

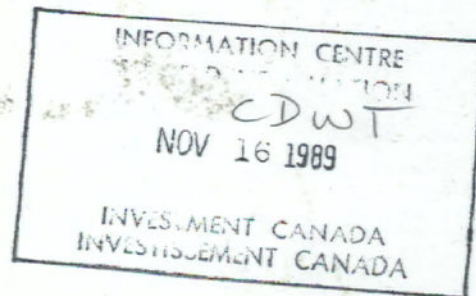
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English-Language Book Publishing and Distribution in Canada: Issues and Trends

Final Report

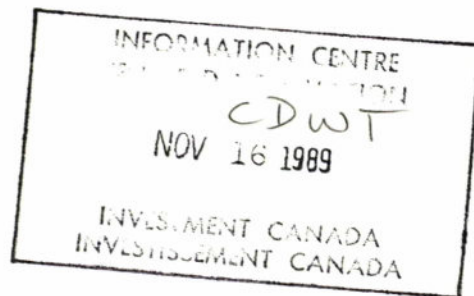


October 16, 1989

**A Study Prepared for Investment
Canada by Peat Marwick Consulting
Group in Association with Mr. Bill Roberts**

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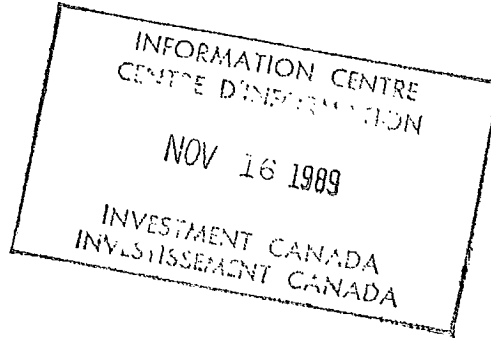
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Mr. Peter Caskey
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October 17, 1989

Dear Mr. Caskey:

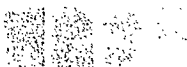
We are pleased to submit the final report associated with our study of English-Language Book Publishing and Distribution in Canada: Issues and Trends.

We hope the report proves useful to Investment Canada in your continuing involvement with Canada's book publishing industry.

Yours very truly,

PEAT MARWICK CONSULTING GROUP

Peat Marwick Consulting Group



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I - Introduction

This report contains the results of a study of Trends and Issues in English-Language Book Publishing and Distribution in Canada. The study was conducted by Mr. Garry Sears of Peat Marwick in Ottawa, in association with Mr. Bill Roberts, who is a Senior Associate with Peat Marwick and who has many years experience in consulting with Canada's book industry.

The purpose of the study was to identify and describe the major changes occurring in the industry as well as the economic stresses affecting the major segments of the industry: publishers, wholesalers, retailers and other distributors.

The study commenced on August 10, 1989. Over the brief period of the study, some forty interviews have been carried out with publishers, book sellers and industry commentators and other representatives, both in Canada and the United States. In addition, a wealth of statistics and prior studies, articles and reports have been collected and reviewed by the study team.

The study authors appreciate the assistance and cooperation provided during the study by, in particular, Mr. Peter Caskey and Mr. Philip Giles of Investment Canada, Ms. Susan Katz and Ms. Nadia Laham of Department of Communications and Ms. Sherrill Cheda of the Ontario Ministry of Culture and Communications.

The report is organized as follows:

- Chapter II provides definitions of key terms used in the report.
- Chapter III presents a concise profile of the book publishing and retail sectors of the industry, which provides a context for the study findings.
- Chapter IV presents the major findings of the interviews and research carried out during the study, organized into a set of industry issues.
- Chapter V presents a forecast of industry trends.

II - Some Definitions

Before presenting the main findings of the study, we first present some basic definitions relating to types of books and publishers.

Defining the Kinds of Books

Physical Definitions

Trade Books

These are books mainly sold to the general public through bookstores. They may be in any subject likely to appeal to a general reader and may be hardback or paperback.

Trade Paperback Books (Quality Paperbacks)

Quality paperbacks may be in any size felt to be suitable for bookstore presentation. They may be reprints of formerly hardcover books, original paperback publications, and occasionally simultaneous editions of hardcover titles.

Mass Market Paperbacks

Mass-market books may be either reprints of former hardcover or trade paperbacks or original titles. Usually about 4 x 7 inches in size, they are designed to fit into the rack-pockets common in non-bookstore outlets, though they are an important part of bookstore inventories.

Defining Books by their Markets

Religious Books

These are bibles, prayer books, inspirational books, etc. They are printed in many versions of special bindings, leather, special cloth, decorated or pictorial. Many mass-markets and quality paperbacks are found in religious bookstores.

Professional Books

Professional books are mostly hardcover though paperbacks are not uncommon. Business, medical, and scientific books are often sold directly by publishers to institutions or private users.

Educational books

These may be hardcover or paperback. They include el-hi, college and university books. They may be originated for this market, or may be trade books which are suitable for educational purposes. They are normally sold by publishers to educational institutions or colleges and university bookstores for resale to students.

University Press Books and Scholarly Books

Increasingly university presses do publish 'trade' type books, but their lists are generally of a scholarly nature. They may be either hardcover or paperback. Sometimes they are found in general bookstores but more often mingled with the educational books in university and college stores. Not all scholarly books are published by universities. Some originate with private publishers and some are produced by other kinds of institutions. Given the international nature of modern professional and academic life, many of these books will be of foreign origin, and often in languages other than English. These books will often be imported directly from their foreign source by libraries and individuals.

Mail-Order Books

These are usually hardcover and are often created specially for direct sale to consumers. Most often they are not available elsewhere. Frequently they are series publications.

Book Club Editions

These are books, usually of a popular nature, for distribution to book club members. Sometimes they are specially printed editions. Often they are special interest books such as gardening, cooking, or business books.

Remainder Books

Any books which has exhausted its potential in its original market at its original published price may become a remainder. They are offered, often at greatly reduced prices to bookstores and other book outlets and sold by them to the consumer accordingly. They are often used promotionally by retailers. The retailers source may be either the original publisher or a specialized remainder dealer.

Promotional Books

These are usually hardcover books often of the 'coffee table' variety, and are frequently confused with remainders. However these books have usually been reprinted or created by the original publisher as a specialized

reprint publication, often in a quality inferior to the original edition. They are sold to retailers and used on bargain tables.

Kinds of Publishers

The publishing community in Canada is as varied as anywhere in the world.

Companies occupying central positions in the industry publish everything from medical encyclopedias, sociological and religious works of international significance to the most ephemeral of romance novels, thrillers and rag books for children. Small publishers of avant-garde literature, with annual dollar volumes of less than some of the individual bookstores to whom they sell, jostle in the marketplace with the offshoots of huge publicly owned conglomerate giants, with worldwide interest.

The publisher and publisher-agent community divides into five groups:

- **Canadian-Controlled Publishers** publishing and selling only their own imprint.
- **Canadian-Controlled Publisher-Agents** publishing and selling their own imprint along with imported product for which they are the appointed Canadian agent.
- **Foreign-Controlled Publisher-Agents** publishing and selling their own Canadian imprint along with the imported product of their foreign owner and possibly other foreign publishers as well.
- **Canadian-Controlled Agents** who do no publishing of their own and sell only imported products of foreign publishers.
- **Foreign-Controlled Agents** who do no publishing of their own and sell only imported products of their foreign owner and possibly of other foreign publishers as well.

General Publishers - Trade

Any of the above may employ salesmen to call on customers - not only bookstores - and maintains a warehouse for inventory storage and order fulfillment etc. Alternatively, they may employ commission salesmen, available in all regions of Canada, who represent various groupings of publisher product to stores. Fulfillment may then be done by the individual publisher or as part of a larger group sharing facilities.

Mass Market

Mass-market publishers in Canada included in the above will also distribute through a network of periodical-distributors and wholesalers in order to reach the smaller non-bookstore outlets and the school market.

Educational Publishers

Publishers who are active in the educational market may focus on el-hi school books, university level books, or publish both.

Educational publishing differs radically from trade publishing and indeed the two major divisions of educational publishing, el-hi and post secondary, differ markedly from each other.

El-Hi Publishers

It is possible for a publisher to publish for the elementary school book market or the high school book market, or both. Sometimes, as we have noted, it is possible for a book sold in the el-hi market to have a separate existence elsewhere as a trade book and vice versa.

El-hi publishers who are not wholly educational publishers will have separate educational divisions within their companies. They must make their lists known to teachers, school boards and to those in charge of text approval and acquisitions. These books are designed to fit into courses and curriculum and they will work at educating teachers in how to utilize their materials.

Post-Secondary Publishers

Sales of university-level textbooks are made mostly through campus bookstores and the distribution of reading copies to educators. Catalogues are very important as a sales tool.

Many trade books find their way into the educational market either via the campus book stores or, if they are mass market books suitable for el-hi use, through the educational division of mass-market distributors or specialized educational wholesalers.

