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## Fulfilment and Operating Practices in the European Book Industry



### Mission Overview Report

Industry Canada sponsored a benchmarking mission to Europe to examine technology and practices in the book industry, especially in distribution. On this mission fulfilment operations and book retailers were visited in an attempt to learn from European practices. The mission provided a wealth of information on distribution technologies and organizational models. While the mission's findings are exciting, it is important to understand the different environments in which Canadian and European firms operate so that the suitability of the European practices and technologies for the Canadian English-language market can be examined. This document is intended as an overview of the mission's findings. The annexes include background material on the markets visited and some comparisons of these markets to the Canadian English-language market.

### Mission Report

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## Fulfillment and Operating Practices in the European Book Industry



### Executive Summary

The realities of the Canadian English-language marketplace are:

- a small domestic market with a large foreign-controlled segment;
- a large number of small and medium-sized firms that need to compete with multinational conglomerates for domestic and international markets;
- a growing trend to form global information conglomerates which control many sources of production and distribution.

In terms of retail book sales as a percentage of GDP and retail book sales per capita, Canada lags behind most other industrialized countries, suggesting potential for growth (especially since book prices are low in Canada). Canada accounts for about 2.2% of the world book market.

	1990	1991	1992	1993	% Share '93	per capita '93 \$US
Canada	1,550	1,595	1,640	1,725	2.2	56
France	3,610	3,610	3,740	3,665	4.6	62
Germany	7,100	7,960	8,250	8,500	10.8	102
Netherlands	880	890	900	920	1.2	60
United Kingdom	3,490	3,655	3,855	4,060	5.1	62
Total World	62,005	66,135	69,330	78,875	100.0	12

Source: Euromonitor

Firms involved exclusively in creating and publishing books are in a very difficult competitive position because their competitors (especially US writers and publishers) benefit from large economies of scale and lower costs in a highly price sensitive market. Production costs are higher in Canada than in the US, Europe and Asia as a result of our smaller market which leads to shorter print runs. Also, the less advanced state of technology in the Canadian book printing industry creates problems for publishers, for example turnaround times are often not sufficiently fast for reprints to cover just-in-time fulfillment.

Book publishers realize the importance of developing a competitive edge and being more efficient in their own market. The question appears to be where to focus in developing this edge. Many firms are expanding sales by targeting new export markets, to increase their revenues, spread their risks and improve the viability of their firms. Industry Canada has sponsored a number of studies related to the industry and its performance over the past five years. These studies identified fulfillment (process of filling customers' orders) and inventory control as areas for potential improvement which could increase publishers' bottom lines. This is only one of the many areas that could have been targeted for action, but given limited resources it was selected as one critical area.

Over two missions, sponsored by Industry Canada (in 1994 and 1996), Charles E. Napier Ltd. (CEN), with Canadian English-language industry participation, examined twelve fully automated state-of-the-art book fulfillment operations in Europe. It was determined from these visits that:

- it required an annual sales volume of at least \$100 million to justify a fully automated fulfilment operation.
- by applying European automated fulfilment technology in Canada, it should be possible to reduce current fulfilment costs by 30 to 50%.
- by providing European style just-in-time fulfilment services to Canadian booksellers, it should be possible to reduce returns by up to 70%.
- by encouraging Canadian booksellers to routinely provide their publishers with detailed sales information, it should be possible to substantially improve overall inventory management; and
- return rates of books and fulfilment times are related, and if one is improved the other will also improve.

In 1995, CEN surveyed the English-language book retailing industry for Industry Canada. The Canadian retailers surveyed identified the following factors as critical. While the group surveyed was too small to be used as a proxy for the industry, their comments provide some indication of the issues of concern for booksellers. They identified as the most important variable for improving efficiency:

- Just-in-time fulfilment from suppliers.
- Reliable and responsive customer service.
- Sales reps who will work with the stores to promote sales.
- Competitive book pricing and discounts.
- Publishers who research the potential market demand for each of the books they publish.
- Co-op advertising and promotions based on the bookstore's total sales.<2>

CEN concluded, from that study and their previous studies on publishing, that the overall performance of the English-language book publishing / book selling industry in Canada could be substantially improved. However because of the many players involved, this is unlikely to happen unless there is a willingness on the part of both publishers and booksellers to work together to address their common problems, among them fulfilment and communications.

## 1. Distribution: an Issue for Concern

Distribution appears to be one of the critical areas to the overall economic performance of the Canadian English-language book industry and has become the driver on many regulatory issues. It also impacts on the performance of each of the various segments (i.e., publishers, booksellers, and printers) of the industry involved in manufacture and distribution of books in Canada.

On one hand, book publishers condemn booksellers for "buying around" titles from foreign publishers for which they are exclusive agents. On the other hand, booksellers argue that many publishers are not very efficient in the fulfilment/distribution process, provide inadequate customer service and this inefficiency forces them to purchase large inventories, resulting in higher operating costs (since reordering may be difficult on popular titles, more books than are needed are stocked and this leads to high levels of returns). Booksellers also argue that if they depended entirely on the certain publishers to obtain specific foreign titles, they would be forced to provide poor service to customers, since deliveries times from these publishers are so slow. Thus, they are forced to use US wholesalers like Ingram.

Publishers can realize significant economies of scale in the manufacturing, order fulfilment, and administrative functions of publishing. It is estimated that a publisher needs to have approximately \$100 million in gross annual sales in order to operate efficiently as a fully integrated publisher, using world leading-edge fulfilment technologies. As the majority of publishers in Canada, especially in the Canadian-controlled segment, are well below that size, the ability for firms to promote and distribute their products efficiently is lessened and costs are higher. Joint ventures in promotion and distribution are possible solutions to these problems.

An Interfirm Comparison Study (IFC) sponsored by the Canadian Book Publishers' Council (CBPC) and Industry Canada in 1990, and conducted by Charles E. Napier Ltd., identified "fulfilment" as one of the areas of weak performance in the industry. The study highlighted the need for the industry to consider consolidation of its facilities as a means of dealing with the high cost of distributing books across one of the largest countries in the world.

Five firms in the IFC participated in an evaluation of many top leading-edge practices and technology, as part of the first Industry Canada-sponsored mission of book publishers. It was found that by applying European automated fulfilment technology in Canada, it should be possible to reduce current fulfilment costs by 30 to 50%. If publishers were able to provide European style just-in-time fulfilment services to Canadian booksellers, it should be possible to reduce returns by up to 70%. More improvements to the industry's efficiency could be obtained by encouraging Canadian English-language booksellers to routinely provide their publishers with detailed sales information, to substantially improve overall inventory management.

Some participants in this study followed up with investments in advanced distribution technologies. On a smaller scale, other publishers have been joining forces to consolidate distribution and fulfilment operations. Literary presses have joined together and some major Canadian publishers are providing fulfilment and distribution services to smaller publishers. The opportunity exists for development of more joint efforts to acquire world class technology and to combine fulfilment and marketing activities to reduce costs and improve customer service (e.g., timely delivery and greater accuracy in the fulfilment process).

In 1995, Industry Canada sponsored a study of the service requirements of booksellers. The study found retailers believed that the overall performance of the book publishing / book selling industry in Canada could be substantially improved. Bookstores in Canada are concerned with obtaining just-in-time fulfilment, reliable and responsive customer service, sales reps who will work with the stores to promote sales, competitive book pricing and discounts, publishers who research the potential market demand for each of the books they publish and Co-op advertising and promotions based on the bookstore's total sales.

Following this service requirement's study, a joint mission of book publishers and book retailers was formed to visit retail and fulfilment operations in Europe. In March of 1996, this group visited 20 retail and three fulfilment operations in England, Netherlands, France and Germany. The mission looked at the state of fulfilment in Europe and its impact on the retail sector, and how the European industry players worked together.

## 2. The State of Fulfilment in Europe and English Canada

The recent mission of publishers and booksellers visited three fulfilment operations in Europe. From the previous mission a number of general findings were drawn, which were confirmed again on the second mission. All the fulfilment operations visited operated as independent businesses, either as profit or cost centres and it appears that a substantial sales volume (minimum \$100 million annually) is needed to justify the capital investment in fully automated fulfilment operations. Automation both reduces fulfilment costs and improves the service provided to customers, but with a high initial capital investment required.

