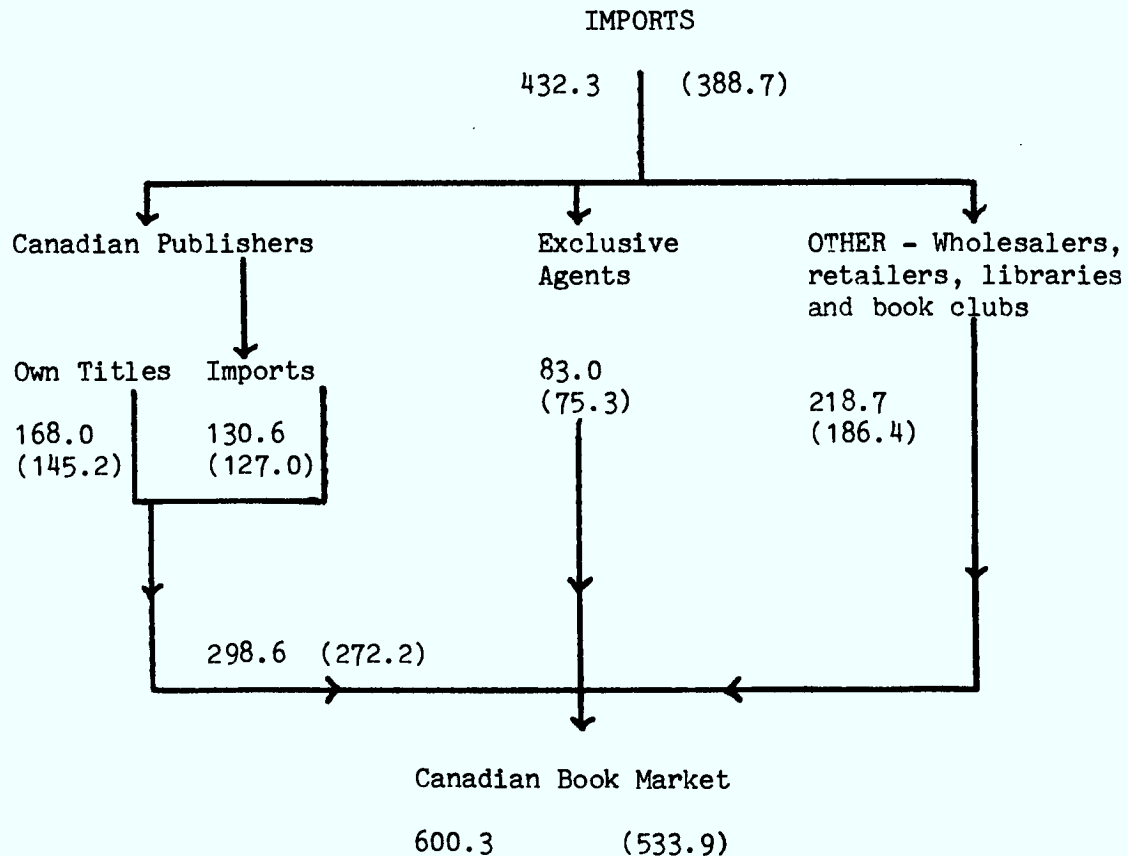
The same Statistics Canada report notes that the surveyed Canadian publishers had sales of \$284.3 million in 1976, consisting of their own titles published of \$164.9 million and agency business of \$119.4 million. Exports accounted for \$35.4 million, so that Canadian publishers supplied the Canadian market with sales of \$248.9 million: the difference between this last figure and the \$272.2 million shown in Exhibit 8 occurs because an estimate has been made for the total Canadian book market, and less than 100% of the Canadian publishers responded to the questionnaire survey, which provided the basis for the total of \$284.3 million. In 1977, the surveyed publishers had sales of \$225 million of which exports were \$57 million.

Other characteristics of Canadian book publishers noted in the 1976 survey (based on 167 respondents) were as follows:

EXHIBIT 8SOURCES OF SUPPLY FOR THE CANADIAN BOOK MARKET,
1977 AND 1976

Figures in \$ million

1976 Figures in parentheses



Source: Statistics Canada, Culture Statistics, Book Publishing: An Industry Analysis 1976, Cat. 87-601, Dec. 1978; and Service Bulletin, Book Publishing: An Industry Analysis 1977, Cat. 87-001, Feb. 1979.

- (a) Ninety-one per cent were located in Ontario, Quebec and British Columbia.
- (b) Thirty-six publishers account for 85% of total sales. The 137 Canadian controlled publishers had sales of \$131 million (46%) and the 30 foreign controlled publishers (22 U.S. and 8 U.K.) had sales of \$153 million (54%).
- (c) The Canadian controlled publishers had 72% of their sales from their own production and 28% from agency imports: for foreign controlled publishers the figures were 46% and 54% respectively.
- (d) Seventy-two publishers were agents as well as publishers, and 89 were publishers only.
- (e) English language sales were \$246.2 million and French language sales were \$36.3 million.
- (f) Textbooks account for 34% of Canadian publishers' own book revenues, and 16% of net sales of exclusive agents.
- (g) The publishers received \$2.7 million in grants from all levels of government and other sources.

Bookstores and Wholesalers

Data on bookstores are published in The Book Trade in Canada (Ampersand), as well as by the Canadian Booksellers' Association. The latter lists about 400 trade stores and college store members, but those with multiple outlets are listed only once. The Book Trade in Canada lists over 1,700 outlets and counts separately each outlet of a chain store. A higher number of total outlets could be reached if stores such as chain drugstores, chain grocery stores and chain corner stores were included, together with other retail outlets which have book racks. Clearly the number of bookstores depends on how a store is defined, and this will depend on product differentiation, or whether mass paperbacks, trade paperbacks or hardback books are the product under consideration.

The Book Trade in Canada lists the following firms as having more than 10 bookstore outlets. Qualifications to these data will show further considerations which have to be raised when answering the question - "How many bookstores are there in Canada?"

<u>Firm</u>	<u>Number of Outlets in Canada</u>
Coles	127
Woolco	90
Classic	63
Eaton's	57
The Bay	36
W.H. Smith	23
Canadian Bible Society	18
CARA	17
Librarie Garneau	14
Woodward	13
Simpson's	11

Woolco, Eaton's and other department stores typically have one flagship store with a well-staffed bookstore in each major urban centre, while the remaining stores are not as completely staffed or stocked. The Canadian Bible Society carries a limited range of books. CARA has stores which devote a different proportion of their space to books. Woodward's, although a department store, often has its book department in a store separate from the main store. If all the outlets of Woolco, for example, are included then the type of outlet being considered is more on a par with the chain grocery and drug stores, and the corner stores served by the territorial wholesaler with periodicals and mass paperbacks. The Canadian Booksellers' Association estimates that there about 1,000 "bona-fide" English language book retail outlets in Canada, and notes that W.H. Smith now has 41 outlets.

In addition to there being difficulty in enumerating bookstores in Canada, there is the problem of determining how much of each type of book was sold through each type of store. In order to be able to assess

the significance of the chain versus independent store phenomenon in recent years a survey is required.

Trade information also provides a listing of book wholesalers in Canada, of which 58 are included in the Canadian Publishers Directory (Key Publications). Eight of these could be classified as territorial wholesalers, and others could be classified according to regional or product specialty, e.g., Negev Importing Co. Ltd., House of Judaica, and Sport and Fitness Book Service.

The interviews revealed that the wholesalers in Canada perform a variety of functions; some serve libraries only, some trade stores only, and some a combination of libraries and trade stores. Some wholesalers stock books, others only order books once an order has been placed with them; some intermediaries are not wholesalers in that they merely warehouse books and do not take title to them. Some wholesalers are owned by bookstores, and some by firms which are also in the book publishing business. Some wholesalers export books to the U.S., while others deal exclusively with the Canadian market. The foregoing lists a number of differences among book wholesalers in Canada, which results in there being sharp differences of opinion as to how government policy towards book distribution should be moulded. It should be noted that a number of publishers in Canada function largely as wholesalers since some publish nothing and others only a few titles each year.

Libraries

Canadian library statistics are recorded in a number of places. A North American survey of libraries for 1978 reports 3,063 libraries in Canada, 719 public, 1,032 branch, 228 university and college and 1,084 special (often libraries within universities or institutions). (15)

A survey of Canadian public libraries in population centres of more than 10,000 received information on 696 libraries, 193 in urban areas, 415 in rural areas, 79 regional libraries and 9 providing provincial library service. (16) The extent of interlibrary loan activity was loans, 217,000, and items borrowed, 160,000. The discrepancy is due to the fact that small libraries which are borrowers were not included in the survey.

A further survey made in 1971-72 of the acquisitions of 280 post-secondary institutions with a full-time enrollment of 322,000 persons, listed 2.5 million items acquired. A breakdown of the number of libraries acquiring different quantities of items is shown in Exhibit 9. The total number of libraries listed is less than 280 because an institution such as the University of Toronto has 11 libraries, and it is only counted once.

EXHIBIT 9ACQUISITION OF BOOKS, PERIODICALS AND PAMPHLETS BY
SELECTED UNIVERSITY AND COLLEGE LIBRARIES, 1971-72

Items Acquired	Number of Libraries			
<u>Books, Periodicals and Pamphlets</u>	<u>Ontario</u>	<u>Quebec</u>	<u>Atlantic Provinces</u>	<u>British Columbia /Prairies</u>
More than 1 mil.	2	3		2
500-999	8	1	1	3
250-499	1	2	3	3
50-249	8	3	7	3
Less than 50,000	1		3	12
	—	—	—	—
TOTAL	20	9	14	23

Source: Statistics Canada, Cat. 81-206, University and College Libraries
1971-72 (June 1976).