University and Scholarly Publishers

University presses, included in Canadian-controlled publishers in the description above, will tend to use special salesforces to sell their books. These selling groups may be independent of the university press. They will concentrate their efforts on displays at scholarly conferences and conventions. Direct contact with scholars is very important. Mailings with

brochures and catalogues consume much of university press advertising and promotion dollars.

However, university press books thought to have trade potential will be represented to bookstores by some means, either by sales groups or mailings.

Much the same pattern of promotion and selling is to be expected of a scholarly publisher who is not a university press. Both the private and the institutional publisher of scholarly books are publishing for the same market and their approaches to it will be determined by the nature of their books.

Trade Associations

There are two national trade associations serving the publishing community in English-Canada. Almost every publisher will be a member of one of them, occasionally both.

The Canadian Book Publishers Council has as its members larger publishers, mostly of the foreign-owned variety. It includes all of the large educational publishers and publisher-agents.

The Association of Canadian Publishers is comprised of Canadian-controlled publishers and is far more politically active than the CBPC.

There are numerous other regional and professional groups for publishers.

Distribution Channels for Books

Bookstores

There are two major chains operating in Canada, **W.H. Smith** and **Coles the Book People**, both with head offices in Toronto.

They are of about equal size with around 200 stores each and growing. Both are variety retailers, selling much else beside books.

The bookselling operations of these chains tend to concentrate on quick turnover. The variety of book product is more uniform across the range of individual outlets than would be the case with a comparable number of independent stores. Best sellers and assured selling backlist form the basis of their inventory.

All stores carry both hardcover and paperback books, also magazines, stationary, gifts, cards, etc.

Average store size is around 3,000 square feet but individual locations range from 1,200 s.f. to over 5,000 s.f. On average, chain stores probably carry about 4,000 titles in stock.

University and College Stores

These are usually associated with an institution of learning, though a few are operated by private contractors. For many years operated on a non-profit basis the university stores are now required by their institutional masters to be profitable.

Their responsibility is to make sure that the books and materials required for learning are in ready supply. Many of these stores will also sell non-course, trade publications, which they think their student customers will buy.

Almost all carry a wide range of non-academic merchandise, such as tee-shirts, mugs, cards, etc., as well as computers and related items.

Given the limited (though essential) role of the campus bookstore in 'selling' texts, educational publishers, offering the argument that their textbooks are essentially pre-sold, give much smaller (20% off publisher's suggested price) discounts on texts.

Independent Bookstores

Independent bookstores (independently-owned as distinct from chain bookstores) are of considerable variety.

About 50% are either sole-proprietorships or partnerships, the rest are incorporated.

Most sell hardcover and paperback books, over half sell cards, magazines are stocked by a majority.

Sideline merchandise like audio tapes, calendars, bookmarkers, posters and other items are increasingly in evidence.

Store sizes vary widely, more than half are under 1,500 square feet in size. About 10% are estimated to be over 5,000 s.f.

The average number of titles stocked has been estimated to be about 8,000, though smaller stores would not approach this number. Specialty stores, those specializing in a particular genre or subject, probably carry about 2,000 titles in stock.

Books are distributed to Canadian consumers by direct-mail retailers and by book clubs. Both solicit orders by means of the mails or through media advertising. Some direct-mail companies are Canadian-owned but all book clubs operating in Canada are foreign-owned.

III - An Industry Profile

In this chapter we provide a concise profile of the book publishing sector in Canada, in order to provide context for the main findings of the study presented in the next chapter.

Much of the information in this section is based on our review of unpublished data from the Statistics Canada series, *Culture Statistics: Book Publishing in Canada*, which was initiated in 1975. Each year, Statistics Canada undertakes the Survey of Book Publishers and Exclusive Agents. A publishing firm is surveyed if it has sales revenue of \$50,000, which means that a number of smaller firms and occasional publishers are excluded from the survey. Recently, Statistics Canada has revised its series of data for 1981 to 1987, to take into account survey non-response. The data presented in this chapter is drawn from this revised series, which was provided to us by Department of Communications. Our presentation of statistical data is coupled with commentary regarding significant trends and potential explanations. This analysis was facilitated by a number of studies and articles which have commented on the state of Canada's book publishing industry.

The Canadian Book Market

The book industry in Canada has grown substantially over the last 20 years. In 1969 — the first time when the size of the market was estimated through a survey of Canadian publishers — the total value of the Canadian market was some \$222 million in publishers sales. By 1985-86 the size of the domestic market had grown to an estimated \$1,405 million, as shown in **Exhibit III-1**. [It should be pointed out, however, that most of the reports we reviewed do not translate the annual sales figures into constant dollars.]

Exhibit III-1
Estimates of the Canadian Domestic Book Market 1969-1985
(\$millions/% increase)

	1969	1975	1978	1979	1980	1985
Book Sales	222.0	476.7	685	816.5	931.7	1,405
Growth	—	114.7%	43.7%	19.2%	14.1%	50.8%

The 1985 estimate of the Canadian book market, \$1,405 million, is made up of three components: (1) Canadian-published books; (2) Books handled on an exclusive agency basis; and, (3) Imported books purchased directly from abroad by individuals, institutions, retailers and wholesalers. As shown in Exhibit III-2, in 1985 imported books accounted for an estimated 75% of the Canadian book market. Thus only one-quarter of the book market in Canada is available to both Canadian-controlled publishers and foreign-controlled publishers in Canada for their own publications.

Exhibit III-2

Estimate of Canadian Book Market In 1985

	\$ millions	Percent
Canadian-published	346.4	24.7
Agency sales	423.4	30.1
Direct imports	635.2	45.2

The most recent data presented above is for the year 1985. This is the last year for which Statistics Canada has produced an estimate of the value of direct imports. Data for 1986-87 and 1987-88 consists of the sales of publishers only.

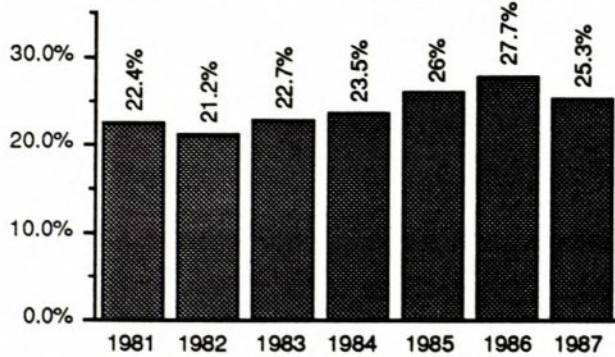
Sales of English-Language Canadian-Published and Imported Books

Exhibit III-3 shows trends in sales of own titles versus agency titles, for Canadian-controlled and foreign-controlled firms. In 1981-82, Canadian-controlled English-language publishers accounted for 37.5% of total sales, which increased slightly to 39.7% in 1987-88.

In terms of own titles, the data indicate that foreign-controlled firms increased their share of production in Canada between 1981-82 and 1986-87 (from 47.9% to 51.3%), which then dropped to 46.7% in 1987-88.

Exhibit III-3
Domestic Sales of Own Titles and Exclusive Agency Titles of English-Language Publishing Firms,
by Origin of Control of Firm,
1981-82 to 1987-88 (\$ millions / Percent)

Canadian-Controlled Firms' Share of Agency Sales, 1981 to 1987



1984-85

	Own	Agency	Total
Canadian-controlled	127,353 (46.8)	61,362 (23.5)	188,714 (35.4)
Foreign-controlled	144,784 (53.2)	199,710 (76.5)	344,493 (64.6)
Total	272,137 (100)	261,071 (100)	533,208 (100)

1981-82

	Own	Agency	Total
Canadian-controlled	111,131 (52.1)	46,255 (22.4)	157,386 (37.5)
Foreign-controlled	102,226 (47.9)	159,289 (77.6)	262,055 (62.5)
Total	213,357 (100)	206,084 (100)	419,441 (100)

1985-86

	Own	Agency	Total
Canadian-controlled	135,210 (47.2)	67,883 (26.0)	203,093 (37.1)
Foreign-controlled	151,233 (52.8)	193,128 (74.0)	344,362 (62.9)
Total	286,444 (100)	261,012 (100)	547,455 (100)

1982-83

	Own	Agency	Total
Canadian-controlled	121,392 (51.2)	45,845 (21.2)	167,236 (36.9)
Foreign-controlled	115,605 (48.8)	170,280 (78.8)	285,885 (63.1)
Total	236,997 (100)	216,125 (100)	453,122 (100)

1986-87

	Own	Agency	Total
Canadian-controlled	159,674 (48.7)	87,578 (27.7)	247,253 (38.4)
Foreign-controlled	168,320 (51.3)	228,959 (72.3)	397,279 (61.6)
Total	327,994 (100)	316,537 (100)	644,532 (100)

1983-84

	Own	Agency	Total
Canadian-controlled	122,688 (47.3)	55,834 (22.7)	178,522 (35.3)
Foreign-controlled	136,945 (52.7)	190,090 (77.3)	327,036 (64.7)
Total	259,634 (100)	245,924 (100)	505,558 (100)

1987-88

	Own	Agency	Total
Canadian-controlled	197,468 (53.3)	89,068 (25.3)	286,535 (39.7)
Foreign-controlled	172,713 (46.7)	263,459 (74.7)	436,171 (60.3)
Total	370,180 (100)	352,526 (100)	722,707 (100)

The graph in the exhibit shows that Canadian-controlled firms have increased their share of agency sales, rising from 22.4% of total sales in 1981-82 to 27.7% in 1986-87, and then decreasing slightly to 25.3% in 1987-88.