The first operation visited was Centraal Boekhuis in the Netherlands. It is jointly owned by the Dutch Book Publishers and Booksellers Associations. The operation provides fulfilment services for approximately 300 publishers. Of these, it provides total fulfilment for 100 and partial fulfilment for 200. Thus a bookshop's order can be fulfilled, in many cases, by either the publisher or by Centraal Boekhuis from the stock it holds for the publisher. Centraal Boekhuis provides 55% of the fulfilment and 95% of the transportation to bookshops in Holland, handling 36 million units a year, with an annual turnover of more than \$750 million. This operation was the most highly automated seen on the trip, it uses extremely advanced technology that minimized labour use. Huge advantages accrue to the industry from the harmony between publishers and retailers in Holland, not just in distribution. This operation is perhaps a unique example of a book publisher/ bookseller owned book distributor.

The second distribution operation visited was Centre de Distribution du Livres Groupe Hachette, located on the outskirts of Paris. Hachette is the largest publisher in France and also provides contract distribution services to other French publishers. Annual sales of the Hachette Group are worth \$1 billion, which represents 30% of the French market. They distribute books for more than 100 publishers, of which 25 are owned by Hachette and account for 75% of their turnover. They ship 140 million units a year from their distribution operation. Again, automation is used in building cartons, moving orders through the operation, providing picking lists and sealing boxes and pallets. Electric picking carts with hand-held scanners move the pickers throughout the warehouse to fill orders.

Bertelsmann is a major international media conglomerate with annual sales in excess of US \$10 billion. Bertelsmann's distribution facility, in Gutersloh, Germany, provides services to the group's publishers (80), other

publishers (120) and its book club. The Media Division is responsible for the Publisher Warehouse Services, Club Distribution and CD and Video Distribution. Bertelsmann's own publishers represent less than half of their business in distribution. The operation in Gutersloh ships 50 million books and CDs annually. The warehouse is, again, highly automated. Especially, in the book club portion it is very automated with human hands only dropping books into individual boxes as they move past a station.

Hachette and Bertelsmann are both examples of a publisher owned independent book distributor (though Bertelsmann distributes much more than books). Other examples of this model include Tiptree, Macmillan and Bookpoint, UK publishers who offer contract fulfilment services. In Europe there are also independent book distributors/wholesalers such as KNO and Libri in Germany and independent distributors such as Excel Logistic in the UK (owned by an international logistics group) provide stand alone contract fulfilment operations. All of these models address the needed sales volume to justify full automation. They are able to offer lower costs and more services than most publishers would be able to afford in handling their own books.

All three of the fulfilment operations visited in 1996 were routinely providing one to three day delivery. Hugendubel, a German book chain, reported that their wholesaler was able to pack orders separately for each floor of their store to make unpacking easier. Fulfilment automation thus makes it possible to meet the one to two day delivery period requested by the bookstores and provide additional special services to customers. The geographic smallness of the European markets results in lower shipping costs and quicker shipping time than are possible in Canada. Still, if Canadian publishers were able to process orders as quickly as the Europeans, delivery times would be substantially improved throughout Canada. Electronic ordering systems that improve communication between publishers and their bookstore clients will play an important role in improving the Canadian industry's service performance, since improved order processing times appears to be one of the areas with potential for cost savings. It was found in the IFC study group that fulfilment costs ranged between 4.8% and 20.3% of net sales. If use of European technologies, as concluded by CEN, reduce these costs by 30% to 50%, it could represent a significant savings for many publishers.

While all the European sites provided excellent service, the Canadian English-language industry has several difficulties not paralleled in Europe. Though Canadian publishers are often able to provide consistent and reliable service with their own titles, where they act as agents for British and American publishers, stock positions are often poor and back orders, it has been reported, can take as long as two to six months. With agency titles there are difficulties in inventory controls that are not completely within the Canadian agents ability to control, with long lead times from the US and particularly UK publishers. It may be necessary to reconsider how stocks of agency books are managed if improved service is a goal of the book industry, better feedback from booksellers on sales could be used to help with stocking decisions on agency titles.

European publishers work on higher margins than Canadian English-language publishers. In a recent Australian study it was found that Canadian book prices are typically 5% to 15% lower than US or UK prices, making them the lowest in the English-speaking world, suggesting that margins must also be among the lowest. Higher margins give European publishers an advantage in raising the capital needed to invest in very advanced technologies. It will be extremely challenging, given the current low profit margins, for the Canadian English-language industry to supply the initial financing to establish large distribution centres, though some larger players have managed it. The price of Canadian English books is set based on the price of US books. Thus, they are not determined by costs but rather must be set to match similar American titles. Because of the large list and small Canadian English-language market, the margins received by publishers are too small to support a strong wholesale supply system in English Canada. This means that it is the publishing sector that will have to develop an improved distribution model without the wholesale sector as a large part of the solution.

It has been suggested that contracting out fulfilment and warehousing or concentrating it into the hands of larger publishers may be a reasonable option. Publishers are starting to work together and consolidate distribution services, though not enough yet to make distribution efficient industry-wide. What is happening, and should be encouraged, is the practice of small to medium sized publishers turning their fulfilment over to larger, more efficient operations. With better profit margins, gained from increased efficiencies and lower overhead costs, funds can be reinvested in publishing ventures. Once fulfilment and warehousing efficiencies are improved, it will hopefully, substantially improve the general financial position of publishers in English Canada.

### 3. Book Retailing in Europe and English Canada

The Book Retail Industry appears very strong in Europe. A very high percentage of sales are made through book stores. European book stores benefit in many countries by a policy that educational sales must pass through the book stores. With the exception of the UK, all countries visited have net price agreements, which prevent price discounting at retail. These agreements may come under fire in Europe, as the UK agreement did, the Net Book Agreement (NBA) was recently ended in Britain. Such fixed-price regimes appear to help booksellers' profitability and help publishers to invest in less-popular titles, since it increases the profitability of popular titles allowing for cross-subsidization within a publishing programme. Publishers set the retail price of their books which limits the competition between book retailers and reduces the pressure on publishers to provide larger discounts to mass retailers. In the USA, as a result of a law suit filed by the American Booksellers Association (ABA), discounts offered to chains and independents by some major publishers are coming into line. Canadian publishers may follow suit, which could help reduce the price pressure by discounters. So far in the UK, discounting appears limited but it will take time to see if the end of the NBA will result in fewer titles published or hurt smaller retailers. The independents interviewed, generally felt that the end of the NBA was a bad thing and that it will ultimately hurt them. As in English Canada, independents in the European market appeared to do better where they concentrated on niche marketing. Chain stores were able to dominate the general retail market, just by virtue of their large presence, by providing a huge selection and comfort add-ons, such as seating areas and coffee shops.

	%				
	Canada*	France	Netherlands	Germany	UK
Book Stores	48	39	59	60	76
Mail Order/ Book Clubs	22	21	25	12	12
Direct	17	8	na	14	na
Other Retail	13	32	16	14	11

Source: Statistics Canada (\*excludes institutional sales & wholesale) and Euromonitor

As the major focus of the mission was the interaction between publishers and booksellers, the delivery times from publisher/wholesaler to the store was examined along with the typical rates of returns on books. It was very clear, from both European publisher's and retailer's comments, that returns were very much less of a problem than in English Canada, with return rates as low as 2% being reported and seldom higher than 15%. It also seems clear that there is a linkage between returns and fulfilment time, and that even with the great distances in Canada, improvements in return rates are possible if the reliability of fulfilment is improved.

Of all the countries visited, the UK seems the most like English Canada. Books Etc., Dillons, Waterstones (70%) and Muswell Hill Books all purchased books directly from publishers. While many publishers in the UK do their own fulfilment, many others contract this out to contract fulfilment operations or in some cases publishers own and operate their own contract fulfilment business. Despite the availability of these state-of-the-art facilities, deliveries in the UK still ranged from one to three weeks and returns, correspondingly, ranged from 10% to 30%. Stanfords, Compendium Books, Swiss Cottage Books and Marylebone Books were buying from wholesalers or speciality suppliers. As with most wholesalers, their deliveries ranged from one to three days and this group's returns ranged from 1% to 5%.

In Holland both bookstores visited received most of their books from Centraal Boekhuis, a contract fulfilment operation owned jointly by the Book Publishers and the Booksellers Associations, that provides most of the book fulfilment services in Holland. They consistently provide 24/48 hour delivery. Not surprisingly, returns ranged from 5% to 8%.