ISSUES IN BOOK DISTRIBUTION

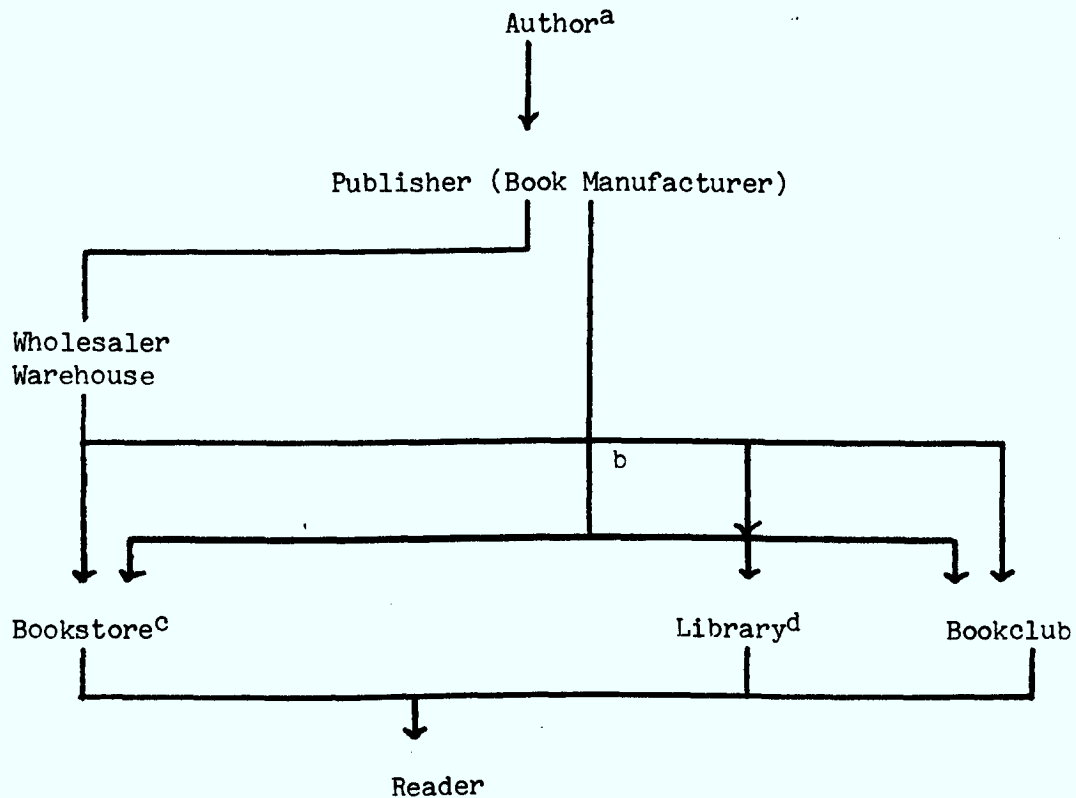
Stages of Distribution

The stages of book publishing and distribution from author to reader can be characterised as follows:

1. Author
2. Publisher
3. Book manufacturer
4. Wholesaler, warehouse
5. Commissioned sales agent
6. Book store, library, book club
7. Reader

The flow between stages relates to a number of different items (1) property rights in the manuscript, i.e. copyright, (2) the physical object - the book in hard and soft cover, (3) payment for the book, (4) information concerning publicity about the book, and (5) information concerning ordering of the book. The stages are therefore linked by a series of transactions involving the exchange of property rights, physical objects, information and money.

The following diagram, Exhibit 10, attempts to link the seven stages of book distribution. It excludes reference to imported books. These would typically enter the system at the level of publishers who act as agents, or as a result of direct imports from foreign wholesalers by bookstores, libraries and book clubs. The simplicity of the diagram in many ways misrepresents the complexity of the particular details of distribution arising from product differentiation (text books, trade books, hardbacks, paperbacks, literary, non-fiction, reference, etc.), vertical integration (bookstores doing wholesaling), diversification (book publishers owned by newspaper and magazine publishers), concentration (a small number of wholesalers in Canada and in the U.S. and the importance of chains in bookselling), foreign ownership of Canadian publishers, and foreign agency arrangements of both foreign and Canadian publishers.

EXHIBIT 10CHANNELS OF BOOK DISTRIBUTION IN CANADA

^a The author may be represented by a literary agent who negotiates for the distribution of the book outside Canada through sale of rights.

^b Publisher may appoint commissioned sales agents to promote and sell books.

^c Includes independent, chain/department and university/ college bookstores.

^d Includes public, university/college and school libraries.

NOTE: There are several links which could be added to the system of periodical distribution. Both bookstores and libraries carry periodicals and the regional wholesalers for periodicals also carry mass paperbacks, some of which are sold through bookstores.

It should be noted that Canadian-owned publishers promote foreign authors and books through agency arrangements, co-publishing and rights acquisition, just as do foreign-owned publishers in Canada. The difference is in the ownership of the publishers, not necessarily in the nationality of the product which they promote and sell.

These characteristics of size, ownership, type of business, and location help to explain why there are differences in interests between publishers about the distribution problems and requirements facing the industry. The diversity of distribution channels further explain the differing interests of authors, publishers, agents, wholesalers, retailers, libraries and book clubs. Moreover, books as an industry compete with other cultural and information media, so that even if book distribution methods are improved, there may be developments outside the book market which could undermine its competitiveness.

The intent of cultural policy is to assist Canadian publishers, whose position in the Canadian book market is seen in Exhibit 8. Canadian publishers have about half the total sales, and more importantly their own titles had about 28% of the total in 1977. The latter figure may approximate the position of Canadian authors in the market, although some Canadian authors use publishers outside of Canada and reach the Canadian market via the agency route, and some Canadian publishers publish the work of non-Canadian authors. Book publishing is clearly an international industry, so that considerations of international marketing are critical for both Canadian writers and publishers who wish to reach larger markets, and Canadian readers who wish to have access to foreign authors.

The overflow occurring with U.S. television, radio, newspapers and magazines and mass paperbacks also occurs in the case of books. This may be viewed as a benefit by readers, but it creates difficulties for Canadian publishers. Book distributors, both booksellers and book wholesalers, find themselves facing problems and opportunities in the distribution process. For example, a west coast publisher tries to distribute books to central and eastern Canadian markets as well as to

foreign markets, and central and eastern Canadian publishers try to reach western Canadian markets. Thus a Canadian book wholesaler has the opportunity to handle at least two flows of books within Canada, but at the same time he faces competition from U.S. wholesalers. The circumstances facing a Canadian west coast publisher can be used to illustrate these conditions.

West-East Arrangements

Publishers

Let us assume the case of a west coast Canadian author who wants to have his manuscript published and distributed as widely as possible in Canada and the United States. The author contracts with a west coast publisher to publish the book, and the publisher agrees to arrange for distribution to central and eastern Canada and into the U.S. The publisher has a number of ways to effect distribution: he can engage in a co-publishing arrangement with a U.S. publisher and share the costs of preparing the book and the revenues from sales; he can appoint an agent in central and eastern Canada and in the U.S. to distribute the books the publisher provides; he can sell to wholesale or warehouse firms who will fulfill his orders on his behalf; he can ship directly to customers; he can use commissioned sales agents to handle his orders; or he can use some combination of the above.

Ultimately, the publisher tries to make a series of contractual arrangements which will get the book to a reader via an outlet such as a bookstore, library or book club at a reasonable price, quickly and with an adequate return to himself and the author. In this example, it should be noted that the publisher may also be the book distribution agent for other publishers, Canadian, U.S. or U.K. He must be concerned with generating publicity for all these books, as well as for that of the Canadian author, and with developing a channel through which the book will quickly reach the reader.

A specific example is the case of a small west coast publisher which is testing alternative distribution systems. The firm publishes the works of both Canadian and foreign authors. In western Canada the publisher uses a distribution firm which handles storage and delivery for a fee, but which does not take title to nor publicise the books. Payment is made directly by the buyer to the publisher. The accounting costs involved, and the tardiness with which accounts are paid, cause a cash flow problem for the publisher. The fee paid to the distribution firm covers the costs of storage, inward freight from the printer, and handling returns.

In central and eastern Canada, this publisher could sell in a number of different ways: appointing commissioned sales agents and having the order filled from western Canada; appointing a firm in the east similar to the western distribution firm; or appointing a publisher agent to handle its books. One alternative would be to contract with a large central Canadian publisher to provide all the services supplied by the western distribution firm, plus the collection of receivables. The critical ingredient for the publisher is that it would receive its money 90 days after a sale is made and the larger publisher can use its clout to collect payments. At the same time, the books are owned by the western publisher until they are sold, and promotional activity rests with this publisher. Additional advantages would accrue if the central Canadian publisher had warehouse arrangements in the U.S., so that U.S. orders could be filled from there, and printing could take place in eastern Canada where it is often cheaper.

A second alternative would be for the publisher to sign an agency agreement in the east whereby the agent would take title to the books, warehouse them and promote them along with their other books. At present, the west coast publisher considers that this is the least favourable arrangement from a financial point of view and results in a loss of promotional control of the books. The publisher identifies its potential audience as carefully as an advertiser and may reach that audience by direct mail. Unless an agent can be found who reaches the

same desired audience, then this loss of control over promotion can be disastrous. One possible alternative would be for select Canadian publishers to combine as a group, employing their own sales force to establish a common sales and distribution organization, thus achieving firm economies of scale. The three major distribution alternatives are shown in Exhibit 11, together with the reasons for choosing Alternative 2 as drawn from industry discussions.

At present, the promotion of the west coast publisher's book is undertaken by the principals themselves. Advertising takes place via advertisements placed in specialised publications. The use of commissioned salesmen to promote and sell the books across Canada has led to greater sales than the previous use of direct mail, but there is always concern because the salesmen represent other publishers as well. Apart from its own titles, the publisher is agent for a U.K. publisher.

This example illustrates the alternative distribution channels considered open to a west coast publisher, the disadvantages (cost of freight) associated with reaching his readers in central and eastern Canada, and the difficulties of promoting specialised books. A west coast Canadian publisher has a small local market and a larger market farther away in the east; a central and eastern Canadian publisher has a larger local market and its distant markets are less important to it. The problem of how a small publisher collects on his receivables is not uniquely a west coast problem, but rather a small firm problem, mentioned frequently in the academic literature. All small publishers are particularly disadvantaged in this respect, as withholding future supplies is not viewed as a significant lever for payment. The difficulty which small publishers have in raising funds from institutional lenders was noted frequently in the interviews. It may also explain why publishers get taken over by larger firms which can finance their operations from an internal capital market, namely retained earnings.