Sales by Book Category

The market for books is actually a variety of relatively separate markets. As shown in **Exhibit III-4, overleaf**, in 1987-88, the English-language market was fairly evenly split among the three categories of textbooks (el-hi and post-secondary), trade books and scholarly, reference, professional and technical books. In that year, textbooks had 36% of the total market, and trade books and scholarly/reference/technical books each accounted for about 32% of the market.

Looking at trends over time, in 1981 trade books accounted for 38.8% of total sales, which decreased to 32.4% in 1987-88, as noted above. The share of total sales accounted for by textbooks has been relatively stable, while the scholarly/reference/professional/technical category has shown the most growth.

As will be discussed in detail in the next chapter, the publishing of trade books is generally considered to be an unprofitable activity. Due to the small size of the market and unavailability of significant subsidiary income from foreign rights sales, paperback or movie rights, many trade books never recover their costs in the Canadian market. Because of this, there is an inability on the part of trade book publishers to generate or attract enough capital to re-invest in their companies.

Exhibit III-5, overleaf, shows the sales for three years of Canadian-controlled versus foreign-controlled publishers for each category of book. The main observations to be made in this table are that Canadian-controlled publishers have decreased their share of el-hi sales between 1981 and 1987 (from 34.2% to 25.2%), and increased their share of the scholarly/reference/professional/technical category (from 33.7% to 46.8%). Canadian-controlled publishers' share of trade publishing has been relatively stable.

Turning to the textbook market, it is clear from Exhibit III-5 that foreign-controlled textbook publishers dominate the sector. In 1987-88, for example, foreign-controlled firms had sales of \$198.7 million out of a total textbook market of \$257.8 million, a 77% market share. In the post-secondary sector, the level of foreign dominance is even greater.

Exhibit III-4
Total Domestic Sales of English-Language Publishing Firms, by Category of Book
1981-82 to 1987-88

	1981	1982	1983	1984	1985	1986	1987
EI-Hi	88,800 (21.2)	100,827 (22.3)	104,950 (20.8)	106,518 (20.0)	114,608 (20.9)	127,531 (19.8)	151,264 (20.9)
Post-Secondary	59,507 (14.1)	63,962 (14.1)	78,678 (15.6)	86,153 (16.2)	72,748 (13.3)	96,461 (15.0)	106,586 (14.8)
Trade	162,883 (38.8)	172,928 (38.2)	197,251 (39.0)	171,476 (32.2)	176,125 (32.2)	208,965 (32.4)	234,060 (32.4)
Scholarly/Ref./Prof./Tech.	108,700 (25.9)	115,405 (25.5)	124,678 (24.7)	169,061 (31.7)	183,974 (33.6)	211,575 (32.8)	230,797 (31.9)
Total	419,441 (100)	453,122 (100)	505,558 (100)	533,208 (100)	547,455 (100)	644,531 (100)	722,707 (100)

Exhibit III-5

**Total Domestic Sales by English-Language Publishing Firms,
by Origin of Control and Category of Book
1981-82, 1984-85, and 1987-88**

\$ millions / Percent

	1981			1984			1987		
	Canadian	Foreign	Total	Canadian	Foreign	Total	Canadian	Foreign	Total
El-HI	30,323 (34.2)	58,477 (65.8)	88,800 (100)	28,472 (26.7)	78,046 (73.3)	106,518 (100)	38,143 (25.2)	113,121 (74.8)	151,264 (100)
Post-Secondary	10,554 (17.9)	48,503 (82.1)	59,057 (100)	19,943 (23.2)	66,210 (76.8)	86,153 (100)	21,019 (19.7)	85,568 (80.3)	106,586 (100)
Trade	79,895 (49.1)	82,989 (50.9)	162,883 (100)	92,316 (53.8)	79,160 (46.2)	171,476 (100)	119,458 (51.0)	114,602 (49.0)	234,060 (100)
Scholarly/Ref./Prof./Tech.	36,613 (33.7)	71,297 (66.3)	108,700 (100)	47,983 (28.4)	121,078 (71.6)	169,061 (100)	107,915 (46.8)	122,881 (53.2)	230,797 (100)
Total	157,386 (37.5)	262,055 (62.5)	419,441 (100)	188,714 (35.4)	344,493 (64.6)	533,208 (100)	286,535 (39.7)	436,171 (60.3)	722,707 (100)

Overall, the considerable revenues that flow from textbook publishing combined with a dominant position in the distribution of imported books — an activity which is generally acknowledged to be less risk prone and more profitable than original publishing in Canada — gives the foreign-controlled sector a marked advantage in matters of marketing and distribution.

The Agency System

Importation of trade books has shown steady gains since 1975. An increasing percentage of trade book sales are accounted for by direct imports, and 80% of English-language books imported into Canada come from the United States.

Exhibit III-6, overleaf, shows that in 1987-88, 61% of trade books were imported via the agency system, compared to 52% in 1981-82. As will be discussed in the next chapter, imported titles have the tendency to be more lucrative than own-published titles and generally involve less risk. Foreign-controlled publishers have better access to import titles than do Canadian-controlled publishers. For example, in 1987, agency sales accounted for 46% of total trade book sales for Canadian-controlled publishers, compared to 78% for foreign-controlled publishers. Nonetheless, over the last few years, Canadian-controlled trade publishers have increased their emphasis on agency sales in an effort to improve profitability (as we saw in Exhibit III-3, Canadian-controlled publishers have increased their share of agency sales between 1981-82 and 1987-88).

Number of Titles Published

As shown in **Exhibit III-7, overleaf**, Canadian-controlled publishers produced 4,146 new titles in 1987-88, compared to 1,279 titles for foreign-controlled firms. The difference is partly due to the fact that there were more Canadian-controlled than foreign-controlled firms in operation (148 vs. 28, respectively). However, each foreign-controlled publisher publishes more titles on average than does each Canadian-controlled publisher.

Exhibit III-7 also shows that small and medium-sized Canadian-controlled publishers rely more on Canadian authors (94% of all titles) than do large Canadian-controlled publishers (61% of titles). Large foreign-controlled publishers publish a substantial number of Canadian-authored titles, many of

Exhibit III-6

Total Domestic Sales of Own and Exclusive Agency Sales
by Canadian-Controlled and Foreign-Controlled
English-Language Publishing Firms,
by Category of Book

\$ millions / Percent

(i) Canadian-Controlled Publishers

	1981			1984			1987		
	Own	Agency	Total	Own	Agency	Total	Own	Agency	Total
EI-HI	24,751 (81.6)	5,572 (18.4)	30,323 (100)	23,067 (81.0)	5,405 (19.0)	28,472 (100)	29,848 (78.3)	8,295 (21.8)	38,143 (100)
Post-Secondary	5,169 (49.0)	5,385 (51.0)	10,554 (100)	5,258 (26.4)	14,685 (73.6)	19,943 (100)	8,855 (42.1)	12,164 (57.9)	21,019 (100)
Trade	48,221 (60.4)	31,674 (39.6)	79,895 (100)	58,211 (63.1)	34,105 (36.9)	92,316 (100)	64,904 (54.3)	54,554 (45.7)	119,458 (100)
Scholarly/Ref./Prof./Tech.	32,989 (90.1)	3,624 (9.9)	36,613 (100)	40,816 (92.3)	7,167 (7.7)	44,233 (100)	93,861 (87.0)	14,054 (13.0)	107,915 (100)
Total	111,131 (70.6)	46,255 (29.4)	157,386 (100)	127,353 (67.5)	61,362 (32.5)	188,714 (100)	197,468 (68.9)	89,168 (31.1)	286,535 (100)

(ii) Foreign-Controlled Publishers

	1981			1984			1987		
	Own	Agency	Total	Own	Agency	Total	Own	Agency	Total
EI-HI	36,168 (61.9)	22,309 (38.1)	58,477 (100)	52,084 (66.7)	25,241 (33.3)	78,046 (100)	74,096 (65.5)	39,025 (34.5)	113,121 (100)
Post-Secondary	13,030 (26.9)	35,473 (73.1)	48,503 (100)	14,476 (21.9)	51,734 (78.1)	66,210 (100)	24,336 (28.4)	61,231 (71.6)	85,568 (100)
Trade	29,761 (35.9)	53,227 (64.1)	82,989 (100)	18,530 (23.4)	60,630 (66.6)	79,160 (100)	25,520 (22.3)	89,082 (77.7)	114,602 (100)
Scholarly/Ref./Prof./Tech.	23,268 (32.6)	48,819 (67.4)	71,297 (100)	58,973 (48.7)	62,105 (51.3)	121,078 (100)	48,761 (39.7)	74,121 (60.3)	122,881 (100)
Total	102,226 (39.0)	159,829 (61.0)	262,055 (100)	144,784 (42.0)	199,710 (58.0)	344,493 (100)	172,713 (39.6)	263,459 (60.4)	436,171 (100)

Exhibit III-7

Production of New Canadian-Authored and Total Titles,
by Canadian-Controlled and Foreign-Controlled
English-Language Publishing Firms,
by Size of Firm

1987-88

Size of Firm	Canadian-Controlled				Foreign-Controlled			
	Number of Firms	New Canadian-Authored Titles		Total New Titles	Number of Firms	New Canadian-Authored Titles		Total New Titles
		Number of Titles	Avg. Per Firm			Number of Titles	Avg. Per Firm	
Small	51	340	6.7	357	1	1	-	31
Medium	55	638	11.6	689	1	5	-	5
Large	37	1,881	50.8	3,100	25	878	35.1	1,243
Total	143	2,859	20.0	4,146	27	884	32.7	1,279

which fall into the "genre" category (e.g., cookbooks, gardening books) rather than the literary category (e.g., novels, poetry).