Country	Bookstore	Delivery Actual	Delivery Desired	Returns
	Books Etc.	2 weeks	1 day	10 / 11%
	Stanfords	3 days	1 day	2%

UK	Dillons	7 / 10 days	3 days	10%
	Waterstones	2 / 3 weeks	3 / 5 days	20 / 30%
	Muswell Hill Bookshop	1 / 2 weeks	1 day	15%
	Compendium Books	1 day	1 day	3%
	Swiss Cottage Books	1 / 2 days	1 / 2 days	5%
Holland	Marylebone Books	2 days	2 days	1 / 2%
	Athenaeum Boekhandel	1 / 2 days	1 / 2 days	5%
	Scheltema Holkema	2 days	1 day	8%
France	Librairie Gallimard	2 / 10 days	2 days	13 / 14%
	Gilbert Jeune Copac	1 day	1 day	12%
	Le Bon Marché	2 / 3 days	2 / 3 days	5%
Germany	Hugendubel	1 day	1 day	2 / 3%

In France, the picture is a little less clear with a number of different retailing models operating in the market. Gallimard is a publisher with their own bookstore. Gilbert Jeune is a chain of bookstores that also has its own central distribution warehouse. The quoted delivery of 24 hours is a result of them picking up orders from publishers in their own trucks and is not necessarily the delivery time to the store from the publisher. Le Bon Marché is a better example, a book store within a larger store, they buy from Hachette and other major publishers/distributors and receive the books in two to three days with a return rate of 5%.

In Germany, Hugendubel buys either from Libri or KNO, who are both major wholesalers and contract distributors and deliver in 24 hours or less. Their returns were very low (2 to 3%), because their ordering is limited to a few companies who provide them just-in-time service, this allows the store to stock very few copies of each title and reorder on an as-needed basis.

It appears, from the few stores visited, that where delivery is on a just-in-time basis, returns are at a very low level. Interestingly, the desired delivery time regardless of country was one to two days, including in English Canada, though given our geography this might be difficult to achieve because of the expensive shipping rates associated with over night delivery of heavy materials.

Many of the findings gathered during the visit are best not summarized in that they relate directly to the firms visited. However each bookstore was asked for their views on how the efficiency of their industry could be improved. Their responses have been compared to the Survey of Canadian Booksellers. The major findings are included below.

#### Booksellers' Suggestions for Improving Sector Efficiency

	Europe (14)	Canada (21)
Shorter delivery times from publishers.	7	15
Better communications with publishers.	3	1
Better information on publishers stock availability.	3	3
Access to better information on the market's response to new titles.	3	
The ability to order in smaller quantities more frequently.	1	4
Increased discounts from publishers.	2	2
Publish what the public will buy.	2	4
Improve the stock held by publishers.	1	3
Better terms of sale.	2	1
More quality and continuity in publishers' reps.	2	2

The small group of retailers that participated in the CEN survey and the 1996 mission (both Canadian and European) provided suggestions for improving the publishing sector's efficiency from their point of view. Shorter delivery time appears to be the top concern both in those booksellers interviewed in Europe and in Canada. Better communication between bookstores and publishers appears to be the second most important issue for the sample group, both for stock information and for sales by title information. It is probably fair to say that all bookstores contacted, both in Europe and in English Canada, felt that if communications with publishers could be improved, both they and the publishers would benefit. Given that the sample is so limited in size, the rankings of issues are problematic, in a larger sample more issues would likely be uncovered and the ordering of issues



would probably change. Retailers would certainly benefit by having better inventory, pricing and order information with which to service their customers, while publishers would benefit by having better title by title sales information and by being able to test market new titles before deciding to print or reprint.

To meet the requirements identified by the Canadian sample group, it was concluded in CEN's Survey of Canadian Booksellers, publishers will need to consider:

- Consolidating overhead operations, especially fulfilment, to generate the sale volume required to justify the investment in advanced fulfilment operations.
- Developing a national inventory management system involving regional inventories and centralized management and control.
- Substantially improving customer service to provide accurate real time response to client requirements.
- Stocking more agency titles so as to provide better order response.
- Re-engineering the communications technologies that connect them to the booksellers so as to improve information flow both ways, exchanging information on actual (past) and projected sales by stores and on titles in print and stock by publishers.
- Working with the bookstores to generate a flow of timely sales information on which to base publishing/printing and inventory management decisions.

#### 4. Conclusion <4>

The relationships between bookstores and publishers are not dissimilar in Europe and in English Canada. However, Europe has many large automated fulfilment operations, in a small geographic area, along with policy protections for the book market that help maintain higher margins for the industry. The level of fulfilment service offered by publishers and contract distributors may have developed as a result of competition with large wholesalers. Not having a well developed book wholesale industry in Canada, our publishers have not had to compete on the basis of fulfilment service, except with US wholesalers in a limited way. The Canadian English-language industry also is limited in its margins by proximity to the American market which forces down the prices of books. The recent trend of large discount retailers (for example, Loblaws and Price Club) selling books, especially best-sellers, is also creating downward pressure on margins for publishers and retailers.

Given the Canadian industry's slipping profitability and the decreases in direct government assistance, it needs to act now to advance the industry's efficiency or it will be even more vulnerable to American dominance. The technology exists to link bookstores to publisher/distributor via EDI (both for ordering and for sales feedback) and for small publishers to leave distribution to professionals within Canada. The Canadian English-language industry needs to encourage more of the publishers who are on the verge of becoming professional distributors to expand their operations. Perhaps if more well managed publishers/distribution companies could take over fulfilment for the too many small and medium sized publishers trying to be their own distributors, this would improve the bottom line of the industry as a whole. Changes are already happening in the area of distribution, some American owned publishers have moved their distribution activities back to the United States, though many continue to support their Canadian distribution facilities. It is the small and medium sized independent Canadian publishers who need to examine most carefully how best to distribute their books, as savings here could ultimately be used to help their publishing programs.

Having now seen in Europe the relatively direct relationship that exists between delivery times and level of returns, the challenge for both publishers and booksellers in English Canada is to work together to develop a uniquely Canadian model that will allow the industry to achieve better distribution and return levels and thereby substantially reduce costs in this area and increase profitability. Communication seems key to solutions for this industry. While the solution to distribution and inventory problems will most likely involve improving fulfilment, EDI systems and inventory management, the industry must also work together to address its other structural problems and industry issues. It appears that cooperation within the chain of activities that constitute the book industry will lead to a stronger book industry.


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<1> Charles E. Napier Ltd., *Book Publishers' Fulfilment Technology Improvement Project*, Ottawa, 1994 and *Findings Report from A Benchmarking Visit to Booksellers and Book Distribution Operations in the UK, the Netherlands, France and Germany*, Ottawa, 1996.

<2> Charles E. Napier Ltd., *A Survey of the Service Requirements and Operating Practices of Canadian Booksellers*, Ottawa, 1995.

<3> David Hunt, "What's up down under?", *Canadian Bookseller*, p. 26. May 1996.

<4> This report and its conclusions are based in large part on three studies conducted for Industry Canada by Charles E. Napier Ltd., Ottawa, Ontario. *A Survey of the Service Requirements and Operating Practices of Canadian Booksellers*, *Book Publishers' Fulfillment Technology Improvement Project*, and *Findings Report from A Benchmarking Visit to Booksellers and Book Distribution Operations in the UK, the Netherlands, France and Germany*.

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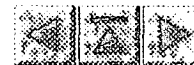
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## Fulfilment and Operating Practices in the European Book Industry



### ANNEX A - Background on the Countries Visited<5>

#### United Kingdom

Population, 1993: 58,151,000

The UK book market has undergone a major change in the past year with the end on the Net Book Agreement (NBA). This means that the retail price of books may now be discounted. The ending of the NBA may help sales of commercial titles but it is expected to hurt special market titles. It is also anticipated that the dropping of the NBA will hurt independent booksellers, since they may be less able to compete with chain stores on discounting.

The number of titles published in the UK has increased between 1988 and 1992 by 40%, up to 78,835. It has been suggested that there is an over-production of titles in the UK market. Many similar titles are produced, limiting the market for each title and leading to shorter print runs and a higher unit cost per book.

The consumer market for books was worth £ 1.65 billion, in 1993, while the total market was worth £ 2.4 billion. Hard back books accounted for 57% of the value of sales (over £ 1.3 billion) and paperbacks 43% (over £ 1.0 billion). W.H. Smith, the UK's largest chain, has a 13% share of the total market or about 18% of the consumer retail market. Consumer expenditures on books has increased from £ 1,141 million in 1988 to £ 1,601 million in 1992, in real terms (1985 constant £) it has increased from £ 970 million to £1,029.