EXHIBIT 11COST COMPARISONS OF THREE ALTERNATIVE FULFILLMENT,
SALES AND COLLECTION PACKAGES FOR SMALL PUBLISHERSALTERNATIVE 1

Publisher undertakes accounting and collection of receivables. Independent firm undertakes warehousing and fulfillment. Independent firm undertakes sales promotion.

ALTERNATIVE 2

Publisher undertakes sales promotion. Independent firm undertakes warehousing, fulfillment, accounting and collections, and makes payment to publisher for all net sales 90 days after month end.

ALTERNATIVE 3

All distribution activities are handled through an agency relationship with a larger publisher. The small publisher withdraws to become a producer of books only.

The net return to the publisher for each book sold is estimated to be the same under Alternatives 1 and 2, except that under Alternative 1, the publisher has to deduct accounting and collection costs which reduces the net return under Alternative 1, and makes Alternative 2 relatively more attractive. The net return under Alternative 3 is estimated at less than half the net return under either of the other two alternatives.

Booksellers and Wholesalers

The distribution of books from a literary press is also being affected by the structure of book distribution. In western Canada, as in other parts of Canada, books are being sold increasingly through chain book stores, including department stores. This has two effects, first the product of literary presses is not suited to the high volume turnover required by chain stores, and second the stores are influencing the buying patterns of independent tradebook stores, which again works against the small literary publisher. For example, sales of a literary publisher to chains may represent less than 5% of its total sales. One response of the literary publisher is to increase his sales volume by becoming an agent for foreign publishers, and by obtaining the rights to publish original works of foreign authors. The result may be to make Canadian literary publishers economically viable, but not necessarily by promoting the works of Canadian authors.

Canadian west coast bookselling is faced with the problem that its source of supply, if it uses Canadian agents, is distantly located in central and eastern Canada. Moreover, if the bookseller sells to the customer at the same price as the book is sold further east and has to absorb the freight costs, then the margin earned on books sold is less. The ability to give good service to customers is frequently aggravated by two factors, the slowness with which orders are filled from agents in central and eastern Canada, and the damage experienced by books in transit when the postal system is used. Consequently, some booksellers organize alternative freight delivery systems, and batch their orders in the east for delivery to the west coast, which leads to lower costs and improved service. However, it does not obviate the complaints made that west coast booksellers, because of the smaller size of the market and the distance from the rest of Canada, get less attention and service from Canadian publisher/agents than their counterparts in the east.

West coast booksellers respond to these conditions in a number of ways. First, they tend to hold larger inventories in order to provide service to customers and thus increase their holding costs. And second, they tend to engage in multiple sourcing. This can be done by purchasing books either from Canadian wholesale or warehouse firms, or by purchasing from U.S. wholesalers and "buying around" the Canadian agent. The latter is especially attractive in those cases where a book has been advertised in the U.S. at a price which is substantially lower than the price quoted in Canada, even after exchange rate differentials have been taken into account. In general, the pressure to buy around for reasons of price and service seem to be especially strong on the west coast.

The role of the Canadian book wholesale and book warehouse operations is of interest. Practices vary, but in general the wholesalers which service libraries tend not to hold an inventory of books, while those that service bookstores may do so. The variations occur because libraries, tradebook stores and university bookstores all have different requirements, and because the size of the west coast market means that wholesalers service more than one of these buyers. A book warehouse operation such as Servwest does stock the books of eastern Canadian publishers, but is itself bought around frequently. For example, a central or eastern publisher will sell in the west through commissioned sales agents. These agents will not place the order with Servwest, but directly with the eastern publisher where their commission is higher. However, Servwest is available to supply books in a hurry, either directly to bookstores or libraries, or to sales agents for quick delivery of books to the customer.

Book distribution through west coast university and college bookstores experiences problems similar to those of trade stores. However, the costs involved, for example, holding a large inventory, can be met out of the general operating funds of the university. West coast tradebook stores are especially sensitive to the distinction made between textbooks and tradebooks. Many paperbacks are used as texts, e.g., English novels, and are sold through university bookstores in competition

with tradebook stores, and this is viewed by trade stores as subsidised distribution activity, because of the way in which university bookstores are financed.

Sales of a western Canadian university bookstore are approximately 50% textbooks, 15% tradebooks and 35% other supplies, including stationery. University bookstores have generally been diversifying their sales away from textbooks in order to spread their overhead costs over a larger volume of sales, because textbook sales tend to be a seasonal item. Book purchases at this western Canadian university bookstore are made about 80% through Canadian sources and 20% through foreign sources. Textbooks are largely sourced in Canada and tradebooks may be purchased both in Canada and abroad, through firms such as U.S. wholesalers. In the case of a university bookstore, the microfiche catalogue service of Baker and Taylor, a U.S. wholesaler, would be useful as far as tradebooks are concerned, but not for textbooks, where the lead time for ordering is considerable and where bulk shipments can be organised from central and eastern Canada. Moreover, the catalogue would be unlikely to include many of the required textbook titles.

Publisher delivery times from eastern Canada have been studied by the university bookstore: an average of 40 days delivery was calculated for 1,369 deliveries made by 24 publishers - see Exhibit 12. Where these deliveries involve tradebooks, the encouragement is for the bookstore to use U.S. wholesalers which provide faster delivery, often at reduced prices. The price differential is often more than the cost of clearing the items through customs, service provided by the Canadian agent but not the U.S. wholesaler. For example, a bookseller can expect to pay a bit more for a book delivered to him without him bearing the cost of customs clearance, than where he has to undertake the customs clearing function. Even with "zero rating" for books imported from the U.S., there is still some paper work connected with books which pass through customs. The results of a study of delivery times to a B.C. trade bookstore are shown in Exhibit 13.

EXHIBIT 12PUBLISHERS DELIVERY TIMES FROM EASTERN CANADA TO U.B.C. BOOKSTORE

<u>Canadian Publisher</u>	<u>Minimum Time</u>	<u>Maximum Time</u>	<u>Average Time</u>	<u>No. of Examples</u>	<u>Rating</u>
A	9	44	25	30	1
B	8	92	28	110	2
C	4	75	31	130	3
D	26	48	33	13	4
E	7	82	33	142	4
F	10	123	33	18	4
G	8	112	35	53	5
H	11	89	35	27	5
I	23	92	35	61	5
J	11	76	37	30	6
K	20	116	37	49	6
L	13	79	37	64	6
M	4	84	41	37	7
N	18	131	41	60	7
O	17	70	44	61	8
P	19	83	46	79	9
Q	20	81	47	22	10
R	26	123	47	13	10
S	20	85	47	43	10
T	10	118	48	23	11
U	13	105	51	74	12
V	18	89	54	78	13
W	7	123	54	146	13
X	35	103	58	6	14
Average of Delivery Times			40		
No. of Examples				1,369	

As university finances have become squeezed in recent years, greater attention has been paid to the costs of operating university bookstores. Until recently, the cost of holding inventory was often not included as a cost to the bookstore, but this practice is changing. The result has been that the 20% discount given by publishers to university bookstores has not been adequate to cover the costs of operation, including the increased freight costs paid by the bookstores. The pressure now exists for publishers to grant larger discounts, say 25%, or to give the same allowance but to pay the freight, or to provide some combination of the two. In fact, what may happen is that the publisher may stay with the existing system but raise the price of the book thereby putting more dollars in the hands of the bookseller.

In order to reduce costs, the store may diversify its sales into non-textbooks and non-book items, thereby competing with private sector stores, or it may "buy around" the Canadian agent if this means a reduction in costs. This discussion of the economics of alternative distribution channels is not unique to the west coast bookseller, but the incentive to buy around is probably greater because of the distance from the principal Canadian publisher agents in the rest of Canada.

In brief, there are a number of intermediaries between the publisher and the bookseller or library. The west coast situation illustrates the variety of contractual arrangements which may be entered into, for example: wholesalers which stock books and may promote them, and those which do neither; warehousing operations which stock books and fulfill orders but neither own the books nor promote them; and commission sales agents. Added to this array are some bookstores which will supply libraries as pseudo wholesalers. Thus, to draw a flow chart and capture all the variations is a formidable task. These variations are due not only to the different institutional arrangements at the publisher, wholesale and retail (including library) level, but also to differences between types of books - textbooks, tradebooks, hardbacks, quality paperbacks, mass market paperbacks and books of different national origin. The west coast situation provides a microcosm of many of these differences as well as of features which vary from conditions found in central Canada.

EXHIBIT 13PUBLISHERS DELIVERY TIME TO KELOWNA, B.C.

Orders mailed to salesman between June 26th and September 13th, 1978, except in two cases.

<u>Firm</u>	<u>Percent Copies Received</u>		<u>Nos. of Copies Ordered*</u>
	<u>Nov. 30, 1978</u>	<u>Dec. 28, 1978</u>	
Hurtig	98	98	b
Belford	96	96	b
Collier-Macmillan	92	92	b
McClelland & Stewart	89	89	d
Longman	88	91	b
Hancock	86	86	a
Methuen	86	88	c
G.L.C.	85	85	b
Douglas	80	84	c
Collins	79	83	d
Clarke Irwin	78	84	c
Prentice Hall	78	86	c
Reader's Digest	78	80	b
Random	76	98	d
Oxford	75	90	b
Gage	74	78	d
Nelson	72	87	c
Penguin	72	86	b
Doubleday	69	74	c
Hamlyn	69	69	b
Van Nostrand	66	68	b
Fitzhenry	65	79	c
General Publishing	62	76	d
McGraw-Hill	61	76	b
Allen	59	80	c
Wiley	58	74	b
Copp Clark	56	72	a
Dent	54	93	b
Macmillan	53	69	c
Beaverbooks	50	63	c
Grosset & D.	47	60	c
Holt Rinehart	37	95	b
Burns & Mac.	22	55	b
Saunders	20	55	a

Overall by Nov. 30, 1978, 40% of the titles and 29% of the copies had not been received, and by Dec. 28, 1978, 25% of the titles and 18% of the copies had not been received.