Retail Marketplace

A 1984 study found 1,860 bookstores selling new books in the retail market place. This figure included all chain stores and all independants. The figure today is probably closer to 2,000.*

Most serious retailers of books are members of the national association, the Canadian Booksellers Association, started about forty years ago. The C.B.A. renders substantial assistance to its members by means of directories of trade, promotional materials, etc. but more importantly by focussing the energies of what is a very disparate group, when issues arise requiring a concerted effort. C.B.A. growth is running about 10% per annum.

Both major Canadian chains are members, but count as single memberships for purposes of voting. Representatives of chains often sit on the C.B.A. Board.

Among C.B.A. members there are:

- 561 Trade members
- 91 College and university members
- 23 Mail order members.

It is estimated that these members own and operate about 1200 retail outlets.

A significant number of stores are part of mini-chain development (2-6 stores).

Market Share

Reliable estimates of market share for bookstores are hard to come by. However, there is a measure of agreement about the following:

* *Study of Retail Bookstores*, Just Marketing Research, 1984.

Shares of Retail Bookstore Marketplace	
Type	Percent
Chains (national)	40
Independents	50
Department store book departments	10
	—
	100

One problem with such estimates is that they tend to be based on publishers' sales figures, thus they take no account of books sold by retailers which they import directly.

Regional Distribution

Regionally, CBA member bookstores are distributed throughout Canada as below:

Province	Independent %	Chain %
Territories	1.0	0.0
B.C.	17.8	11.9
Alta.	11.2	14.1
Sask.	2.7	4.4
Man.	3.9	3.9
Ont.	47.8	8.4
N.B.	1.5	3.4
N.S.	6.1	4.4
P.E.I.	0.9	0.2
Nfld.	0.6	1.3
Que.	6.1	4.4

Quebec has 6.1% of independent CBA members and 4.4% of chains. Obviously Quebec has many more bookstores in total but since they have their own Quebec-based association they are not members of CBA.

There are twice as many independent bookstores in Canada as there are chain bookstores. Independents are more numerous than chains in small urban centres.

Although more numerous, independent stores tend to be smaller in size and have lower revenues. CBA has estimated that 60% of its members trade below \$300,000 per annum.

Most speciality stores are independents, though this is changing, and in this newest area of book retailing there are now over 50 stores.

Terms of Trade

Publishers' discount schedules for bookstores buying trade books reward the buying of multiple copies of any single title with additional discounts within a range of 1-4% depending upon quantities.

They do not however, offer larger quantity-related discounts for assorted title purchases. Bookseller orders for assorted titles achieve the same discount however large the order, usually in a range of 40-42%.

Consequently there is little difference in gross profit between large and small booksellers. A 1985 study of Canadian independent booksellers identified only a 4.4% difference between the very smallest and the largest.*

Automation

The majority of new stores opening do so with automated systems. Often this takes the form of a moderately priced (\$15,000) multi-user system, with two terminals, one of which doubles as a cash register, software for inventory and accounting, two printers and peripherals.

Older-established retail booksellers are automating steadily.

Both chains are rapidly becoming fully computerized on both the financial and the operations side.

* *Case Studies of Canadian Independent Trade Booksellers*, Peat Marwick, 1985.

Book Clubs and Direct Mail

Trade books are also sold in the English-language marketplace in Canada by book clubs and direct-mail.

We have relied heavily in this section upon an excellent study *Book Clubs and Direct Mail Publishing and Marketing of Books: a Review of Policy Options*, October 1984, by Paul Audley and Associates.

Revenues

Revenues from the sale of books by mail sold in Canada increased from \$35.9 million in 1971 to \$151 million in 1982. In constant dollars the increase was 60%.

Book club revenues in Canada for 1983 were estimated at \$45-\$50 million.

In 1978 Statistics Canada reported that 661,000 adult English speaking Canadians were book-club members.

Ownership

Canada has no Canadian-owned book-club. Mostly U.S. book clubs serve the Canadian market, frequently operating through wholly-owned Canadian subsidiaries.

Publishers' Revenues from Book-Clubs

Trade publishers' revenues in Canada from bookclub sales were estimated by Audley at around \$860,000 in 1983. The majority of these sales were books by Canadian authors.

However, over 90% of U.S. book-club sales in Canada are from books imported directly from the U.S.

In Audley's survey, the 16 publishers who reported book-club sales in 1983 made sales involving 91 separate transactions.

Publishers' Reported Sales By Book Club, 1983

Book Club	Total
Book-of-the-Month	34
Literary Guild	37
Doubleday	6
Reader's Digest Condensed Books	2
Scholastic	10
Other	2
TOTAL	<u>91</u>

Quantities sold in these transactions ranged from 50 copies to 7,000, with average sales by individual publishers ranging between 100–2,000 copies.

Direct Mail

Audley had difficulty gathering data on direct-mail operations in Canada. Some of his conclusions were:

- Direct mail selling of books in Canada is not nearly as successful in Canada as in the U.S.
- The Canadian content (number of Canadian-authored titles used in direct-mail) would be very low.
- Sales made by direct-mail in Canada were probably significantly lower than the estimate for book-club sales of \$45–50 million.

The Audience for Books

Book Reading in Canada: *The Audience, The Marketplace, The Distribution System for Trade Books in Canada*, by James Lorimer and Susan Shaw, Toronto 1983, provides some useful data on book reading habits.

Lorimer and Shaw found that 58% of adult Canadians (or 6,839,000 individuals) are book readers, based on their having read a book in the previous six weeks.

13% more had read a book in the last year, bringing to 8,400,000 the total number of Canadians who had read a book in the last year.

The following tables from *Book Reading in Canada* illustrate two points: the source of acquisition of the last book read, and the Canadian-content percentage of books read.

Bookstores lead the way as a source of books read and borrowing books from friends and relatives (some of whom presumably bought their books) is second. Canadian content is at about 18%.

It is interesting to note that a 1989 poll conducted by Environics Ltd. in connection with the proposed new Goods and Services Tax revealed that 67% of Canadians had read a book in the last six weeks, a substantial increase over Lorimer and Shaw's estimate of 58% in 1983.

However, much more research is required in this area before reliable statements can be made about Canadian book reading or buying habits.

**Canadian Books and All Books,
Source in Rank Order (Percent Distribution)**

Distribution channel % obtained from	Canadian Books	All Books
Bookstore	30.3	29.8
Borrowed friend or relative	19.7	21.3
Gift	18.0	12.3
Public library	8.9	9.7
School library	6.5	5.7
Other store	4.3	6.5
Book club	3.2	3.7
Mail order	1.8	2.3
Other library	0.4	1.2
Other	6.6	7.4
Total	99.7	99.9

Source: *Book Reading in Canada*

Canadian % of Books Read

Subject Category	Content of Reading in Category By %	
	Canadian	Non-Canadian
Biography	17	83
History/social science	44	56
Religion	3	97
Psychology, self awareness family guidance	1	99
Practical personal information medical, health, child care	9*	91*
Practical information : gardening, hobbies, travel, handyman	29*	71*
Other non-fiction	22*	78*
Science fiction	3*	97*
Mysteries	15*	85*
Westerns	.*	100*
Romance+	99*	1*
Other novels	15	85
Classics*	-	-
Drama*	-	-
Poetry*	-	-
Average	18	

* Sample size too small for reliability of results.

+ The definition of a Canadian book used in this classification was a book written by a Canadian author or published in Canada by a Canadian publisher. Under this definition, Harlequin Romances published in Canada by Harlequin would be included as Canadian books. Reclassifying Harlequins as non-Canadian books would reduce the percentage of books read which are Canadian from 18% to 16%.

Source: *Book Reading in Canada*

IV - Issues

Introduction

We have noted that a wide range of publisher-agent activity takes place in the Canadian market place and that an increasing complexity exists in the retail sector. There will clearly be differences in the concerns of individual companies depending upon their situation in the market, and also in the degree and nature of their concern on any particular issue. We have not always been able to reflect all these shadings of opinion but have had to deal with the issues in a fairly homogeneous way.