The UK has a tradition as a major book exporter. In 1992, it exported £ 802 million worth of books and imported £ 513 million. Canada received £ 21 million of the UK's exports and shipped £ 7.1 million worth of books to the UK. It is important to note that the export and import figures may include books published in one country and printed in another, for example, if a British publisher had books printed on the continent and shipped to the UK it would appear as an import.

Book prices have been rising faster than other prices in the UK, over the 1988 to 1992 period. They increased by 32% as compared to 25% for all retail prices.

The UK industry, like many other countries, has seen an increase in activities by conglomerates, with large firms expanding by acquiring smaller independent publishers. Certainly, many small independent publishers remain but their numbers decrease yearly.

United Kingdom - Imports and Exports					
ú million					
	1988	1989	1990	1991	1992
Exports	588.5	655.3	745.9	741.7	802.0
Imports	396.8	431.6	461.6	461.6	513.0
Balance	191.7	223.7	284.3	280.1	289.0

Source: Overseas Trade Statistics (OTS)/Euromonitor

## Netherlands

Population, 1993: 15,292,000

In the Netherlands, book prices to consumers are controlled by a resale price maintenance agreement. In 1993, retail sales were worth DFL 1.7 billion. The retail market in the Netherlands has been stagnant since the mid 1980s, though title output peaked in 1989 with more than 15,000 titles published. In 1990, 26.8 million books were purchased in the Netherlands.

There were 555 certified publishers in 1993. Of the over 13,000 titles published, about a third of are foreign language titles or translations of foreign titles (mostly English). Publisher sales exceed DFL 1 billion per year, though very small publishers are excluded from this figure (they would add about 10%).

Netherlands - Publisher's Sales and Retail Sales				
DFL million				
	1990	1991	1992	1993
Publisher's Sales	1,200	1,210	1,225	1,250
Total Publisher's Sales (est.)	1,320	1,331	1,348	1,375
Total Retail Market	1,602	1,620	1,640	1,675

Source: Euromonitor

The Dutch language market includes the 15 million residents of the Netherlands plus six million people in Northern Belgium. In 1991, the Netherlands exported \$US 337.8 million worth of books (at publisher's prices) and imported \$US 327.6 million, for a positive trade balance of \$US 10.2 million. Most of the trade is with other European countries.

The industry association, the Royal Association for the Dutch Book Trade (KVB) plays a very important role in the marketplace. It certifies both publishers and retailers (1,600 certified bookshops operate in the Netherlands) and is responsible for resale price maintenance.

The Centraal Boekhuis, an important part of the distribution system in the Netherlands, is a non-profit wholesaler, jointly owned by the publisher's and retailer's association. Currently, over 300 publishers use the Centraal Boekhuis fulfillment services, though 200 of them do some direct fulfillment as well. The Centraal Boekhuis carries 61,000 titles in stock, providing 55% of all fulfillment and 95% of all transportation to the retail market. (Visited by Canadian missions on March 28, 1994 and March 22, 1996)

## France

Population, 1993: 57,705,000

The French market for books is considered a mature market, as are most European markets. Though reading is the #2 pastime after television watching, the market appears very sensitive to economic conditions, with drops in purchasing occurring during economic slowdowns. Literature is the top sector in terms of both sales and volume. The total market was worth 20 billion FF in 1993, with the retail market accounting for 15 billion FF, a drop of 3% on 1992. Retail sales dropped by 1.5% in real terms from 1988 to 1993, while the number of titles published increased by an annual average of 6% over the same period (in total a 26% increase). Like in the UK, price of books have been rising in France, faster than the retail price index.

Traditional book stores are the top distribution channel in France. Like many other European countries, the retail price of books is controlled. In France the Lang law ensures that the retail price of books can not be discounted by more than 5%

In what appears to be a global trend, the publishing industry in France is becoming more concentrated, with a

decline in the number of publishers. The top publisher, in terms of turn over, in France is Matre Hachette. Hachette controls 44% of the paperback market. Hachette operates a large central distribution centre (near Paris) that feeds its fulfilment/ distribution operations across France.

### France - Book Imports and Exports

		FF millions				
		1988	1989	1990	1991	1992
Imports	Canada	na	na	40	78	96
	Total	2,468	2,813	3,037	3,469	3,369
Exports	Canada	268	314	331	330	350
	Total	2,571	2,914	2,980	3,159	3,279

Source: Direction Générale des Douanes et Droits Indirects/ Euromonitor

The gap between imports and exports is decreasing, though generally France has had a negative trade balance in books. Canada is a fairly significant market for French books. In 1992, France exported 349.6 million FF worth of books to Canada, about 11% of their total exports.

## Germany

Population, 1993: 82,211,000

The German book industry has been buoyed by German reunification, which has increased demand for books. Sales were up 44% between 1988 and 1993. Total German book sales, in 1993, were worth DM 13.8 billion (at retail price). Reflecting a very strong retail market, book stores are responsible for approximately 60% of book sales. Book prices are not subject to discounting in the retail market, except by book club sales. The retail sector in Germany is provided with service both from publishers and from a strong wholesale sector.

### Germany - Total Market Sales (retail price)

		DM million					
		1988	1989	1990	1991	1992	1993
Retail		6,898	7,347	8,262	9,297	9,842	10,180
Institutional		2,669	2,815	3,213	3,597	3,531	3,580
Total		9,567	10,162	11,475	12,894	13,373	13,760

Source: Euromonitor

There were 2,092 publishers operating in Germany in 1992. Despite the large number of publishers, the industry is very concentrated, and is dominated by a number of publishing giants. Bertelsmann Group, with its over 80 publishers, is the largest of the conglomerates (and the #3 media company in the world). Bertelsmann provides both fulfilment services for publishers and runs a major book club.

Germany has a strong publishing sector, which performs extremely well in terms of export sales. Imports and exports have both been increasing, with exports consistently exceeding imports by more than DM 500 million, over the five year period from 1988 to 1992. In 1992 book exports exceed book imports by DM 613.7 million.


### Germany - Book Imports and Exports

DM millions

	1988	1989	1990	1991	1992
Imports	574.8	667.8	729.8	893.1	930.6
Exports	1,012.3	1,152.6	1,206.0	1,539.6	1,544.3

Source: Statistisches Bundesamt/Euromonitor

<5> Much of the information for this annex was obtained from *Euromonitor World Book Report 1994*, Euromonitor Plc, London, 1994.

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Author - Andrea Sheridan

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## Fulfilment and Operating Practices in the European Book Industry



# ANNEX B - Statistical Overview of Canadian Publishing

Book publishing is both a cultural activity and a business. The book publishing industry in Canada is an important source of economic activity. It has enjoyed strong growth in revenue and employment throughout most of the 1980s. The 1990s has brought, however, significant changes which have already started to severely impact on its growth, services and products, on the processes and technologies used to manufacture and distribute those products, and on the skills required from its managers and workers. The industry has already started tackling these new and very distinctive economic challenges; it is making major efforts to turn them into opportunities for growth.

### A. Firms, Products and Services

The book publishing industry comprises two types of firms:

- publishing firms which select and edit works, enter into contractual agreements with authors or copyright holders for the production of works in book form or other format, supervise the manufacturing of these works, market, promote, and offer them for sale through distribution channels, and bear the financial risk associated with production; and,
- exclusive agents who are engaged in the promotion and distribution functions. Agents publicize and market works published by other firms and are, thereby, authorized to act as the sole representative for the sale of a given work, usually for Canadian distribution in a specific geographical area for books that are published outside Canada.

Many publishing firms also act as exclusive agents for other publishers, either domestic or foreign. In this way publishers may subsidize their publishing program with revenues generated through distribution.

Publishers and agents are part of the "writer-publisher-agent-bookseller-reader" chain. Publishers locate manuscripts and rely on the services of suppliers such as editors, translators, designers, illustrators, marketers, printers, and binders to transform the creative outputs of the writers into books that will be distributed and sold by exclusive agents, booksellers, librarians, educational institutions, and others to their clients, the readers.

The books produced can cover a wide array of formats and subject areas, ranging from medical encyclopaedia, religious and sociological works of international significance to romance novels, poetry, thrillers, scholarly, and how-to books, as well as rag books and game books for children. Books can take various formats or use various media, such as paper, audio books, CD ROMs, and electronic books.