*Note: Key, a - under 25; b - 25-75; c - 76-150; d - Over 150.

Source: The Canadian Bookseller (Canadian Booksellers Association), March/April 1979, pp. 6-7.

Some specific suggestions and comments were made by west coast publishers and distributors. Freight costs, delivery times and service to and from the rest of Canada were frequently noted as major problem areas. In addition, it was felt that there had not been adequate consultation concerning the proposal of the Distribution Task Force to establish a national wholesaler network in Canada. While the proposal was considered to be deficient on grounds that it did not reflect the different requirements of libraries and trade bookstores, a major concern was that valuable information was made available to members of the Task Force on matters such as electronic ordering systems which was provided out of taxpayer revenues, and which was not shared with interested parties in the west. It was suggested that areas for examination should include the question of book purchases made by publicly funded institutions such as schools, colleges, and universities, as well as the efficiency of implementing a "net book agreement" in Canada.

Libraries

Decisions by libraries as to where they source their books and periodicals have a major impact on those in the business of distribution. In June 1978, the Canadian Library Association (CLA) which represents the interests of libraries in Canada, published a position statement on "buying around". The key points made in the statement include the following:

- The CLA supports the need to promote a vigorous publishing industry in Canada, and through its procurement powers intends to promote the continued development in Canada of a climate in which authors, editors, publishers and sellers can flourish.
- This commitment, however, is preconditioned by the publishing industry providing appropriate type and level of service at a competitive price.

- The CLA states that it will not support poor business practices, a low level of service or higher than reasonable net costs of books and library materials; for this reason, the CLA maintains that libraries must be free to buy foreign books and periodicals whenever and wherever it is most advantageous. The criteria for defining what is most advantageous include price, efficiency, speed of delivery, fill ratios, services of Canadian wholesalers, selection/evaluation services, cataloguing services, and sales representation.
- The CLA neither encourages nor discourages buying around because it believes that the publishing industry has not demonstrated any recognisable pattern concerning cross-subsidization and the agency business.
- The CLA advocates that libraries should favour the purchase of Canadian editions of books published in Canada and abroad. Under normal and reasonable circumstances, libraries should favour assisting authors and publishers in Canada, but they will not sacrifice their right to import books directly from foreign sources.

Purchasing

The library acquisition process of one public library with a budget in excess of \$7 million was as follows: book acquisitions including freight were about \$800,000 and periodical acquisitions \$60,000. In addition microfilms were purchased. The source of books acquired were:

Canadian wholesalers	58%
Canadian publishers	15%
U.S. wholesalers	1%
U.S. publishers	2%
U.K. wholesalers	10%
U.K. publishers	4%
Other wholesalers	10%

This public library noted an increasing tendency to use Canadian wholesalers as opposed to Canadian publishers, because of the service factor. It was also noted that trade bookstores often received delivery of new titles before they were made available to libraries, and by using wholesalers these books could be obtained earlier. Many of the books obtained through wholesalers were imported and the wholesalers provide the customs clearing function which is a saving to the library. Problems of poor delivery service provided by Canadian publisher-agents, have allowed some wholesalers to flourish. However, other wholesalers have experienced difficulties in providing satisfactory service, due to the fact that they are late in paying publishers' bills and consequently are slow in receiving shipments of new orders.

An interesting in-house study comparing the cost and service of Canadian publisher-agents with U.S. and U.K. wholesalers revealed the following results: (17)

- (1) The cost, made up of staff time and retail price, was 19.8% to 23.6% higher for foreign titles purchased through Canadian agents than from foreign wholesalers.
- (2) The delivery of books was on the average nine days faster from the Canadian agents than from the foreign wholesalers.
- (3) The Canadian agent's order fulfillment rate was lower, 76.3% compared to 95.5% for the foreign wholesalers.

A variety of delivery systems was used by the public library in its book acquisition process including air freight, CP Express and the Post Office. There has been extensive damage experienced in the books received via the Post Office. These books are returned to the shipper who makes a claim from the Post Office. However, the library suffers a delay in being able to make the book available to readers. In general, freight costs were not considered to be a very significant cost item relative either to the cost of books or the library's budget. What did concern the library was the quality and timing of the delivery service.

Discounts on books purchased by libraries tend to vary with volume, type of book and source of book. A wholesaler located further from the library will offer a higher discount in order to be able to compete with a wholesaler who is in a more favourable situation. Some reference books, which are often purchased on the basis of standing orders, typically have either low or no discounts, e.g., annuals, encyclopedias, CCH Canada, and law books.

Periodicals are acquired through subscriptions arranged by CanebSCO (a subsidiary of a U.S. firm) which acts as an agent for the periodical publishers similar to the national distributors for periodicals. The library places its order with CanebSCO, but pays the periodical publisher directly and receives shipment directly from the publisher. Microfilms for back copies of newspapers are purchased from another firm.

The public library is also involved in distribution in terms of book circulation. While most readers pick up their books from the library, over 30,000 titles were shipped under interlibrary loan arrangements. These titles went to several regional libraries and from there to about one hundred smaller libraries. About 20% of the interlibrary loan shipments are sent by trucks owned by the library system and the remainder are sent via the mails at the library book rate. No books are sent directly to readers by mail, although the library does provide a home reader service which involves personal delivery of books to persons who are handicapped and unable to use the library.

Book Rate

The Post Office increased the library book rate in April 1978, the first increase since 1951. Prior to 1978 the rates were 7 cents for packages up to 1 lb. and 3 cents for each additional pound: after April 1978 the rates increased and some examples for outgoing and return postages are as follows:

For 1 lb. or less

Up to 2 oz.	\$.03
16 oz.	\$.16

Over 1 lb. for short hauls

2 lbs.	\$.20
15 lbs.	\$.49

Over 1 lb. for longer hauls (rate code 10)

2 lbs.	\$.30
15 lbs.	\$1.90

In April 1979, the rates for 1 lb. or less were increased to 2 oz. - \$.04 to 16 oz. - \$.20, while the other rates remained the same.,

In order to qualify for this rate, a library is defined as a public library, university library or a library maintained by a non-profit organization. Books shipped at this rate must consist wholly of reading matter and contain no advertising, except incidental notification of books circulated between libraries and patrons of such libraries. Information on how much material is shipped at this rate needs to be collected in order to determine how this concessionary rate affects the postal deficit.

Some information is available on the impact of the April 1978 increase on library budgets. Mailing costs associated with this category were shown to increase by up to 100% and sometimes more, but as a percentage of a library's total budget these mailing costs would still be quite small. Some examples are shown in Exhibit 14.

One problem with the use of concessionary postal rates by a library is that the more successful the library is at circulating books, the higher are its costs, while at the same time its revenues do not increase. From the post office's point of view, success creates problems because a greater use of the concessionary rate will increase its deficit as well. The setting of the rate must also recognise the cost of

EXHIBIT 14EXAMPLES OF THE IMPACT OF INCREASES IN THE
POST OFFICE'S LIBRARY BOOK RATE AFTER APRIL 1, 1978

1. Regional Library Board of Nova Scotia - cost increases of \$30,000 to \$40,000; double this amount when provincial library service mailing costs are added.
2. Cariboo-Thompson-Nicola Regional Library Service, B.C. - increase from \$8,646 to \$20,000.
3. Vancouver Island Regional Library serves 20,000 sq. miles and distributes 71,000 books by mail - increase of 150 per cent.
4. Chinook Regional Library Service in Swift Current -- increase of 100% from \$6,000 to \$12,000.
5. Metropolitan Toronto Library Board - in 1977 the Bibliographic Centre handled 2,533 books for a cost of \$253.30. A 2-lb. book will now cost .29 cents to Saskatchewan, .20 cents to Toronto, so increases will be at least double, and an estimated 3,000 books will be handled.
6. North Eastern Regional Library System, Ont. - increase from \$2,535 to \$4,485 for interlibrary loans and books by mail program.
7. North Central Regional Library System, Ont. - increase of 60% to 70%.
8. North Western Regional Library System, Ont. - increase of 100%.
9. Lake Ontario Regional Library System - increase use of courier system and less reliance on Post Office.

Source: Canadian Library Association.

competing services, such as private trucking, which is already being used by libraries to ship interlibrary loans. Some details of the regulations need examining because use of the rate is worded in such a way that the libraries of community and technical colleges, schools, firms and governments are technically not qualified to use this rate.

There will be some variation in the acquisition process used by a university library, as opposed to a public library, because of the emphasis on scholarly titles, foreign titles, and reports from specialised institutes. University libraries use wholesalers extensively such as Coutts Library Service in Ontario, Ian MacDonald Library Services Ltd. in North Vancouver, and the wholesaling arm of Blackwells in the U.K. In a number of instances, blanket orders will be placed with wholesalers who then ship certain titles automatically, although the library has the right to return these books. For one library, blanket orders account for 25% of book orders, and this process reduces the transactions costs of ordering, although selection powers are delegated to someone else. University libraries also have to deal directly with a number of specialised publishers such as institutes.

Blackwells now ships books by air freight once a week from the U.K. to Toronto, where bulk is broken and parcels are sent to individual customers in Canada via the Post Office. Shipping costs from the U.K. to Toronto have increased, but delivery times have improved dramatically and this is of major interest to libraries.

Like public libraries, university libraries are more concerned over delivery service than delivery rates, and wholesalers emphasise the service aspect. This may change as library budgets become squeezed in several directions. For universities, an increasing portion of the budget is going to serials, while the balance has been affected by the rising price of books and the decline in the value of the Canadian dollar. Compared to these factors, increased freight costs, although they have occurred, are of lesser significance.