However, we have attempted to do this in such a way as to bring a number of perspectives to bear. It seemed best to adopt an approach which dealt first with what might be called global issues, such as the impacts of changes in the patterns of publishing and distribution internationally, and then to focus more closely on the domestic issues in the various sectors.

We have also chosen on occasion to return to an issue already discussed in an earlier context, even at the risk of some repetition.

Definition of Publisher-Agent

As has been noted there are in the Canadian distribution system companies which publish and also act as agents for imported product. There are also those who have no publishing activity but merely import and re-sell foreign books. Either may be foreign or Canadian-owned. For convenience sake in what follows, we use publishers-agents as a comprehensive term to include any company, which is engaged in any portion, of all of the total range of activities which comprises re-selling imports.

Merger Activity

Relying as it does for so much of its book product on U.S. & U.K. sources, the English-Canadian market place must obviously be extremely sensitive to publishing developments taking place in these two countries.

The recent wave of mergers among large foreign-owned publishers has already produced marked changes in the Canadian book market.

These tendencies to form ever larger publishing entities will almost certainly continue, since the premises upon which the activity is based have increasing validity:

- the potential of many literary creations is not exhausted by book publication, but a literary work is rather a matrix from which opportunities for exploitation by other medium, video, television, film etc. can be developed.
- it is only possible to fully exploit these opportunities from an international base.
- by being able to offer creators international, media-wide exposure, at greatly increased royalty levels, it is possible to capture and retain the 'superstars' among authors.

In addition, and perhaps of paramount importance to publishers with international aspirations, are the enhanced opportunities afforded by the concentration of capital, international presence, and the monopoly of product (which arises from copyright) to direct the marketplace for books.

The control of large segments of both the means of production and also of distribution, opens the way to the determination, on the basis of purely commercial criteria, of what will be published, distributed, and sold.

Considerations of intrinsic worth are frequently in direct conflict with the commercial objectives of large publishing enterprises and will almost always be discarded when they interfere with the profit motive.

This Orwellian fact is perhaps particularly true in matters relating to book publishing and film production and distribution (where the same battle for the ability to control product and its distribution is being fought out in more naked terms).

One consequence of this emphasis on 'best-seller' and 'blockbuster' titles is a concentration of publishing effort on mass market taste — a tendency to seek a common denominator of taste similar enough, across a broad range of the international english-language market to allow for the economies of scale sought after. As this occurs, books appearing on publishers lists become less varied and adventurous in content, and a tendency develops to publish more of whatever has been commercially successful in the market place. This is an unexceptionable commercial tactic, but has serious negative implications for the less predictable books, the

“unknown quantities” which so often turn out to be important in the long run.

These developments, already well advanced, raise serious issues for those concerned with the maintenance and fostering of a nationally valid, and intellectually sustaining Canadian culture.

Although such considerations are beyond the scope of this particular study, they are a background against which some of the issues identified exist.

Concerns of The Agency System

As English-language Canada developed under the commercial shadow of her giant U.S. neighbor and the U.K., it was deemed simpler and more profitable to regard Canada as an extension of either the British market or the U.S. market for books. If the American publisher acquired market rights to Canada the U.S. edition would be sold here, distributed through either the owned subsidiary of the U.S. publisher or by a designated exclusive agent, with whom the American publisher formed a contractual agreement. If the U.K. publisher enjoyed Canadian market rights he would market his book in the same way, selling finished copies to an agent.

Since this situation has prevailed since early in the commercial distribution of foreign books in Canada, the practice of a Canadian publisher acquiring the rights to publish a foreign book, in the full sense of producing a Canadian edition, has never developed, (though between the two world wars some books of foreign authors appeared under the imprint of Canadian firms). In very recent years it is true that some publisher-agents do produce Canadian editions of popular titles, or authors, from among their principals lists, but these are exceptions. The vast majority of books are still imported in finished copies and bear the U.S. or U.K. imprint. This is the activity engaged in by agencies.

Publisher - Agent Concerns

Publisher-agents in a sense occupy the niche reserved in other markets for wholesalers. Two factors disturb the analogy:

- unlike a wholesaler, a publisher-agent typically has exclusive rights to the distribution of his principal's product in certain markets.
- on the other hand, he will not have access to the distribution rights of more than a comparatively small range of the total book product

available from all foreign publishers selling into Canada. Other publisher-agents will have the rights to other product, also exclusively.

This exclusive right is based upon the existence of a contractual agreement between the Canadian publisher-agent and the principal publisher(s) who's product he distributes. It is not a transfer of copyright, merely agreement to perform certain market functions in return for an assurance that no other Canadian company will have access to the product. The exclusivity such an agreement ascribes is not however, in reality, assured.

Since any contract between the principal and his agent as to exclusivity is binding only upon the two contractees, it has no legal force upon other actors in the market place.

U.S. based wholesalers who seek Canadian customers willing to buy from them are not legally prohibited from doing so.

Canadian booksellers and others wishing to acquire U.S. and U.K. books directly from their country of origin by means other than through the Canadian exclusive agent, encounter no legal impediment.

Certainly, it is unlikely that a Canadian retailer or library attempting to buy books directly from a foreign publisher with a Canadian agent would have success. The normal practice would be to refer the Canadian enquiry to the Canadian-agent. This is usually part of any agreement between the two.

Foreign wholesalers however, are under no such necessity and will happily respond to Canadian orders under normal business considerations of credit-worthiness etc.

This practice of direct importation is known in the Canadian industry as 'buying around'.

Buying Around

It is not known to what extent and dollar value buying around takes place. It is likely that considerable amounts of revenue are lost to publisher-agents due to this practice.

It seems clear that 'buying around' of trade books is increasing in the retail market place. Observing the increasing tendency of their American colleagues to rely on wholesalers as a convenient source of inventory, some Canadian retailers, more particularly in speciality book retailing, are looking around for an equivalent means of simplifying their ordering. Finding none

in Canada they are turning to U.S. wholesalers as suppliers. We shall return to this in the retail section.

Canadian 'exclusive' publisher agents for trade books therefore are obliged increasingly to compete very hard with foreign sources of supply, mainly U.S. wholesalers. Price is critical. Delivery times, first-fill levels, must all be competitive with U.S. wholesalers.

Since no reliable figures exist it is hard to gauge the extent of this potential threat to agency viability.

There is no doubt however, that in the last decade buying around by book retailers in Canada has increased and has contributed in some degree to a continuing continentalization of book distribution. We shall return to this issue.

Security of Agencies

Of equal or greater concern to many publisher-agents for both trade and educational books is the uncertainty created by recent merger and acquisition activity among the U.K., U.S. and other publishers whose lines they represent in Canada under agency agreements.

Since an agency agreement creates what is essentially a distributorship, a publisher-agent has no inherent right in any title he distributes, beyond those conferred by his principal supplier for a fixed period, subject to certain conditions.

Although many such agreements are of considerable duration in the Canadian market place, it is not unusual for U.S. and U.K. lists to move around among competing Canadian agents. A principal publisher may be dissatisfied with the distribution his list is getting in Canada. He may be persuaded to move from agent A to agent B by being offered an arrangement more financially advantageous to himself. Such activity has always gone on among agencies and distributors.

What has been less common has been the displacement of an agency line due to a change in ownership in the U.K. or U.S. thus eliminating the need for a Canadian agent or for a Canadian branch.

Recent events have demonstrated clearly that a lucrative, large, established agency, which had been used as a basis for company plant and operations expansions, can be snatched away without much warning due to changes in ownership outside Canada.*

* Fitzhenry and Whiteside's loss of Harper due to the Collins-Harper merger.

Such an event must surely make other publisher-agents, with no more protection than a medium-term contract, or worse a six-month cancellation contract, give some thought to the future.

Direct Supplies from U.S.

There is a further related issue which arises when a U.S. publisher chooses to withdraw his distribution facilities from Canada altogether and fulfill Canadian orders from warehouses in the U.S.

Some current U.S. examples of this type of distribution are:

- Bantam Doubleday Dell
- Cambridge University Press
- Crown Publishers
- Gardenway
- Harcourt Brace Jovanovich
- Rodale Press
- Stuart Tabori and Chang

All the above have substantial sales in Canada and all in the recent past distributed through a Canadian agent but no longer do so.

Some of the inherent problems faced by U.S. publishers who choose to market their trade books in Canada through a Canadian-agent have been neatly summarized by Peter Waldock, of Cannon Books Distribution. Waldock has been one of the most vocal proponents of 'outside Canada' fulfillment services. The argument runs thus:

Selling their books to their Canadian distributors at 60-65% discount from the U.S. retail price generates less gross margin for a U.S. principal than they achieve on their U.S. sales. (They probably gross around 50% on domestic sales).

Some important U.S. books are marked up in Canada by up to 30-50% over American list price, or the equivalent of 15-20% over U.S. price in exchange adjusted dollars, which inhibits their potential sales to book buyers, many of whom are familiar with U.S. retail book prices through media ads, travel etc.