### B. The Industry in Canada

In 1993-94, the book publishing industry, as surveyed by Statistics Canada, was comprised of 316 publishing firms (approximately 100 of which also acted as agents) and 42 exclusive agents. The industry provided full-time employment to 6,862 workers who received \$243 million in wages and salaries. Another \$35 million in wages was spent by the industry on part-time and contract workers. It published 9,764 new titles and reprinted

7,822 titles. The industry paid out \$97 million in royalties from the sale of titles, \$54 million of that to Canadians.

Total sales reported by publishers and exclusive agents established in Canada were \$1,640 million in 1993-94. Of this total, sales of books published in Canada were \$606 million, and exclusive agency sales were \$691 million. Total sales outside the country (exports and other foreign sales) were \$343 million, with exports accounting for \$115 million.

About 69% of the 316 publishers received grants and financial aid from governments and private sector sources. Total revenues for the industry in 1993-94 were \$1,699 million, including \$37 million in government grants, recognised as revenues.

The industry's contribution to the national economy is important. It is estimated by DRI Canada that every additional dollar invested in the industry's activities in Canada generates: <7>


- \$1.69 in increased activity throughout the economy;
- \$0.44 in wages and salaries; and,
- \$0.95 of net value-added, which is significantly higher than the economy average of \$0.50.

It is estimated that the industry contributed more than \$315 million to GDP in 1993-94 (constant 1996 dollars).

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<6> Statistics Canada, *1993-94 Survey of Book Publishers and Exclusive Agents*.

<7> DRI Canada, *Research and Economic Analysis of the Cultural Industries*, April 1994.

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# ANNEX B - Statistical Overview of Canadian Publishing

### C. Structure and Markets

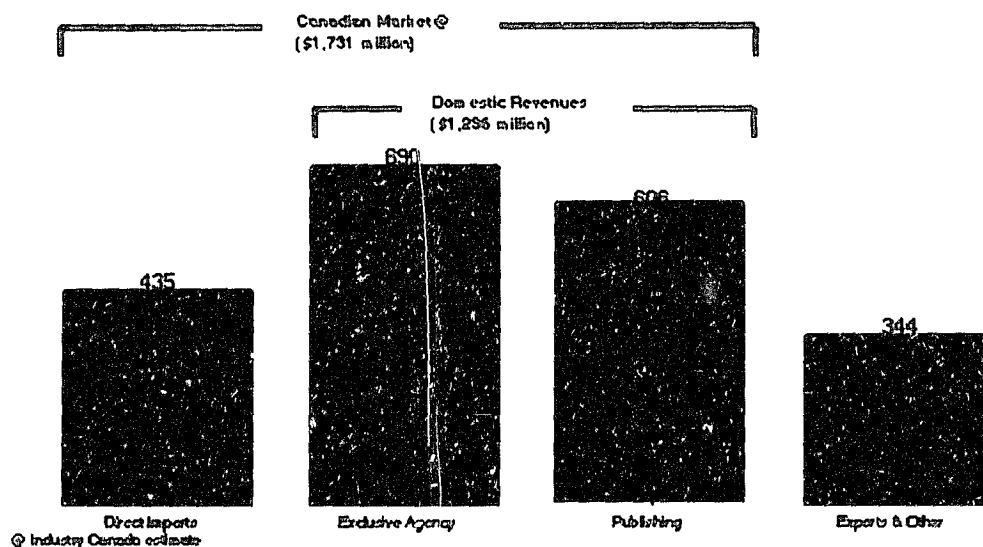
The industry is largely composed of small- and medium-sized firms. It is, nevertheless, highly concentrated. In 1993-94, 82 "large" firms (i.e. with annual sales over \$5 million), representing only 23% of all firms, generated 86% of the total industry revenues.

Although the industry is present in all the provinces, it is concentrated in Ontario and Quebec, together accounting for 80% of all publishing firms and exclusive agents in 1993-94. These firms published 91% of new titles and generated 96% of total industry sales in Canada.

The world retail market for books is estimated at US\$72 billion<8>. The US retail market represents almost one-third of the world market, while the Canadian retail market is very small, with a share of only 2.5%.

The total wholesale value of the Canadian market for books is made of the domestic sales of own titles and of titles imported by publishers and exclusive agents established in Canada, to which is added the value of titles directly imported by other intermediaries, such as wholesalers, book stores, and educational institutions. Since data on direct book imports are not available, it is not possible to have an exact measure of the total value of the Canadian wholesale book market.

Statistics Canada last estimated the total wholesale market in 1985 to be worth \$1.4 billion and found the value of total imports (direct and indirect imports) to represent 75% of the domestic market. According to Audley's study prepared in 1990 for the Department of Communications (now Canadian Heritage), direct sales by foreign suppliers of books to Canadian purchasers would represent 40 percent of all Canadian book imports. Based on these assumptions, Industry Canada estimates that direct imports into Canada in 1993-94 totalled \$435 million, representing 25% of the Canadian wholesale market, which would be valued at approximately \$1,731 million



The Canadian market for books is fragmented into a variety of distinct markets. Sales of books can be split by activity, book category, language, ownership of firms, and by authorship.

#### • By Activity

Firms are engaged in the publishing and/or the distribution of titles. Canadian book publishers are very active in many ways in the distribution of books in Canada. According to them, distribution has generally been an important primary source of revenues. In some cases, Canadian book publishers sell other Canadian publishers' titles and adapt foreign books to the Canadian context and publish them in Canada on the basis of a royalty agreement with foreign publishers. Many Canadian book publishers also act as agents for foreign publishers. In this capacity, they market, sell, distribute these agency books to Canadian booksellers, libraries, schools, and universities and receive a commission for this service.

In 1993-94, 47% of industry revenues (\$606 million) on the domestic market originated from the sales of books published in Canada (endogenous titles), while 53% of revenues (\$690 million) came from the distribution of titles acquired by both publishing firms acting as exclusive agents (67%) and exclusive agents (33%).

#### • By Book Category

The books produced and distributed by the industry belong to various commercial categories of books, aimed at specific target markets on the basis of subject matter and format:

- textbooks serve as educational material for students and teachers at the elementary-secondary level (ELHI) or at the post-secondary level (college, university);
- trade books are for consumption by the public at large and include mass-market paperbacks (MMP), trade paperbacks and trade hardcovers;
- scholarly titles are aimed at the academic community and are usually published by university presses, research institutes and learned societies;
- general reference books such as dictionaries, encyclopaedias, thesauruses, how-to books; and,
- professional and technical titles are aimed at specific groups of individuals (e.g. accountants, lawyers, electricians).

The 9,764 new titles published by the industry in 1993-94 extended across the entire spectrum of specialized market categories: 59% of titles were trade books, compared with 23% for textbooks, 11% professional and technical, and 4% and 3% for scholarly and reference books respectively. Audio-visual, electronic publishing, and micro-format titles represented 2.5% of new titles.

In terms of revenues, the sales of trade books generated 47% of total revenues of publishing firms in Canada,

compared to 30% for textbooks, 11% for professional and technical books, 12% for reference books, and less than 1% for scholarly books.

Publishers and exclusive agents have four main channels of distribution to which their sales and marketing approaches are very much tailored. In 1993-94, 44% of their sales were directed to retailers such as book stores and department or retail stores, 22% to institutions such as governments, public libraries, and educational institutions, 24% to the general public and book clubs and 11% to wholesalers.

#### · By Language

The Canadian market is also characterized by two linguistic and cultural markets, French and English. Ontario firms, followed by British Columbia firms, are the most important providers of books for the English-language market, while Quebec firms, followed by New Brunswick firms, dominate the segment serving the French-language market.

From the industry's point of view, the two linguistic markets differ very much from one another in many other respects:

- each market deals with different communities of writers, distributors, and bookstores;
- distribution operations are generally separated from the publishing functions in the French-language segment, whereas the two activities are more often blended into publishing operations in the English-language segment;
- each market uses different promotional tools; and,
- foreign competition does not come from the same countries (US and Britain for the English market, France for the French market).

Commonalities of the two linguistic segments include:

- a full coverage of all categories of books;
- identical proportions of publishing firms (88% to 89%) and exclusive agents (11% to 12%); and,
- similar structure, according to the size of firms, across the industry (i.e., about 60% of firms with revenues below \$1 million in both markets).

In 1993-94, English- and French-language firms represented 63% and 37% respectively of all publishers and exclusive agents, and accounted for 76% and 24% respectively of total sales in Canada. They produced 69% and 31% respectively of new titles

#### · By Ownership

An examination of sales by ownership of firms established in Canada reveals that, in 1993-94, Canadian-controlled firms represented 89% of all the industry firms established in Canada and accounted for 62% of total sales in and outside Canada (specifically, 53% of domestic sales and 94% of export and other foreign sales).