ORDERING SYSTEMS

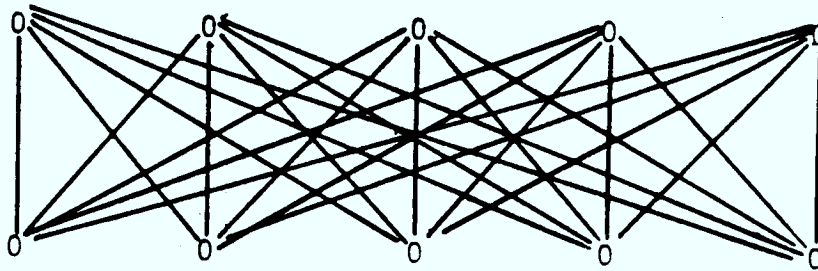
The topic of book ordering systems deals primarily with the processing of information flows, rather than the movement of books. First, an examination is made of several U.S. ordering systems developed by U.S. wholesalers, followed by a description of the evolving teleordering system in the U.K. Second, the existing systems are contrasted, their principal elements noted, and implications for Canada drawn.

Book ordering systems are in the process of change. Studies have been and are being conducted in the U.S. by BISAC (the American Book Industry Systems Advisory Committee) and by the Book Distribution Task Force of the Association of American Publishers (AAP). Since 1977 a number of issues have been discussed and bulletins issued by the AAP dealing with topics such as International Standard Book Numbers (ISBN's), cataloguing in publication, networks, Standard Account Numbers (SAN's), computer-to-computer order placement, machine-readable ISBN's, on-line order transmission, and standardised formats.

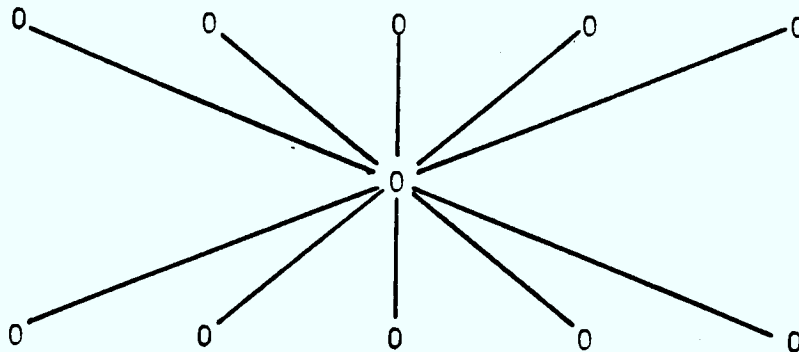
A major reason for discussing ordering systems is that the development of more efficient systems can reduce the transaction costs of doing business, both in placing orders, effecting payment and arranging for physical shipment. The book industry is faced with a complex network whereby numerous publishers need to be linked with even more numerous outlets (stores and libraries). With five publishers and five outlets, there are 25 possible linkages. However, if there is one intermediary between publisher and outlet the linkages are reduced to 10 (see Exhibit 15). In general, if there are an equal number, n , of publishers and outlets, there will be n^2 possible linkages if there are no intermediaries, and $2n$ linkages if there is one intermediary.

EXHIBIT 15

Network linking 5 publishers with 5 outlets and no intermediaries
25 Linkages



Network linking 5 publishers with 5 outlets with one intermediary



One problem for Canada is that it has about 4% of the world's English speaking population, and there are hundreds of thousands of English language titles in print, together with tens of thousands of new English language titles published each year, most of them outside of Canada in the U.S. and the U.K. How then can an efficient ordering system be developed which provides Canadian readers with access to these titles? In order to approach this problem, while recognising its interrelationship with Canadian publishing, the following section surveys some of the existing ordering systems in the U.S. and U.K.

U.S. Wholesalers

1. Ingram Book Co.

(a) A microfiche service is available consisting of 30,000 titles classified in three categories, author, publisher and subject. Title and author versions of the fiche are mailed weekly (two copies of each), and either publisher or subject version is mailed monthly. The fiche contain details of number of books in stock and on order, their publication date and price. Additional information is available weekly on fiche concerning major upcoming book promotions, national and regional best seller lists, new books at Ingrams and the status of important books.

(b) A microfiche reader is provided as part of the program. The subscriber can either buy or rent the reader. There are 6,000 subscribers to-date.

(c) Distribution centres are located in Tennessee, Maryland, California and Washington State.

(d) Annual subscription rate is U.S.\$125 for fiche plus rental of reader; U.S.\$54 for fiche only. Reader can be purchased for U.S.\$170.

(e) Paperback advance service - each month a catalogue of about 200 mass market paperbacks is sent to each subscriber. These titles can be ordered and returned.

(f) An annual subscription of \$25 provides access to a Cooperative Advertising Summary service, which gives a summary of quarterly purchases from Ingram's, and allows the subscriber to claim from publishers who have a cooperative advertising program.

(g) Basic Trade Policies - Outline

Discount schedule - 20% to 40% depending on quantity of order and list price of book.

Terms - 2% cash discount on payments made within 10 days of date of statement; net 30 days from date of shipment.

Ordering - Toll free in North America except for Alaska, Hawaii and Canada where collect calls can be made. A charge is added to the invoice if the order is for less than 25 books and the Ingram title code numbers are not used. Mail orders can be used and back orders can be made.

Shipping - Up to 100 lbs., shipments will be made via United Parcel Service with charges added to the invoice; over 100 lbs., books will be shipped freight collect; same day shipments will be made on books ordered by 10:30 am; caller receives current inventory status and copies of books are reserved.

Returns - Total returns may not exceed 10% of purchases made during the preceding 12 months and must be made within 9 months of purchase date; a request must be made to make a return and returns will be credited at 43% to 50% of list price. Provision is made for returning damaged books and shipping errors.

Past Due Accounts - 1 1/2% per month service charge will be placed on past due balances, and shipments will not be made to accounts that are past due.

(h) Canadian considerations -

(1) Fulfillment in Eastern Canada would take place from Ingram's Maryland warehouse.

(2) Subscription rates and terms for Canadian and U.S. customers are the same and should be paid in U.S. currency.

(3) The freight cost on returns is the responsibility of the purchaser

2. Baker & Taylor Co. (a subsidiary of W.R. Grace Co.)

(a) A microfiche service is available each month with an update of the inventory held at the service centre closest to the subscriber. From one million to two million copies of books are held in stock and these represent 100,000 to 140,000 separate titles. The fiche contain information of titles in stock, on order, date of publication, ISBN number and list price. Additional information can be received weekly from a list of the 20,000 best selling and fastest moving titles, and from Tradeweek, a microfiche magazine which contains information on new releases, advertising and publicity schedules and best sellers.

(b) Distribution centres are located in New Jersey, Georgia, Illinois and Nevada.

(c) Annual subscription rate varies from U.S.\$50 to U.S.\$125 for new subscribers and from U.S.\$50 to U.S.\$115 for renewals according to which plan is purchased. A microfiche reader is provided at a cost of U.S.\$180 to buy or U.S.\$50 per annum to rent.

(d) A complete kit of in-store promotional material including a neon sign, advertising mats for newspapers and magazines, and taped radio commercial material to advertise that the store has the "Bookfinder" service are available for purchase.

(e) Basic Trade Policies - outline

Discount Schedule - 10% to 40% depending on type of book and quantity ordered.

Terms - 2% to 10 days E.O.M. Net 30 days.

Ordering - Toll free in the U.S.A. or collect from Alaska, Hawaii and Canada on order of 50 books or more. Charges for calls which do not meet this condition are added to customer's invoice: mail orders can be used and back orders made.

Shipping - Shipments will be made by United Parcel Service unless customer instructs otherwise; shipments are FOB distribution point and freight charges are prepaid and added to the customer's invoice.

Returns - Total returns may not exceed 10% of books purchased from Baker and Taylor in a calendar year; permission for returns has to be requested and authorization received; books will be credited at 46% off list price.

Past Due Accounts - 10% will be placed on past due accounts, and shipments may be withheld.

(f) Canadian considerations - Baker & Taylor's terms to Canadian customers are the same as to domestic customers with a few necessary differences noted below:

(1) Freight: Baker and Taylor ships to Canadian customers via BATAPAK, a new, unique service. Canadian shipments are consolidated and cleared through customs by B & T, and then introduced into the Canadian postal system. BATAPAK eliminates brokerage charges and results in quicker and cheaper shipments to Canada, namely three weeks to Ottawa and 10 days to Burlington, Ontario.

(2) Bookfinder viewer: The Bookfinder machine, if ordered, is subject to duties. Other costs are unchanged.

(3) Payments must be made in U.S. dollars.

(4) Company confirms by telephone all orders placed within 24 hours.

3. Brodart Inc.

(a) Dimondstein Book Express, a division of Brodart Inc. offers the DBE Sure Book System. A weekly microfiche is supplied for cloth, trade and mass market paperback titles. The information on the fiche is in title sequence and each entry contains title, author, publisher, inventory status (in stock and on order). Immediate confirmation is given on orders received and quantities shipped. DBE Digest is published 18 times a year

to provide full ordering information on all major new releases in cloth, trade and mass market paperback books.

(b) Distribution centre is located in New Jersey.

(c) Annual subscription rate is U.S.\$52.

(d) Basic Trade Policies - outline

Discount schedule - 25% to 40% depending on quantity and type of book.

Terms - Net 10 days from date of statement.

Ordering - Toll free in North America except Alaska, Hawaii and Canada; mail orders encouraged; back orders can be made.

Shipping - By company-owned trucks from Boston to Philadelphia; otherwise United Parcel Service for orders up to 100 lbs., and Motor Freight or Book Rate for orders over 100 lbs.; charges for shipping will be added to the invoice.

Returns - Total returns may not exceed 10% of books purchased during a calendar year; returns must be made within six months of purchase date; request must be made for authorization of returns which are credited at invoiced price less 10% return penalty.

Past Due Accounts - 1 1/2% per month service charge will be placed on past due balances, and shipments will not be made to accounts that are past due.

(e) Canadian consideration - Brodart has a warehouse in Brantford, Ontario.