In many cases their books will be competing for attention within the agency with other lines represented by the

publisher-agent, as well as the books of the publisher-agent himself.

Recently a number of American publishers, some listed above, and most notably the mass-market houses, have developed an alternative solution to the distribution problem.

They distribute directly to their Canadian customers from U.S. warehouses, while still maintaining a strong sales and marketing presence in Canada.

No longer financing the overhead of a fulfillment facility in Canada, and instead taking advantage of the economies of scale and superior efficiencies of their U.S. warehouse operations, they are able to lower the price differential in many cases to as low as 20-25% (the exchange rate) while still increasing net profit on books sold in the Canadian market.

This could become an increasingly persuasive scenario for U.S. trade publishers who at present maintain agency arrangements in Canada.

When books coming into Canada from the U.S. were dutiable, moving books across the border was time consuming and often complex. Communicating orders and the subsequent fulfillment were all subject to delays which argued for the stocking of imported books in Canada in order to provide efficient service for Canadian customers.

With the advent of sophisticated electronic ordering/response systems, already widely in use, more modern warehouse technology to improve turnaround time, and simpler, speedier, border clearance, the stronger arguments for maintaining a Canadian fulfillment facility are, for many, weakening.

For publishers agents of el-hi and post secondary books the situation is more complex. As we shall describe in more detail later, educational publishers need to maintain a much closer and more interactive relationship with their markets than in trade publishing. Also, most if not all, of the publisher agents selling imported textbooks in Canada are engaged in the publishing in Canada of similar materials - due to the Canadian content requirements of the various educational authorities.

Although we have not attempted to test in detail the accuracy or otherwise of this assertion, it seems probable that to continue to operate the full range of activity necessary to an educational publisher in Canada from a trans-border location would not be a good alternative to being located in Canada.

U.S. Wholesalers

It has been our experience in discussion, that Canadian publisher-agents acknowledge in different degrees the character and evidence of the continentalization of book distribution.

Uppermost in the minds of most publisher-agents in discussions of buying-around are U.S. wholesalers.

Large, successful and aggressive U.S. book wholesalers, like the Baker and Taylor Co. and Ingram Co., have long been an irritant to Canadian publishers engaged in book agenting activity. In the U.S. such wholesalers occupy a key role in the distribution system and have been greatly instrumental in the evolution of better ordering and fulfillment methods.

Partly by allowing bookstores to focus their ordering, simplify procedures, and achieve better discounts on mixed orders wholesalers have attracted retailers as customers. The most significant element in the growing relationship between wholesalers and retailers has been the improvements afforded in inventory replenishment times (the reduction of out-of-stock time spans).

The new awareness of rapid fulfillment as a key to bookstore profitability, when linked to wide, shallow, high turnover inventories, is largely a product of wholesaler initiatives in the U.S. marketplace.

In Canada the problems of low turnover, low profit margin, and retail inventories with unreliable replenishment times, have been, if anything, more acute than in the U.S. In seeking solutions however, the Canadian industry has not chosen, or perhaps been able, to find a means by which wholesaling on the American model could be applied to the problem. It is now accepted by many knowledgeable observers that Canadian retailers use U.S. wholesalers extensively, and that the level of use is increasing.

It seems at least possible that the increasing 'outside Canada' fulfillment tendency exhibited by some U.S. publishers that we have been examining, is a factor, one of many, in modifying retailers historic reluctance to order around the Canadian agents, and encourages a willingness to look at book distribution of American titles at least, within a context of continental demand and supply.

Certainly under present conditions, for U.S. publishers of trade books, and for U.S. wholesalers, the problems of supplying Canada from U.S. warehouse fulfillment centres are not essentially different from those of supplying California or Oregon.

Pressures of the 'New Technologies'

The move to retail automation has the potential to impose severe pressures on publishers and distributors. Orders are smaller and more frequent, resulting in higher fulfillment costs and unexpected bottlenecks in service at peak times of the year.

If booksellers continue to prefer to order frequently and in small quantities, the determining of initial print runs and import quantities will prove to be more difficult for publishers and agents. Without the benefit of booksellers' larger initial orders, often in the past predicated on their projected total sale of a title, publisher estimates of either printing or import quantities becomes more difficult.

The move to automation raises another issue for suppliers as well. The equipment used to order books from Canadian suppliers via Telebook (the Canadian electronic book ordering system, designed to carry orders and messages between Canadian booksellers and Canadian publishers and agents) can be used to access U.S. sources direct.

As U.S. wholesalers and publishers become more aware of the existence of this capacity increasing in the Canadian market, it may encourage them to think about adding Canada onto the already existing U.S. electronic book ordering systems.

Non-Bookstore Book Retailing

Other related strains on publishers' resources may develop as books find their way into other retail environments.

In the U.S. this non-bookstore market of toy stores, drug stores, auto-supply stores, computer stores etc. already accounts for over \$500M U.S. in sales annually.

While no doubt welcome as an additional source of revenue, some of these outlets could pose serious problems for publishers in attempting to service them directly.

A characteristic of many of these new retail market places for books, would typically be to want only a very small part of any given publishers output, perhaps only a few titles a year.

If having to cope with a multitude of low value orders is to be avoided publishers will have to find some way to focus this demand through an intermediate level of distribution.

Pressure From Chains

Another issue facing publishers of all kinds is the increasing retail power of the two Canadian book retailing chains W.H. Smith and Coles The Book People. As the number of chain bookstores in the market place increases, a larger proportion of publishers lists are bought centrally.

Fears have been expressed that a situation might arise in which the actual decision to publish a title might be influenced by the reaction of chain buyers to a publishers' pre-publication presentation.

A negative reaction on the part of the chains, or conceivably one chain, might mean a decision not to publish.

Given the chain store emphasis on books with fast sell-through, and their narrower range of inventory than independent bookstores, this might have the effect of narrowing the range of trade titles published in Canada and available to the Canadian public.

The feeling among some publishers at the moment seems to be that while it is not at present possible for chain bookstores to influence what is published, it is possible for the response of chain buyers to a title to determine whether a trade book will be a financial success in the market place.

Concerns Shared by Publishers and Publisher-Agents Regarding the Goods and Services Tax

Great concern exists among not merely publishers but all sectors of the Canadian book industry regarding the imposition of the new national sales tax in its relation to books.

Books are at present exempt from the current federal sales tax and from provincial taxes also. Since books will be moving from a zero federal taxation to a full federal tax situation in the market place, the expectation is of a strong negative reaction on the part of potential book buyers.

Two recent studies, by Woods Gordon and Environics, into the reaction of book purchasers confronted with retail price increases of the kind likely to be produced by the new tax, suggest that serious drops in book purchasing might occur.

Both these studies contain qualifications and reservations about the difficulty of arriving at firm conclusions on the subject investigated. This is not, however, a concern, since our subject at the moment is the industry's perception of the potential situation, which is to a large extent based on the conclusions of these two studies.

Certainly the fear is that books will be seen by the public as less competitive with other leisure goods once they are, like the competition, taxed.

Tax-exemption for books has been seen as an expression of support, on the part of the government, for the concept of reading as an important cultural activity, and for books as being 'special'. Once that 'special' status is removed, publishers fear a significant erosion of book buying.

Another point raised by the Wood Gordon study is of particular concern to publishers and publisher-agents. Woods Gordon noted that much of the book material which is imported into Canada goes directly to individuals, businesses and institutions, often by mail. They wondered whether these books might altogether escape a new tax, giving them a considerable competitive advantage.

So far a Don't Tax Reading Coalition has been joined by the Canadian Library Association, Canadian Daily Newspaper Publishers Association, Periodical Marketers of Canada, the Association of Canadian Publishers, the Canadian Book Publishers Council, Canadian Booksellers Association, Canadian Magazine Publishers Association.

The coalition commissioned a poll from Environics of Toronto to determine what people felt about the new tax as applied to books. The key findings were:

- 83% of Canadians think a tax on books is wrong
- 67% of Canadians read a book in the last 6 weeks
- 39% of Canadians predict a downturn in book purchases as a result of G.S.T.

There is no doubt that this issue will be a troublesome one for some time to come, nor will it end with the actual introduction of whatever tax is finally decided upon.

Distribution Problems of Publishers

Much of the trade product sold by publishers to bookstores is sold on a returnable basis. Periodically over the last decade the proportion of returned books to sold books has engaged industry attention. As more and more books enter the system the pressure to place them in retail outlets has mounted. Higher targets for publishers' salespersons have been a characteristic of the last few years. Concurrent with this trend, booksellers have become more inventory conscious, unwilling to leave a book on display if its sales taper off or never develop.

The outcome of these two trends (to push more books into the stores, and to push them out again if they do not quickly develop sales), has been a higher rate of returned books than ever before. Not only that, but the shelf life of a newly published trade book has shrunk.

Trade Returns

It is impossible to say with any certainty what industry averages are for the shelf life of a new title in bookstores.