Foreign-owned firms represented 11% of all firms in the industry and generated 38% of total sales in and outside Canada. Foreign-controlled firms were responsible for 47% of domestic sales (specifically 36% of publishing revenues and 56% of distribution revenues).

In the publishing segment of the industry, Canadian-controlled firms accounted for 92% of firms, produced and earned 64% of all publishing revenues (own title sales). More than one-third of these revenues originated from the sales of trade books, with a little less than one third from textbooks and the remainder from all other types of titles. Foreign-controlled publishers generated almost one half of their publishing revenues with textbook sales and only one-tenth from trade books.

More than 64% of exclusive agents were Canadian-controlled. These earned 43% of distribution revenues.

#### · By Authorship

In 1993-94, 70% of the new titles published in Canada were Canadian-authored. Sales of Canadian-authored titles accounted for 43% of total domestic sales. About 48% of these titles were trade books, 28% were

textbooks, 15% were professional and technical books, and 9% were scholarly and reference books. The majority (60%) of Canadian-authored works were published by English-language firms and 65 % of revenues were generated by Canadian-owned firms.


## D. Exports

With its two linguistic book publishing communities, Canada is competing with three major publishing countries (i.e. US, Britain, and France) on the international market. Canadian books and rights are being purchased in the USA, Western Europe, China, Japan, Africa, Scandinavia, and Latin America. In Germany, for literary works alone, more than 200 Canadian authors are represented on the shelves of book stores and libraries.

In 1992-93, 243 firms (228 Canadian-controlled firms) were involved in exports with these foreign sales generating \$274 million. Exports of own titles totalled \$72 million while other foreign sales (including foreign sales of Canadian books from a foreign base) topped \$203 million. English- and French-language firms were responsible for 58% and 42%, respectively, of direct export sales of own titles. Trade books represented more than 70% of these own title export sales. In 1993-94 exports of own titles increased to \$115 million from \$72 million and other foreign sales increased to \$228 million from \$203 million.

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<8> Euromonitor, World Book Report, 1994.

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## Fulfilment and Operating Practices in the European Book Industry



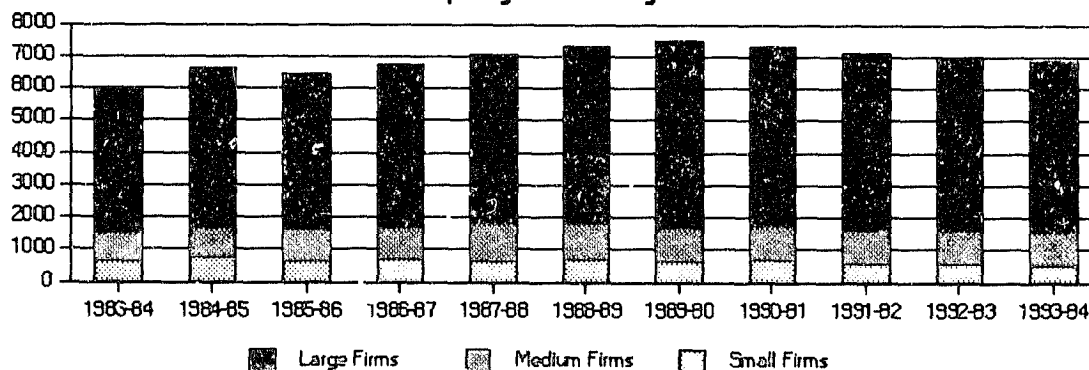
# ANNEX B - Statistical Overview of Canadian Publishing

## E. The Workforce

The industry, and especially the publishing segment of the industry, is very labour intensive. Its workforce includes full- and part-time employees, freelance contractors, self-employed professionals, and volunteers.

In 1993-94, 6,862 full-time workers were employed by 358 publishing firms and exclusive agents. The majority of these employees worked for publishing firms (86%), for English-language firms (78%), for firms with more than \$5 million in revenues (77%) and for Canadian-controlled firms (60%).

Full-time Employment by Size of Firm



Source: Statistics Canada

Note: For all charts by size of firm, Large Firms refers to >\$5 million in revenues; Medium Firms >\$1 million and <\$5 million in revenues; and, Small Firms, <\$1 million in revenues.

Ontario and Quebec accounted for 69% and 24% respectively of all full-time employees who earned a salary of \$35,450, on average. Salaries and general compensation were higher in larger publishing houses, but remained lower than those in many other economic sectors which required comparable skills and responsibilities. When full-time employment is divided by activity (see table below), average salaries range from \$39,700 for administrative workers to \$23,650 for workers in fulfilment.

The profile of the workforce in the book publishing industry in Canada resembled that of the cultural sector. The majority of full-time employees (76%) belonged to the marketing and sales, administration and order fulfilment employment categories, while only 26% worked in editorial or design and production functions.

In 1993-94, full time employees accounted for 87% of all wages and salaries spent by the industry. Contract

employees received 11% of all wages and salaries, 56% of this going to editorial, design and production workers. Part-time employees received only 2% of total salaries and wages, 50% of which was spent on workers in fulfilment.


Full-time Employment 1989-90 to 1993-94, by type of activity							
Type of Activity	1989-90	1990-91	1991-92	1992-93	1993-94	Share in 1993-94	Average Salary
Editorial	940	967	977	976	1,010	15%	30,090
Design & Production	602	658	706	684	614	9%	27,990
Marketing	2,022	1,943	1,710	1,823	1,847	27%	36,450
Fulfilment	1,743	1,732	1,702	1,664	1,573	23%	23,650
General Administration	1,855	1,792	1,755	1,555	1,496	22%	39,700
Other	329	250	277	284	270	4%	31,860
<b>TOTAL</b>	<b>7,491</b>	<b>7,342</b>	<b>7,127</b>	<b>6,987</b>	<b>6,862</b>	<b>100%</b>	<b>35,450</b>

Source: Statistics Canada

## F. The Technologies

The technologies currently used in the industry may be broken down into three groups, those impacting on how the product is made, how it is distributed and those changing the end product itself. The technologies are associated with:

- publishing: Publishers use desk top publishing programs to turn the manuscripts they acquire from authors or from other publishers into the form in which they can be printed. They generate catalogues, book covers, typesetting, illustrations and electronic transfer of print ready material to the printer. Some publishers supply computers to eliminate the re-keying of manuscripts. For digital works such as audio-books other computer-based technologies are used to develop the product.
- administration: Order entry, scheduling of picking, inventory control and generation of invoices is in most cases entirely computer based. Order entry are still often received by mail, fax and telephone, but tele-book ordering service, based on EDI, is increasingly being used.
- fulfilment: Automation of receiving, shipping, storage facilities, and inventory control comprises uses technologies as carousels for storage and retrieval, bar code readers, wire controlled fork trucks, automated packing, etc.

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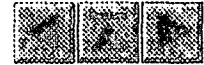
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Author - Andrea Sheridan

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# ANNEX B - Statistical Overview of Canadian Publishing

## G. Performance Measures

### · Employment and Sales

While the number of firms increased between 1983-84 and 1993-94 from 283 to 358 (an increase of 26%), their total output grew even more significantly in terms of production of new titles (5,496 to 9,764, an increase of 78%) and of reprinted titles (3,577 to 7,822, an increase of 118%).

Industry Performance by Type of Sale					
\$'000,000	1983-84	1989-90	1993-94	% change	
				1983 to 1993	1989-1993
Own Title Sales	318.8	565.5	606.0	90.1%	7.2%
	<i>360.2</i>	<i>496.0</i>	<i>464.0</i>	28.8%	-6.5%
Exclusive Agency	396.7	638.9	690.9	74.2%	8.1%
	<i>448.2</i>	<i>560.4</i>	<i>529.8</i>	18.2%	-5.5%
Exports & Foreign Sales	83.2	213.3	344.0	313%	61.3%
	<i>94.0</i>	<i>187.1</i>	<i>263.8</i>	180.6%	41%

Note: Nominal values followed by real values in italics, 1986 constant dollars. Source Statistics Canada

Overall, full-time employment tended to rise, from 6,028 in 1983-84 to 6,862 employees in 1993-94, a 14% increase, while sales per employee (in 1986 constant dollars) rose from \$134,120 to \$144,940, an 8% increase over that period. This suggests that labour productivity gains have been achieved over the period. Employment in the industry peaked in 1989-90 with 7,491 full-time positions and has decreased since then, probably as a result of the economic recession. Revenues per employee are highest for large firms, and have grown even more rapidly for them than for other firms (see [graph](#)). They have increased their sales at a much more rapid rate than they have created new jobs.