4. F.W. Faxon Co. Inc.

Faxon is an international library magazine subscription agency serving over 20,000 college, university, school, public and corporation libraries. Subscriptions can be taken out on over 95,000 international educational, scientific, medical and technical journals and popular magazines.

Faxon provides an ordering and payment service and does not stock any of the magazines or serials. Because of the large number of linkages involved and the volume of systematic information to be transmitted, the ordering service is computerised with the data base stored at Faxon's facilities in Massachusetts. The charge for Faxon's service is about 3.5% to 4.5% of the list price of the periodical.

The ordering procedure involves a library, which is in possession of a printed catalogue, placing an order with Faxon, which in turn places the order with the publisher. The periodical is shipped directly from publisher to library, while payment is made by the library to Faxon. Faxon in turn pays the publisher. The advantage to the library is that all orders are placed with one firm and all payments are made to one firm.

The order is placed by the library completing a typed or written order form in a format specified by Faxon. This information is stored in a computer which prints out an invoice for the library. However, the information on the invoice can also be transmitted to the library by way of punched cards or tape for use in the library's automated order, payments and record system. One line (30 characters) is available above each title ordered for the library to include selective information useful to their operation. In this way each order can be customised.

Faxon notes that it has the programming and hardware capability to operate remote terminals on their customers' premises. At present this capability is being used for display at conferences, where the terminal is on-line with the central computer files in Massachusetts. The terminal is used to display the in-depth bibliographic information contained in the files, as well as examples of the customer's history file. At the Canadian Library Association Conference in Ottawa, June 1979, the line charge for linking the terminal to the main computer was about \$26 per hour.

Teleordering

The Software Sciences Group consists of a number of operating companies in which a holding company, Software Sciences International has 100% or a majority interest. The Group provides a capability in: computing, communications and operational planning consultancy; software implementation; the turnkey design and supply of complete mini-based systems; and the design and manufacture of point-of-use microprocessor based systems. In this connection, Software Sciences has developed a teleordering system for book acquisitions in the U.K.

The firm summarises the teleordering system as follows:

The Software Sciences Teleordering System satisfies booksellers' and publishers' needs for a simple, fast, accurate, and comprehensive method of ordering books. A cost-effective application of modern data processing technology, it offers significant savings in the time and costs associated with the ordering of books from different publishers or other distribution sources. Teleordering provides a high degree of flexibility to suit the individual requirements of those who may differ in scale of operation, degree of computing experience, and level of service offered. In general terms, however, the system works as follows:

1. Throughout the working day orders are keyed into a compact "intelligent" terminal installed in the bookshop (either by ISBN or by author and title). Some error checking is automatically carried out and the information stored in the terminal.
2. During the night, the Teleordering central computing system automatically calls up each bookshop terminal by telephone and extracts from it the stored data.
3. The central computer then processes this information by reference to a master database of titles (Whitaker's British Books in Print); validates each order; expands ISBN's to full description; sorts into publisher sequence; adds bookshop

details; and routes orders to the appropriate supplier (publishers, wholesalers, distributors, etc.)

4. Consolidated orders are then transmitted on the same night to the suppliers. A confirmation of orders and action taken may also be transmitted back to the bookshop terminal where it is printed out.

There are a number of points to note about this teleordering system:

- (1) It includes an updated database of Whitaker's British Books in Print.
- (2) The publisher determines the location of where his books will be sourced, and there may only be one supply point for each publisher.
- (3) No information is available as to the stock of books which the publisher's source has on hand.
- (4) The bookseller receives confirmation that the order has been placed, and information if the book is "out of print" or "not yet published". However, the bookseller does not know how long it will take to fill his order, as this depends on whether the publisher's source has any copies in stock.
- (5) The publisher can receive the order directly into his computer, on magnetic tape or through a terminal.
- (6) The system can be developed to handle automated computerised point-of-sale (cash register) terminals, which can link up to a bookseller's inventory system.
- (7) There is a question of the confidentiality of information about disclosing what each bookseller has ordered.
- (8) There is a question of cost. In the U.K., the booksellers' costs vary with the size of the terminal and the use made of the terminal measured in the number of order lines per day. For example, the first year cost and the estimated average annual cost over five years for the smallest and largest terminals are as follows:

	<u>Cost in Year 1</u>	<u>Average Annual Cost over 5 years</u>
Smallest terminal at 165 order lines per day	C\$5,112	C\$1,730
Largest Terminal at 1,575 order lines per day	C\$13,833	C\$4,867

The publisher's cost includes the cost of a terminal, C\$3,960 to C\$18,000; the cost of terminal maintenance, C\$460 to C\$634 per annum; Post Office charges for installation C\$72 and annual rental of C\$264; a joining fee ranging from C\$2,400 to C\$3,600; and an order line fee which varies with the number of daily order lines, and for which there is a minimum annual fee of C\$720. Examples of the publisher's order line fees are as follows:

<u>Volume of Order</u>	<u>Annual Cost</u>	<u>Average Cost/Line*</u>
Lines Per day	C\$	C. cents
50	720	5.76
500	4,581	3.67
1,000	8,030	3.22
2,000	14,030	2.81
4,000	24,230	2.42

* Assumes use of 250 days per annum.

Assuming a publisher has the smallest terminal and uses it at the minimum rate, the first year cost to the publisher would be C\$7,876, which is recognised by Software Sciences as being a deterrent to small publishers. It should be noted that publishers who do not join the system still receive order information, but by mail instead of through a terminal. This is necessary to provide the bookseller with one stop shopping for orders.

Early in 1979, the teleordering system was still in a developmental stage. It was supported by both the Publishers' Association

and the Booksellers' Association in the U.K. and its implementation involves two sets of agreements. The first agreement is between the two Associations and Software Sciences Teleordering Ltd. (SST), a consortium involving Software Sciences Ltd., W.H. Smith and Son Ltd., and J. Whitaker and Sons Ltd., which will run the system. This agreement deals with continuity of service, the operations of a users council, access to the accounts of SST, and confidentiality of information. The second agreement is between SST and individual bookseller, publisher or wholesaler and covers charges, use of equipment, and the rights of both parties in the event of failure.

Important aspects to note are the necessity of a high degree of cooperation between publishers and booksellers in developing the system, the involvement of a firm which has telecommunications and computer expertise, and the need to spell out in detail the terms of the contractual arrangements. In the relatively compact and homogeneous U.K. market, this has taken three years; different conditions prevail in Canada, and the presence of foreign investment in book publishing, wholesaling and retailing does not simplify the development of a system for Canada.

Software Sciences was developing with the Ingram Book Co., a teleordering system for the acquisition of books in the U.S. The negotiations between the two companies were terminated in May 1979. Software Sciences are now offering an intelligent point of sale terminal for bookstores which processes sales and customer returns, generates orders, maintains inventories and provides daily sales and cost summaries. Book orders would be sent by mail or electronic media to individual publishers and the automated teleordering system would not be included, although it could be added. This system has been developed to meet the requirements of the Ingram Book Co.

An overview of this operation states the following:

The in-store microcomputer contains the complete inventory, including ISBN and quantity, for the individual store.

Sales may be recorded by passing the light scanner wand over an OCRA label on the book. The transaction is automatically processed and the results displayed on the VDU. This VDU will also display "prompt" messages to assist the operator. Alternatively, sales details may be keyed in on the standard QWERTY keyboard and numeric pad.

A detailed receipt is printed on the 40 position tally roll or ticket printer for the customer (and a copy kept if required) and the inventory up-dated.

Orders for books not in stock are placed by keying the ISBN via the administrative terminal. These are accumulated throughout the day by the system. This terminal is also used to up-date and interrogate the stock file, change prices, handle other administrative functions, and to control the total system.

Overnight the individual book-store system is polled over telephone lines by computer and the day's sales transactions and orders are extracted. To take advantage of quantity discounts and avoid small order surcharges, the user may hold orders back. Orders are matched against a database and customer and vendor files, expanded and formatted, and printed out for dispatch to suppliers.

The central computer also processes sales transactions on a cumulative basis and maintains comprehensive sales and order files.

Orders routed to the suppliers are confirmed by post with duplicates of the purchase orders. A daily sales report can be generated at the terminal without reference to the central computer.

Subsequently, the bookstores receive by post, weekly or monthly, summaries and reports processed by the central computer including: Weekly Sales Report showing those titles for which there has been movement; Monthly Slow-moving Stock Reports based on criteria specified by the store itself; Best Sellers and New Titles Reports, in newsletter form.

The bookstore at the University of British Columbia has a computerised point-of-sale system in operation which performs many of the functions mentioned above.

Some Observations

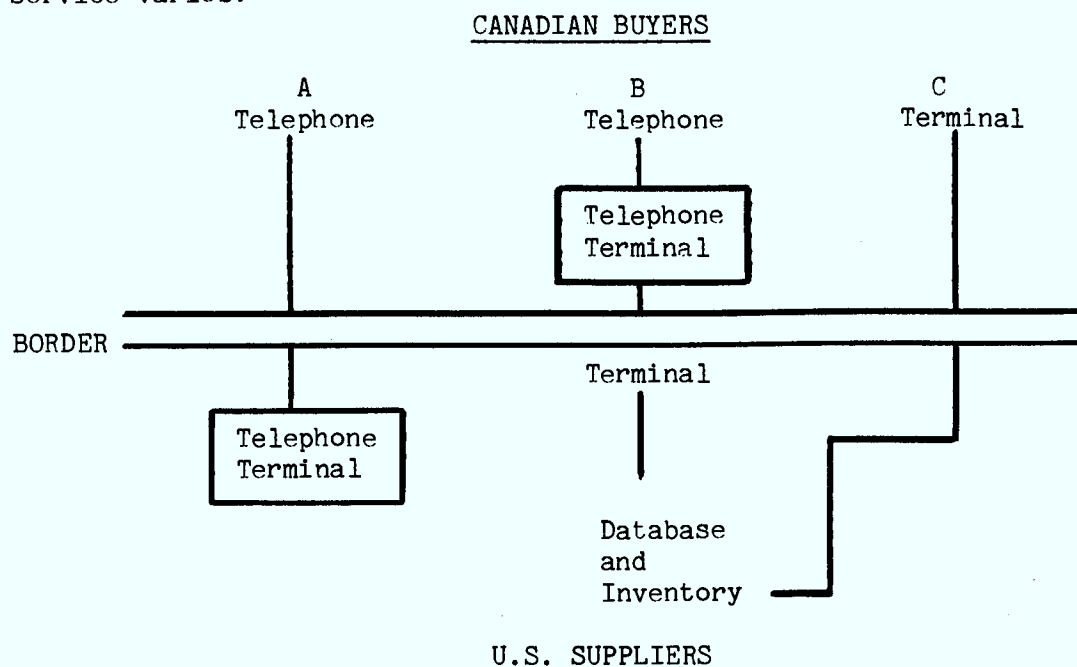
An ordering system requires a database from which orders can be made and a procedure for updating the database. The information on the database must include a way of identifying the book and its price and may include information on the availability of the book, e.g., number of copies in stock as in the case of Ingram, Baker & Taylor and Brodart, but not in the case of Software Sciences. In addition, information can be provided about the number of copies of a title sold in recent weeks, whether it is on a best-seller list, when publicity for the book will be undertaken and some details of its content.