Generalization would be worthless, considering the many types of books and the variety of bookstores that are part of the distribution network. Still, it is clear from conversations with publishers and booksellers that many 'popular' new trade titles can expect a shelf life of no more than 90 days in which to develop their potential for sales. Since 90 days, from invoice date, is the earliest point at which a book, bought on a returnable basis, can be returned, this seems to be the point at which new stock gets its initial monitoring. If its performance lacks lustre it will probably be pulled, to make room for one of the many new titles pressing their way into the bookshop. This is not much retail exposure. For many books it is not enough. Publicity for a particular title may be lacking or late, a book may arrive at a low point in the retail year, in terms of customers, and be on its way back to the publisher when reviews appear and people begin to enquire for it.

This is not typical. For most major titles in any season the distribution of the book and its promotion and publicity are these days fairly well coordinated. Yet many new books do make the complete circuit from publishers warehouse to bookstore and back inside a four or five month period, during much of which they are in transit. Many of these returned books will be shipped out once more to bookstores if demand develops - perhaps to be returned yet again. Some will find their way into the lists of

remainder dealers, who will then re-sell them to the retail trade and others, at greatly reduced prices. The cost of all this activity has never been calculated, but since many publishers' returns in the trade book sector are, at present, on the order of 25-30%, it must be formidable.

The problems are much more acute in the mass-market paperback sector.

Mass-Market Paperback Distribution

Mass-market books are, for the most part, paperback, 4 1/2 x 7 1/2, and designed to fit into the wire racks and spinners seen in most newsstands and variety stores.

A 1984 survey revealed 31 Canadian-owned wholesalers who operate exclusively in their own territories and who distributed about 30 million copies of mass-market books with a retail value of about \$80 million primarily to non-book outlets but also to some small bookstores and to schools. Their primary business was the distribution of magazines. Mass-market books are distributed along with the magazine and periodical product.*

Another 30 million copies were distributed by national distributors, some of whom are U.S. based. It is estimated that there are about 14,000 non-bookstore outlets in Canada selling mass markets. The market share of non-bookstore sales in mass-market would probably today be significantly smaller than in 1984 since far more popular mass market product is available in bookstores today.

Bookstores often carry hundreds, even thousands of mass market titles in stock. Many are part of a permanent backlist of basic inventory. Others are experimental, with a store life of less than a month in many cases. In the rack pockets of non-bookstores, books are placed by the wholesaler representative. No process of consultation regarding title selection takes place. Books are removed for credit at the same time that new books are placed. Many rack outlets are quite small, accounting for only a few hundred dollars a month in sales, or even less.

Bookstore accounts are called on regularly by publisher representatives who present the publisher's list. Booksellers select titles for inventory in consultation with the reps. Discounts to booksellers range between 40-44% off the list price established by the publisher and printed on the book.

* Argyle Communications, *The Mass Market Rack Distribution Study, in Development of Options for Action in Key Sectors of Canadian Book Distribution*, Ottawa, 1984.

Unsold copies are stripped of their covers and destroyed. The covers are then returned to the publishers distributor for credit.

Wholesalers servicing the racks in non-bookstores buy books on consignment from their publisher suppliers. They are paid for when and if they are sold.

The wholesaler in turn supplies his retail accounts in the same manner, billing for what is sold. Returns are credited to the retailer by the wholesaler and by the publisher to the wholesaler. Discounts to wholesalers are about 50% off retail and discounts to retailers about 35% off retail. Generally, full copies of unsold books are not returned by wholesalers or bookstores to publishers, but are destroyed.

Mass-market distribution is hectic, with many dozens of new titles entering the market each week, and pocket life in some locations is a matter of days. The U.S. is by far the largest source of mass-market product for Canada. Almost 4,000 paperback titles were published in 1987 in the U.S. alone. Just how many of these books enter the Canadian distribution system to combine with U.K. and Canadian mass-market books is difficult to estimate, but certainly a majority of published mass-market product in the U.S. mass-market enters Canada.

Figures for returns to publishers - more accurately the percentage of unsold product credited to wholesalers - is hard to come by, but there is no doubt that for some Canadian mass-market publishers it is unacceptably high.

One prominent Canadian publisher of mass-market books gave us his opinion that for him to sell to his wholesale accounts at 50% off retail, with freight prepaid (probably 3-4% of invoice value) and the expectation of a 60% - 70% return rate, was no longer profitable. Returns at this level may be indicative of a wider problem, the components of which would include the huge numbers of titles published annually in mass-market, and the poor quality and repetitive nature of many of them.

To discover the extent of the current dysfunction in mass-market distribution in Canada would require the undertaking of an extensive survey of the mass-market industry. Domestic and foreign products are mingled together in the system in several distinct distribution channels, each with its own peculiarities.

The existing situation with all its attendant wasteful inefficiencies must have an impact on the prices charged in the marketplace. The average retail

price for a mass-market book in Canada is close to \$6.00* , many are much higher, and price resistance is already evident among consumers. How much of this cost is contributed by the inefficiencies of the distribution system?

In a 1984 study of mass-market distribution, publishers estimated that about 70% of sales for mass-market 'best sellers' (identified as books selling in Canada 7,000-8,000 copies or more) are achieved through rack sales. This would probably be less true today. Retail bookstores are now far more influential in pushing a mass-market book into 'best seller' status. Still, the racks are important to mass-market distribution.

The challenge to publishers and distributors alike in the medium-term will be to find some way of controlling the flood of mass-market paperbacks more efficiently.

The growing use of computerization may help here. If 'selling profiles' of retail outlets can be developed, appropriate product can be directed to where it has most chance of selling through.

The numbers of titles published must come down, and there are already signs that this is happening. The number of U.S. mass market titles published declined by almost 25% between 1987 and 1988. Most of the decline was accounted for by a drop in the fiction category. Publishers and distributors will probably attempt to find ways in which some discrimination can be jointly exercised in deciding which titles get what degree of distribution. Some smaller mass-market publishers may withdraw altogether from rack distribution and concentrate on direct account selling to bookstores only.

At present the distribution problem is formidable. In mass-market distribution any particular book or type of book is largely undifferentiated. The whole mass of product flows together through the system. The identification and isolation of any title for special treatment is difficult if not impossible. Due to the small dollar volumes generated by so many of the retail outlets it is unlikely that distributors would be willing, or indeed could offer, to spend much effort on selectivity in title placement unless some new technology can be introduced to make it simpler and faster. It is still true that in order to achieve large sales wide distribution of a book throughout the system is required. This kind of distribution is most often the cause of heavy returns.

* Estimate from U.S. figures published in *Book Trade Annual*, Bowker.

Special Concerns of the Canadian-Controlled Publishing Sector

There is a wide measure of agreement among Canadian-controlled publishers, industry observers and government cultural agencies concerned with the publishing industry, as to what the problems are which bedevil the Canadian-owned sector of the industry.

In a policy paper prepared for the Association of Canadian Publishers in 1980, Patsy Aldana, an experienced publisher and A.C.P. policy maker, identified the key issues for Canadian controlled publishers. Her analysis of the key problems of the industry follow.

The key endemic problem of Canadian publishers is a lack of profitability. The primary causes of that lack are:

- The size of the Canadian market and the related subsidiary markets. (For purposes of comparison, the Canadian market for books (1985) is about \$1.4 b., of which almost half are directly imported from the U.S. and do not pass through Canadian publishers. The U.S. domestic market (1987) was \$11.4 b. U.S. Trade book sales were about 2.4 b.)
- Competition for the market from foreign-owned companies and foreign books
- rapidly increasing costs of book production which cannot be passed on in increased prices.
- High and increasing interest rates on working capital.
- A commitment to culturally significant publishing which is unprofitable in almost any circumstance.

Nearly ten years later, these same issues remain of concern.

- *Size of market:* although the market for books has grown in the last decade, the Canadian-controlled share of the market has not. The more profitable kinds of activity, educational publishing and the distribution of trade and educational imports, are still largely in the hands of the foreign-owned sector.
- *Competition:* with the increasing size and presence in the market place of foreign-owned publishers and the extended activity of U.S. wholesalers, this is still a major concern.

- *Costs of Production:* it is still true that U.S. book prices, based on much larger editions, determine the retail acceptance levels by consumers. Canadian books ought to be priced higher in relation to their cost of manufacture.
- *Working capital:* lending institutions basic attitudes to advancing money to finance book publishing operations are unchanged.
- *Commitment to culturally significant publishing:* most Canadian-owned publishers still operate in what is internationally acknowledged to be the least profitable area of publishing, trade book publishing. As we saw in the Industry Profile, only 32% of more lucrative imported titles were handled by Canadian owned publishers in 1985/86. About 80% of English language Canadian-authored titles published in Canada are published by Canadian-controlled publishers.

More recently in *Vital Links*, a Department of Communications publication, initiated by Marcel Masse as Minister of Communications and completed under Flora Macdonald during her tenure as Minister, an outline of Canadian-controlled publishing was presented. The problems identified were essentially the same as those enumerated by Aldana. The basic conclusion offered about Canadian publishers' difficulties was that Canadian publishers can hardly survive on such a small domestic market, unless foreign publishers let them distribute more foreign books, or bid for the rights to publish them, or unless they can expand into the lucrative educational publishing market.