Sales of Canadian-controlled vs. Foreign-controlled Firms							
By Country of Control		1989-90	1990-91	1991-92	1992-93	1993-94	% Change
\$'000,000							nominal real
Sales in Canada - Own Titles	Canadian	329.9	346.2	348.7	374.4	388.0	17% 2.7%

Sales in Canada - Own Titles		Foreign	235.6	253.6	233.0	224.0	218.0	-7.5%	-19.2%
Exclusive Agency Sales	Canadian	303.9	306.6	313.9	310.7	299.1	-1.6%	-14.1%	
	Foreign	335.0	346.4	350.5	377.5	391.8	16.9%	2.2%	
Exports & Other Foreign Sales	Canadian	205.5	212.0	200.2	268.2	338.0	64.4%	43.8%	
	Foreign	7.8	6.9	5.9	6.1	6.0	-23.1%	-32.4%	

Although foreign-controlled firms still represented a significant proportion of the publishing and exclusive agency industry in Canada in 1993-94, the share of this segment in terms of sales, output, employment and revenues, as well as its overall performance, have been decreasing over the 1989-94 period. Sales of own titles have dropped, from \$235.5 million in 1989-90 to \$218 million in 1993-94 and sales of exclusive agency titles rose from \$335 million to \$392 million (in real terms by only 2.2%). The decrease in publishing activities by foreign-controlled firms may arise from the decreases in funding to the educational market, which reduces the demand for textbook titles. In comparison, sales of own titles by Canadian-controlled firms rose from \$330 million in 1989-90 to \$388 million in 1993-94 (in real terms an increase of 2.7%), while sales of exclusive agencies decreased by 14.1% in real terms. In real terms exports and foreign sales by Canadian-controlled firms increased by 43.8% while they fell for foreign-controlled firms by 32.4%.

Over the 1983-84 to 1993-94 period, the industry experienced a period of sustained growth in terms of output and sales. During that period, nominal domestic sales grew steadily, from \$700 million to \$1,700 million, with an overall percentage increase of 143%. In real terms (1986 constant dollars) revenues went from \$899 million in 1983-84 to \$1,303 million in 1993-94, for a true increase in revenues of 45%.

The increase in total industry sales over the 1983-84 to 1993-94 period were largely driven by exports and foreign sales which grew significantly faster (increased by 181% in real terms) than both domestic own-title sales (increase of 29%) and agency sales (increase of 18%). The five year period starting in 1989-90 has not shown such growth, while exports and foreign sales grew by 41% from 1989-90, agency sales decreased by 5.5% and own title sales by 6.5%. The difference in growth figures is due to the recession of the early 1990s. The industry grew very rapidly in the 1980s, but has lost some ground domestically since this time.

Over the period from 1983-84 to 1993-94, sales of published and exclusive agency titles varied considerably according to the commercial category of the titles. The largest increase was in the sales of scholarly, reference, professional and technical titles published in Canada, which were up 119% in real terms. Sales of own trade books and textbooks decreased by 10% and rose by 21% respectively. Exclusive agency titles of scholarly, general reference, professional and technical fell 48%. In general, sales of trade book titles climbed 66%, while those of textbooks grew by only 14%

Although the Canadian industry is a relatively new player on the international scene and its export performance still compares modestly with that of its major foreign competitors, publishers have been deploying major efforts to increase exports and explore new market opportunities over the last few years. Data on export revenues, which have been increasing between 1983/84 and 1993/94 in total value and as a percentage of industry's total revenues, indicate that the Canadian industry is indeed successfully responding to the export challenge. This comes from both increases in direct book exports and from sales of foreign rights.

Revenues from the Sale of Subsidiary Rights							
	1983-84	1985-86	1987-88	1989-90	1991-92	1993-94	% change
							nominal real
Revenues	1,537	2,882	3,422	3,691	6,721	5,582	263% 147%

Source: Statistics Canada

Sales of subsidiary rights have increased substantially, from \$1.5 million in 1983-84 to \$5.6 million in 1993-94. It is expected that this trend will continue as demands for content increases internationally, both in traditional and new media. The sale of subsidiary rights appears to be highly profitable with returns averaging between 65% and 30% for this activity in recent years.



From 1989-90 to 1993-94, export sales increased in real terms by 41%, from \$213 million to \$344 million. Direct export sales of books from Canada to other countries (excluding sales of mass-market romance novels) increased over the five year-period by 162%, from \$38.6 million in 1989-90 to \$115.6 million in 1993-94.

#### • Profits

Changing profitability has been a concern for the industry, from 1983-84 up to 1991-92 there has been a disturbing downward trend for both the Canadian- and foreign-owned segments of the industry. However, data from 1992-94 indicate that the industry improved profits overall by 1.3% from the low in 1991-92, with the Canadian-owned sector being uniquely responsible for this new growth, its profit improving by 3.5%.

In 1993-94, more than 60% of publishing firms in Canada registered a profit. The average before-tax profit margin as a percentage of revenues was 4.9% for the industry. The profitability of French-language firms was higher (6.1%) than that of English-language firms (4.6%). From 1989-90 to 1993-94, profits margins in the French-language segment were persistently equal or superior to the average profit margins in the English-language segment of the industry.

Profitability, as mentioned above, also varied with the origin of control of firms: Canadian-controlled firms were profitable with an average profit of 7.5% compared to 0.4% for foreign-controlled firms. Profit margins were highest in Quebec with an average of 8.1%, followed by the Prairie Region at 4.4%, Ontario at 3.7%, the Atlantic Region at 3.4% and British Columbia at 1.1%.

The size of firm is crucial to its profitability. Over the ten year period from 1983-84 to 1993-94 firms with less than \$1,000,000 in revenues have had negative average profit margins in every year except 1987-88 when they registered an average profit of 0.3%. Mid-sized firms with sales of more than \$1,000,000 and less than \$5,000,000 have posted average profit margins between 4% and -0.1% over the period, with a declining trend (See Graph). The largest publishers, those with revenues of over \$5,000,000, have posted average profits between 10% and 4.2% over the period. In 1993-94 large publishers had average profits of 5.8% compared with -0.1% for mid-sized firms and -0.3% for small publishers. Small and mid-sized firms tend to have higher labour expenses compared to revenues than large firms. They also may have difficulties in taking advantage to economies of scale in fulfilment and other operations.

#### • Financial Ratios

Four financial ratios for the industry have been calculated to be used as performance indicators, broken down by industry segments. These ratios were calculated in the following way, from Statistics Canada data from the Survey of Book Publishers and Exclusive Agents:

- Current ratio = current assets/current liabilities
- Total asset turnover = net sales/total assets
- Gross profit margin on book publishing = [net own book sales - direct costs of book publishing (i.e., design costs, manufacturing costs, royalties and editorial costs)]/net own book sales
- Return on investment = total before tax income (after interest expense)/total assets

The current ratio is a measure of liquidity, the higher the value the more liquid the companies current position, the better able it is to meet obligations such as current debt or extending favourable terms to customers. From 1983-84 to 1993-94 the current ratio for the industry has dropped from 1.74 to 1.53 suggesting a general decrease in debt paying ability. Small firms have seen an improvement in their current ratio from 1.30 to 1.74, while large and medium firms, as a group, have seen a decline. English-language firms have seen their current ratio drop from 1.79 to 1.53 while French-language firms have seen an improvement from 1.48 to 1.61. The foreign-controlled segment has consistently had a higher current ratio than the Canadian-controlled, though both have declined. In 1983-84, foreign-controlled firms had a current ratio of 1.98 compared to 1.41 for the Canadian segment, by 1993-94 the ratios had dropped to 1.80 and 1.38 respectively.