A second prerequisite for an ordering system is that there should be a means of consulting the database and placing an order for selected titles. This presupposes that the buyer can identify the source of supply for the book, which in the U.K. teleordering system is determined by the publisher, but which in the U.S. systems involves competing sources such as wholesalers. Consulting the database can take place by consulting a video terminal, by scanning a microfiche catalogue

or a printed catalogue. Communication with the supply source can be made by a buyer through a computer terminal, over the telephone or by mail.

Fulfillment of the order is undertaken by the supplier through a variety of freight delivery services, but will also involve the transfer of information concerning the confirmation of the order, inability to supply, back-ordering and the details of the invoice. A particular problem in Canada is that there may exist rights to a Canadian edition, in which case the order would have to be filled by the source designated by the holder of Canadian rights. Consequently, the status of copyright in Canada is an issue relevant to book distribution.

The costs involved in using the foregoing ordering systems vary with the characteristics of the systems. For example, the booksellers' costs in the U.K. teleordering system will be a minimum of C\$5,112 in the first year, and an estimated average of C\$1,730 a year over five years, whereas Ingram's annual service costs C\$144 for fiche plus rental of reader or C\$62 for fiche only; Baker & Taylor's service costs about C\$200 a year for fiche and reader, and Brodart's C\$60 for fiche only. The costs are not, however, strictly comparable because the level and type of service varies.



Canadian Buyer A consults a fiche or printed catalogue and telephones collect to the U.S. supplier, where the call is answered by an operator who has a computer video terminal whereby immediate confirmation of the order, based on available stocks, can be made.

Buyer B uses a Zenith number to telephone without charge to a location in Canada where a terminal is situated and the same procedure can be used as for A. Buyer C has a terminal and communicates directly with the U.S. supplier.

The differences between Buyers A, B and C, as far as ordering is concerned, relate to the ability to make a no-charge call without the operator, which exists for B but not for A or for C, who must pay the cost of having a terminal, and of communicating at the line charge rate for computer links, plus the terminal charge (lease or own) and the charge levied by the U.S. supplier for having access to a terminal.

The interviews suggested that the U.S. suppliers were not pushing the buyers to have terminals at this time, and that the telephone system of A and B provided an efficient method of communication. In the event that the Canadian government wanted to control information flows between Canada and the U.S., telephone linkages such as A would be very difficult, whereas computer communications might be easier to control. Consequently, U.S. suppliers will probably encourage Canadian buyers to use A rather than B or C. Even if a Canadian database is established, Canadian buyers will still have access to the Baker & Taylor, Brodart and Ingram systems, which will provide competition for the Canadian system.

Finally, it should be noted that not only do the existing ordering systems have different attributes, but any attempt to construct a comprehensive data base, along the lines of the U.K. teleordering system, is going to take a great deal of cooperation between publishers, wholesalers, libraries and booksellers, as well as a detailed understanding of computers and telecommunications, and extensive understanding of the property rights involved and the terms which should

be included in contracts between seller and buyer. The Canadian circumstances differ from the U.K. In the U.K., a large percentage of the books ordered are also published in the U.K. In Canada, a large percentage are imported, namely 72% in 1977. Thus whereas a single source for each publisher is a possibility in the U.K., this would not be easy to effect in Canada.

The R.R. Bowker Co., a subsidiary of Xerox, is in the process of developing a book acquisition system (BAS) which will involve the establishment of a database and a procedure for ordering, but not an inventory of books. The BAS is therefore an information and ordering system which will be made available to users through a video display (CRT) computer terminal. At present, the system is being tested over a six month period with 10 users which are representative of the book trade such as university and public libraries, college and tradebook stores and wholesalers.

The database will contain updated information on books in print, including different editions of the same book, together with a list of names and addresses of vendors, list prices and stock status (out of stock, out of print), but not the number of books held in stock by each vendor at any particular time. The user undertakes his own ordering procedure with the vendor of his choice through whatever channel of communication is available between user and vendor. For example, Baker & Taylor's micro-fiche system could be used in conjunction with Bowker's BAS.

The costs of using BAS will be determined after the six months test period. The system will be aimed primarily at the medium to large library and medium to large bookstore. The decision of whether to offer the service outside the U.S. will also take place after the test period.

Considering the English language book market as a start, and this is where BAS applies, Canadian readers, bookstores and libraries require information about Canada, U.S. and U.K. books in print on an updated basis. Bowker's BAS provides the U.S. component and could be enlarged to include the U.K. and Canadian components, thus extending the database. The list of vendors could also be adapted to include names and addresses of Canadian vendors, publishers and wholesalers, and in the case where there was a Canadian edition of a book, this could be noted on the database.

Construction of an enlarged BAS database might show Canadian users only the Canadian list price, and only the Canadian vendors for books where a publisher in Canada had Canadian rights. The adoption of an enlarged BAS, if Bowker was interested in this, would not deal with the ordering procedure between user and vendor, which as in the U.S. would be left up to the discretion of the user, and would allow vendors still to compete for business. There would be no security for the agency business for books without Canadian rights, because users could still have access to the wholesalers' ordering systems such as Baker & Taylor and Ingram, which are only a collect telephone call away.

In sum, an adaptation of Bowker's BAS would not provide a teleordering system, nor would it show which vendor had how many copies of a title in stock. It would provide information on a large number, perhaps all Canadian, U.S. and U.K. books in print, and it would identify the vendors in Canada. It would provide more information about titles than say, Baker & Taylor, but it would not provide Baker & Taylor's ordering system. Combining the database with a teleordering system would lead publishers to identify one source of supply for their books which could substantially affect the intermediaries in the system, namely the wholesalers.

There is clearly a need for an in-depth analysis of the impact of alternative book distribution systems on Canada. The U.S. examples

show what developments are taking place and what aspects require study. For instance, such an analysis needs to include an examination of the database, including the titles to be listed and their status and stock position. Second, the most efficient method for communicating with the database must be determined--catalogue, microfiche or video terminal. A third important aspect is to decide how fulfillment of orders is to take place. These are some of the important factors that need to be discussed in a proposal for a comprehensive Canadian-based book ordering system. Since the proposal will have an impact on Canadian authors, publishers, wholesalers, libraries and bookstores, the analysis needs to be undertaken within the context of the overall book distribution system from writer to reader, rather than by concentrating only on one or a few levels of the system.

THE CONSOLIDATION STRATEGY

In brief, distribution activities include transportation, inventory management, packaging, warehousing, receiving and shipping, order processing and overall distribution management. These activities are closely intertwined in complex ways, so that a change in any of the activities may generate ripples upstream and downstream. Reducing transportation costs by switching to a less expensive but slower transport mode, for example from air to rail transport, will often increase inventory levels and warehousing costs.

Many distribution costs are hard to isolate, if not to identify. Lost profits from lost sales which result from stock-outs or late deliveries are rarely, if ever, estimated or tabulated. For that matter, the interviews indicate that the distribution planning and managing process is seldom structured to allow management to make explicit cost and profit trade-offs in terms of different, effective distribution combinations.

Companies often choose in-stock availability goals (i.e. service levels or fill rates) in a haphazard fashion, e.g. 60%, or 70% or 90% fill rate across the board. These companies seldom analyse whether the fill rate in question corresponds to a particular profit goal or whether all items should have the same fill rate, even though the cost and services consequences are significant. Many of the companies interviewed also select transportation modes and carriers somewhat arbitrarily. They are either unwilling or unable to determine the effect of mode and shipment size on the overall sum of transport costs, inventory-carrying costs, or profit losses from stockouts. For these and related reasons, detailed cost comparisons of alternate delivery systems are either incomplete or unavailable. Any evaluation of the feasible alternatives will require the development of appropriate information.

One feasible alternative to the present distribution strategies employed by many publishers is that of consolidation involving practices that encourage the simultaneous storage, long-haul transportation, or delivery of two or more products or orders to achieve economies of scale. This strategy does not have to be achieved at the cost of reduced customer service. In the United States, for example, some companies have begun to schedule orders for delivery on a once or twice per week basis rather than whenever they were received because of high fuel costs and shortages. The suppliers are able to maintain speed of service for many of their customers under these arrangements by informing them of scheduled shipping dates, so that those situated in particular areas to which consolidated shipments were directed would time their orders to coincide with the schedules.

The employment of shared or pooled services such as common carrier transport, shippers' cooperatives, and public warehouses is another form of consolidation. Potential savings from the use of shared services have led many U.S. manufacturers to consider joint efforts with makers of complementary products requiring similar logistical efforts. Consolidation programs require products with homogeneous characteristics or logistics needs. Periodicals, mass paperbacks, books and newspapers are prime candidates for such programs, both from the standpoint of the suppliers and marketing intermediaries.

SUMMARY AND POLICY IMPLICATIONS

1. Canadian book publishers, wholesalers and retailers are being subjected to increasing competition from foreign publishers and wholesalers, and from the changing composition of retail outlets due to the rise of chain bookstores. Canadian publishers who act as agents for foreign publishers are faced increasingly with the situation wherein books are imported from foreign wholesalers rather than by the agents. This "buying around" means lost business for Canadian wholesalers as well as for publishers. Canadian authors, who see the agency system being subjected to these competitive pressures, will tend to consider the use of foreign publishers for the distribution of their books both in foreign markets and in the Canadian market. This will result in loss of business for Canadian publishers. In the case of bookselling, chain bookstores are estimated to have 40% of bookstore sales in Canada: an examination and evaluation of the costs associated with different methods of book distribution is required in order to determine the probable impact of changes in distribution on Canadian publishing.

2. Increased competition for Canadian publisher/agents is manifest in the alleged superior terms of price and service being provided to Canadian libraries and bookstores by foreign book wholesalers. The application of computers and telecommunications equipment to book distribution, together with organizational innovations on the part of wholesalers, has meant that the Canadian publisher/agent is less necessary as an intermediary in the distribution process than was the case previously. The actual and possible response of publishers in Canada to these pressures are:

- (1) to merge or restructure their operations so as to gain reduced costs,
- (2) to obtain publishing rights for Canadian editions of foreign authored works,
- (3) to become part of media conglomerates,

- (4) to press for the formation of a single national book wholesaling network in Canada, and associated with it a teleordering system,
- (5) to examine ways to limit the importation of books into Canada from foreign wholesalers.

Any proposal for a national Canadian wholesale network needs to recognise that the service and systems offered by foreign wholesalers, such as Baker & Taylor and Ingram will still be available, and a Canadian network will have to meet the prices and terms of service (benefits) offered by these systems if it is to be successful. The establishment of a Canadian system does not eliminate the alternatives.

3. The economics of the Canadian publisher-agency arrangements have been discussed in terms of the possibility of the cross-subsidization of Canadian published works by the agency distributed books, and in terms of the economies of scale due to the ability to spread the costs of sales, promotion and distribution over a larger volume of books, when agency books are sold. Scale economies refer to reduced unit costs with increased sales. There is, however, another type of economy at work, namely economies of scope. A marketing department can often transfer the expertise gained from marketing book A to marketing book B without recreating the expertise in the case of book B. That is to say, it can expand the horizontal scope of its distribution activities without expending resources on developing new expertise, because it already has the expertise. This is different from the scale effect, which focusses on indivisibilities of inputs, whereby a marketing department can sell more books without adding resources, because its existing sales force has spare capacity.(18)

The significance of scope economies in book distribution is that efficiencies are more likely to be experienced when a distribution network combines the output of publishers of similar products, i.e., all literary presses, or all textbooks, than when books of all type are handled by one

distributor. If books are promoted and distributed to a wide range of customers, this could lead to increased costs. The existence of scope economies is reflected in the fact that book wholesalers tend to specialize in certain segments of the market. Any proposal for one national distribution network in Canada should consider whether the efficiencies gained through scale might not be lost through considerations of scope.

4. Book wholesaling in Canada is carried on by a variety of institutions including publisher/agents, exclusive agents, wholesalers, warehousing/fulfillment operations, and bookstores integrated into wholesaling. Some of these institutions specialise with respect to segments of the market, both regional in Canada and abroad, and by type of book or customer. Any government policy aimed at distribution will likely have a differential impact on wholesalers according to the other activities which they undertake. It is unlikely that the government can assist all wholesalers with one policy.

5. The competitive forces in bookselling are due to plant and firm economies of scale at the retail level which are bringing structural changes to the book trade. Many of these changes have already taken place in grocery stores, hardware stores, automotive accessory stores and drug stores. A general tendency in the retail trade has been for markets to be characterised by chain stores and smaller specialist stores. The options for the independent book stores, in the face of these competitive pressures include,

- (1) the merging and forming of minichains themselves, or to sell out,
- (2) the integration backwards into wholesaling,
- (3) the diversification into related or non-related lines of business,
- (4) the pressure for retail price maintenance, or a net book agreement,
- (5) the requirement that publicly funded institutions buy through bookstores.

Evidence can be found that these options are either being pursued or discussed. No detailed study of Canadian bookstores is available, although such studies do exist in the U.S.

6. Competition policy impinges on book distribution in two ways. First, the provisions of the Combines Investigation Act regarding price discrimination and loss leader selling (Sec. 34 (1)(c)) and "bargain price" (Sec. 37) may relate to the distribution of certain books by certain outlets in Canada. And second, any discussion of trade matters which might be construed as discussion between competitors leading to restraint of trade could be illegal under the Act. For example, joint discussion in a trade association gathering of resale price maintenance, by way of a net book agreement could in itself be an offense, as would any discussion to form a single distribution system for books which might lead to an undue lessening of competition. It should be noted that, in the U.S., lawyers representing book publishers and distributors are constantly on record notifying the discussants about antitrust implications.

7. The international dimensions of book distribution in Canada is characterised by the following: export and import of books; sale of Canadian authors' rights abroad, and purchase of rights to publish and distribute foreign authors' works in Canada; foreign ownership of publishers and bookstores in Canada, and Canadian ownership of bookstores abroad; and the operations of foreign book wholesalers in Canada, and Canadian book wholesalers abroad. While Canadian policy is aimed at the Canadian segment of the international market, the international dimensions may diffuse the intended impact of the policy. The discussion of revisions to the copyright law, including the international aspect, are an important element to incorporate into policy proposals concerning book distribution.

8. The reports prepared by the Distribution Task Force of the Book and Periodical Development Council contain excellent discussions and proposals concerning book distribution in Canada, especially in the

examination of ordering systems. Some further details of these systems in the U.S. and U.K. are contained in this report including their cost and the benefits they provide. In order for the government to develop policies towards book publishing and distribution, the reports of the Distribution Task Force need to be complemented by consideration of the following topics: the economics of authorship including the role of literary agents and the sale of territorial and subsidiary rights; the economics of book publishing with emphasis on the difference between foreign and Canadian-owned publishers, literary, text book and trade book publishers; publishers in different regions of the country, and publishers which are more or less integrated and diversified with other media interests; the economics of book wholesaling and distribution, again with emphasis on regional, ownership and organizational differences; and the economics of servicing the readers' needs whether through libraries, book clubs or book stores, and especially through chain book stores.

9. There are a number of existing studies which are relevant to this topic, but their focus tends to be limited because of their terms of reference and the interests of the parties involved. What is now required is an industry study which focusses on all stages in the production-distribution process for books in Canada, with the implications of any policy proposal noted for authors, publishers graphic arts employees, wholesalers, libraries, schools, universities, bookstores and readers. It is unlikely that all these parties can benefit from a policy change, as is reflected in the apparent conflict, concerning "buying around", between libraries and bookstores on the one hand and the publisher agents on the other.

It should be noted that in many ways events are ahead of this proposal for an integrated industry study of book publication and distribution, because firms like Maclean-Hunter, Torstar and Southam already own and operate in a vertically integrated manner. For example, Maclean-Hunter employs writers, is a book, newspaper and magazine publisher, owns a printing operation, is a national distributor of periodicals and mass paperbacks and a book wholesaler, and also has

interests in related media such as cable television, radio and television stations. Similar examples can be found in the U.S. with CBS Inc., RCA and other firms.

10. The topic of book ordering systems and their relevance for Canada has a number of dimensions including the database, the users, the placement of orders and their fulfillment.

The nature of the database and the information contained on it will vary with the users' requirements. In English language publications, a database which contained Canadian, U.S. and U.K. books in print would be more than adequate for a trade bookstore, but would not include many of the sources required by university bookstores and libraries, which buy from small specialty publishers and institutes. A trade bookstore would require information on the publicity surrounding forthcoming titles and some details of the title, while this would not be required for the textbooks ordered by a university bookstore.

An ordering system would have to include a source for the orders, and preferably both the stock status of the book, the number of books in stock, or a procedure for notification of the status of the order shortly after it was placed. The orders should be placed with one source either by mail, telephone, telex or by direct computer link-up. The critical ingredient is that the buyer should know immediately what to expect and when, regarding an order. From the user's point of view, savings are incurred if the orders and payment can be made to one place, and shipment received from one place. The U.K. teleordering system achieves only the first, i.e. orders made to one place. It does not show the number of books in stock, but it does arrange for orders to be confirmed by those publishers linked to the system.

The U.S. ordering systems provide all three economies regarding ordering, payment and shipment and can confirm orders within a very short period of time. The database of each of the systems is not comprehensive but is tailored to segments of the market, i.e., primarily bookstores or primarily libraries.

11. The requirements for a Canadian ordering system will have to meet the efficiencies associated with one-stop ordering, payment and fulfillment, the need for instant information about an order, confidentiality as to the business undertaken by individual users, and a database appropriate to the needs of a variety of users, all at a cost that the different users (publishers, booksellers and libraries) can afford.

Two options requiring examination are the creation of a unique Canadian system from scratch, and the adaptation of an existing system, such as Bowker's, to Canadian needs which would include listing Canadian vendors and Canadian rights to particular books. If information on rights was shown clearly on a database, then it would be easier to monitor buying around, and seller and buyer could not plead ignorance about the existence of rights information. Study of both options needs to be based on a prior study of user needs. If time is important, then the adaptation of an existing system has much to recommend it.

The technology appears to be already available and only requires the appropriate development of the software for its implementation. If government supports the development of a Canadian ordering system, then consideration for assistance to small Canadian publishers, wholesalers and retailers will probably be required.

FOOTNOTES FOR PART III

- (1) More complete statistical details can be found in I.A. Litvak and C.J. Maule, The Impact of Bill C-58 on English Language Periodicals in Canada (Ottawa, Secretary of State, 1978).
- (2) Statistics Canada, Newspapers and Periodicals 1976-1977, Cat. 87-625, Feb. 1979.
- (3) M.O. Wirth and B.T. Allen, "Another Look at Cross Media Ownership", Antitrust Bulletin, Vol. 24, No. 1, Spring 1979, p. 87.
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