Current Ratio	83-84	84-85	85-86	86-87	87-88	88-89	89-90	90-91	91-92	92-93	93-94
All Firms	1.74	1.65	1.51	1.45	1.51	1.53	1.59	1.53	1.84	1.57	1.53
Small Firms	1.30	1.38	1.42	1.60	1.40	1.74	1.45	1.63	1.53	1.50	1.74

Medium Firms	1.78	1.38	1.10	1.01	1.39	1.46	1.26	1.25	2.36	1.54	1.54
Large Firms	1.81	1.79	1.67	1.61	1.57	1.53	1.72	1.60	1.74	1.58	1.51
English Firms	1.79	1.70	1.51	1.44	1.50	1.51	1.59	1.53	1.95	1.58	1.51
French Firms	1.48	1.43	1.50	1.54	1.56	1.62	1.56	1.54	1.51	1.51	1.61
Canadian	1.41	1.32	1.12	1.09	1.24	1.33	1.29	1.22	1.58	1.35	1.38
Foreign	1.98	2.00	2.03	2.01	1.86	1.79	2.04	2.00	2.28	1.93	1.80

Total assets turnover is a ratio that calculates how many times annual sales cover total assets in a year. This is used to measure how well a firm uses its assets to generate sales. All the revenue groups have seen a decline in this ratio, though larger firms have a much better asset turnover than small and medium firms. Medium sized firms have seen the largest drop in this ratio from 1.12 to 0.63, while small firms slipped from 0.84 to 0.69 and large firms from 1.54 to 1.42. Both language segments have seen a decline in total asset turnover from 1983-84 to 1993-94. Again, both Canadian-controlled and foreign-controlled firms have seen a decline in efficiency based on their total asset turnover ratio, though the Canadian controlled firms still have a slightly higher ratio. The ratio has gone from 1.81 to 1.36 for Canadian-controlled firms and from 1.18 to 1.06 for foreign-controlled firms. Size of operation appears to be the determining factor for how well a firm uses assets to create sales.

Total Asset Turnover	83-84	84-85	85-86	86-87	87-88	88-89	89-90	90-91	91-92	92-93	93-94
All Firms	1.40	1.41	1.37	1.36	1.42	0.51	1.25	1.23	1.15	1.22	1.23
Small Firms	0.84	0.88	0.93	0.85	0.72	0.73	0.65	0.68	0.70	0.65	0.69
Medium Firms	1.12	0.88	0.84	0.79	0.74	0.74	0.62	0.66	0.16	0.61	0.63
Large Firms	1.54	1.62	1.58	1.61	1.75	0.48	1.54	1.46	1.47	1.46	1.42
English Firms	1.38	1.37	1.35	1.34	1.44	0.45	1.27	1.24	1.15	1.22	1.25
French Firms	1.56	1.61	1.50	1.50	1.33	1.36	1.19	1.19	1.15	1.22	1.17
Canadian	1.81	1.65	1.58	1.52	1.62	0.35	1.40	1.40	1.25	1.37	1.36
Foreign	1.18	1.23	1.21	1.22	1.23	1.26	1.09	1.06	1.03	1.04	1.06

Gross profit margin on book publishing measures the efficiency of the companies management in turning goods over at a profit. A gross profit margin of 0.52 means that 52% of every \$1 in sales are available to cover all indirect expenses. Larger firms do better than small and medium firms in this measure, while all size firms have seen an improvement in the gross profit margin ratio from 1983-84 to 1993-94. English language firms have a higher ratio than french-language firms, and have seen an improvement over the period from 0.45 to 0.52. French-language firms have had a steady ratio around 0.39 for the entire period covered. It is unclear why French-language firms have a consistently lower gross profit margin on book publishing, perhaps it reflects a fundamental difference in the two language markets in terms of competition or structure. Canadian and foreign-controlled firms have had similar ratios from 1984 onward, with foreign-controlled firms ahead by about 3%, in 1993-94 the ratios were 0.48 and 0.51 respectively.

Gross Profit Margin on BP	83-84	84-85	85-86	86-87	87-88	88-89	89-90	90-91	91-92	92-93	93-94
All Firms	0.44	0.50	0.50	0.51	0.51	0.50	0.50	0.51	0.50	0.50	0.49
Small Firms	0.31	0.32	0.32	0.35	0.34	0.37	0.36	0.37	0.37	0.35	0.38
Medium Firms	0.39	0.44	0.41	0.41	0.41	0.42	0.43	0.42	0.42	0.42	0.42
Large Firms	0.46	0.52	0.52	0.53	0.53	0.52	0.52	0.53	0.52	0.51	0.50
English Firms	0.45	0.52	0.52	0.52	0.53	0.52	0.53	0.53	0.53	0.53	0.52
French Firms	0.38	0.39	0.38	0.40	0.39	0.40	0.39	0.38	0.38	0.39	0.39
Canadian	0.36	0.49	0.49	0.50	0.51	0.49	0.49	0.49	0.49	0.49	0.48
Foreign	0.50	0.51	0.51	0.51	0.51	0.51	0.52	0.53	0.52	0.52	0.51

The last performance measure considered is return on investment (ROI). This ratio measures management's ability to earn a return on funds invested as assets. It shows how effectively a firm is being managed. For the entire Canadian industry the ROI was 10% in 1993-94, down from 14% in 1983-84. This probably should not be

interpreted as a drop in management's performance as it is likely due as much to worsening economic conditions as anything else. Large firms generally have a higher ROI than small and medium sized firms. French-language firms have seen an improvement in ROI from 9% in 1983-84 to 12% in 1993-94 while English-language firms have seen a decline from 14% to 9% over the same period. The Canadian-controlled segment has seen an improvement in ROI from 9% to 14% over the same period while foreign-controlled firms have dropped significantly from 16% to 5%.

Return on Investment	83-84	84-85	85-86	86-87	87-88	88-89	89-90	90-91	91-92	92-93	93-94
All Firms	0.14	0.14	0.15	0.13	0.12	0.04	0.08	0.09	0.07	0.10	0.10
Small Firms	0.02	0.02	0.03	0.03	0.09	0.08	0.07	0.05	0.03	0.02	0.04
Medium Firms	0.11	0.10	0.05	0.06	0.05	0.06	0.04	0.02	0.03	0.06	0.07
Large Firms	0.16	0.17	0.19	0.17	0.16	0.04	0.10	0.12	0.09	0.11	0.11
English Firms	0.14	0.15	0.16	0.14	0.12	0.04	0.08	0.09	0.07	0.10	0.09
French Firms	0.09	0.09	0.10	0.11	0.13	0.15	0.12	0.12	0.09	0.10	0.12
Canadian	0.09	0.13	0.16	0.12	0.13	0.03	0.06	0.06	0.07	0.11	0.14
Foreign	0.16	0.15	0.14	0.15	0.12	0.13	0.11	0.13	0.07	0.08	0.05

## H. Performance Outlook

Canada's small population and large geographic area creates certain operational difficulties for the publishing industry. The Canadian publishing market will, no doubt, continue to be dominated by the American industry and to a lesser extent British and French industries. The Canadian market suffers from fragmentation by language, since a bilingual market results in more titles with shortens print runs than might otherwise exist for a similar population speaking one language. If Canadian publishers continue to improve in export sales at their current rate, then the industry could see a substantial improvement in profitability, as exports may be an excellent way to lengthen print runs, improve on economies of scale and generate additional revenues. There also appears to be potential for efficiency improvement in fulfilment and distribution, though this may only be true for larger publishers or allied publishers.


It is projected by Euromonitor in World Book Report, that if political stability is maintained in Canada, the publishing industry will experience slow, steady growth, of up to 12% in real terms between 1993 and 1998. This suggests that industry revenues could increase from \$1,699 million to \$1,903 million in 1998, plus inflation.

### Future Work

In order to better assess its own performance, the industry needs information on markets and sub-markets, the overall book trade balance, as well as by language segment and by book category, as well as information on new market opportunities at home and abroad. Statistics Canada should be encouraged to produce and publish import information and international monetary transactions, including copyright payments, desegregated for books (i.e. not including printing, nor other printed media, such as magazines and newspapers).

More information is also needed on:

- the technological awareness of publishing firms;
- the incentives/barriers to the adoption of IT in firms of all sizes;
- their ability to use IT;
- the extent with which they use IT; and,
- its impact (\$) on firms' productivity and competitiveness.

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## Fulfillment and Operating Practices in the European Book Industry

### ANNEX C

Exchange Rates			
Against \$US			
	1991	1992	1993
Canada	1.15	1.21	1.32
France	5.64	5.29	5.59
Germany	1.66	1.56	1.65
Netherlands	1.87	1.76	1.85
United Kingdom	0.57	0.57	0.68

Source: Euromonitor

Trade in Books - 1991					
\$US million					
	Canada	France	Netherlands	Germany	U.K.
Exports	112.0	562.0	337.8	930.6	1,265.8
Imports	803.1	617.0	327.6	539.4	770.0
Balance	-691.1	-55.0	+10.2	+391.2	+495.8

Source: Euromonitor

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