Lack of profitability and consequently a lack of capital for re-investment and growth along with a lack of access to wider markets in the form of exports are undoubtedly basic to Canadian-controlled publishers' problems. There can be no doubt that without government support over the last two decades much of Canada's indigenous publishing industry would no longer exist. If these Canadian-owned publishers disappeared, it is probable that a good deal of Canadian publishing would still continue, since the Canadian best-sellers lists each year demonstrate the public's willingness to buy Canadian books, but it would not be being done by Canadian-owned publishers. Many kinds of trade books, of the riskier kind financially, certain of which would undoubtedly be categorized as 'culturally important' would have a much more difficult time being published and distributed.

When the federal government introduced the Book Publishing Development Program in 1979 it threw a lifeline to many publishers who were in desperate need of assistance. With the introduction of the new BPDP in 1986, the emphasis has shifted to funding undertakings which enhance the ability of Canadian publishers to finance themselves.

Whether any long-term beneficial changes can be effected in this way remains to be seen, certainly it is hard to imagine significant permanent benefit for Canadian-controlled publishers who remain confined in the high-risk, low-profit, sector of the total publishing spectrum.

For those publishers who exist to publish 'culturally significant' titles which will always be published at a loss, the Canada Council programs (at about \$8M currently) and the various provincial cultural assistance programs seem to be the only assurance of continued existence.

Clearly then, based on industry statements and cultural agency pronouncements, overshadowing all other concerns for the Canadian-owned trade publishing sector of the publishing industry, are the questions:

- How to achieve entry into educational publishing.
- How to acquire some of the distribution of foreign books in Canada, either by managing to acquire some of the lucrative agency-import business now largely monopolized by foreign-owned publishers, or by acquiring the right to produce Canadian editions of foreign authors.

The El-Hi Educational Market

Since the el-hi educational market place is so large and complex, approaches to it must necessarily be cautious.

Education in Canada is a provincial responsibility and it is in the provincial (or regional) area that some progress is being made by Canadian-owned publishers seeking to be active in educational publishing.

In recent years publishers in the Maritimes, British Columbia and in the Prairie Provinces have had some success in the el-hi educational publishing area.

Acting on the assumption that regionally-based publishers might be at an advantage in assessing the needs of local educational authorities, and better able to deal with a curriculum which is often unique to the individual province, some regionally-based publishers sought ways in which to fill the needs of their regional el-hi educational market place.

The most successful point of entry for these publishers has proven to be in the development of Social Studies materials. Since the major barrier to becoming active in educational publishing is the high cost and long

developmental periods involved, Social Studies materials, because they entail as a rule, far less investment in both, can allow regional publisher a chance to be successful.

It may continue to prove that changes in provincial el-hi curriculums (other than Ontario and Quebec) may produce publishing opportunities too small to attract the major national educational publishers, but able to provide opportunity for profit when undertaken by a local publisher.

Local sensitivity, professional concern, and a constant lobbying of provincial government and local education authorities, are seen to be the keys to access to this kind of publishing.

Alberta presents a striking example of what can be accomplished by regional publishers in their attempts to capture some of their local el-hi educational market.

In 1983/84 the purchase of el-hi learning resources from Alberta publishers amounted to \$300,000. By 1988/89 the figure had risen to \$1,750,000. It remains to be seen whether successful regional publishers can now extend their grip on their market by developing the necessary skills and acquiring the capital to enter into the development of science, mathematics and language publishing at this level.

In the wider view attempting to enter into educational publishing is likely to remain a serious problem for Canadian-owned publishers.

The bulk of profitable English-language el-hi educational publishing is in Ontario for the Ontario educational system, where Canadian ownership is not a necessary requirement in order to compete. This kind of publishing is extremely competitive requiring substantial resources and with marketing and distribution requirements quite different from trade publishing. It is unlikely that it can be carried on as an adjunct to trade publishing without creating a separate educational division, requiring as it does such different skills, and the considerable investment of effort and money.

Furthermore, it is not at all clear that profits from a successful educational undertaking could really be used to shore up the trade side of a publishing house, without doing damage to the educational program, which is likely - in the medium term at least - to require all of its resources in order to continue to develop and compete.

Joint ventures are sometimes seen as a way in which smaller Canadian-owned publishers might become more active in educational publishing, by sharing resources, overheads, and achieving some economies of scale.

In practice it seems that joint venture is not always attractive in such a highly individualistic business. Nor does there usually prove to be any improvement in access to capital by merging Canadian-owned companies.

On the whole it seems as though any future for Canadian-owned publishing in the educational and publishing field, lies in fairly minor regional publishing unless some changes are brought about by legislation, which would almost certainly have to be at the individual provincial level.

Access to the Distribution of Imported Books

Three quarters of all English language books sold in the Canadian market place are imported. Relatively few are imported by Canadian-controlled publishers.

Canadian-owned publishers eye the revenues produced by this flood of imported books with envy, seeing in it a source of income which would enable them to support and expand their own publishing activities.

The position of the Canadian federal government on the issue of imported books has been fairly consistent. Its view is that the openness to book imports speaks well of Canada's internationalism and its intellectual attitudes. However, it also regards as a challenge the finding of ways to ensure that Canadian publishers 'keep their fair share of the lucrative import business, either by distributing more imported titles, or by bidding for more of the rights to publish them'.*

Although 'fair share' is nowhere defined in the federal statement quoted above, many Canadian-owned publishers themselves would like to see the percentage of foreign books passing through the Canadian-controlled sector increase substantially from its present modest level within the next five years.

Since any compulsory licensing or regulation of import distribution by the federal government seems unlikely, the best hope for Canadian-owned publishers in achieving their objectives in this regard would appear to be the Baie Comeau policy.

Let us consider for a moment why this issue is so important to Canadian-owned publishers and their supporters in the cultural agencies.

* Chapter 4, *Vital Links*, DOC, 1987.

Their arguments for wanting to capture some of the agency import activity are straightforward enough:

- sales volumes will be increased without the heavy developmental costs of originating books.
- the additional revenue generated provides stability and offers economies which reflect beneficially on a publisher's own published books.
- publisher-agents are better able to withstand economic disasters than publishers who have to rely wholly on 'own published books'. They have greater diversity of product and a greater array of proven authors with which to tempt consumers. In difficult times, publishers, who must rely entirely upon publishing books which require a greater investment and carry a higher degree of risk, will be at a disadvantage.

This is all true, but does nothing to address the issue of a market dominated by 75% of foreign-produced product. The more fundamental problems, and ones of more complexity, are the issues of Canadian-controlled publishers inability to acquire domestic rights to publish Canadian editions of foreign books, and the lack of markets outside the relatively small import dominated Canadian market.

Rights Acquisitions

Mel Hurtig, a well known and successful Canadian publisher has been a constant and vocal advocate on this subject. He was perhaps the first Canadian publisher to isolate this fundamental problem for the industry.

In Hurtig's view, as long as Canadian publishers are denied the opportunity to compete for the rights to international books (more specifically American and British titles) there can never be a healthy publishing industry in Canada. The reasoning behind the argument for rights acquisition is now well accepted.

Consider that almost any major book by an American author will not be sold in the American edition in England or in most other countries. The British, or other foreign publishers, will publish the book in their own edition.

The same is generally true of a British book, there will be an American and many other foreign editions in countries which have publishing industries to acquire the rights to design and print an edition for their own market.

In Canada this is hardly ever so. A British author will appear in the British edition and American authors in an American edition. And these are the vast majority of Canada's book imports, finished copies of foreign editions.

This situation exists because in the past a convenient habit developed of assigning the Canadian market as part of either the U.S. or U.K. edition without any consideration of Canada as a separate market place.

One benefit of engaging in rights purchasing is the opportunity it offers to sell rights. International rights dealing is a reciprocal business. Relationships are established over periods at trade fairs, as publishers assess the quality of each others publishing programs and the ability to purchase and sell each others titles. This is the kind of market expansion Canadian publishers need, either through the sale of rights or finished copies.

For authors, agents, and publishers negotiating market rights in London, New York, or the international trade fairs, where so much of this activity takes place, the idea of Canada as a separate market is a novelty. Nor will the idea be a very welcome one to an American or British publisher who is used to regarding Canada as his rightful due.

As well, it is easy to see that one implication of a 'normal' publishing situation, in which Canadian editions of all major international books were produced, might very well signal the demise of the publisher-agency system.

Here perhaps is the root of the problem. What is the incentive for foreign publishers with well established agency arrangements in Canada, many with wholly-owned operations in Canada, to sell rights to Canadian publishers?

What U.S. or U.K. publisher is likely to strip his Canadian agents of his top sellers by selling rights for a Canadian edition to a Canadian-owned publisher?

And what is the incentive for him or his agent to produce a Canadian edition when finished copies are to hand in the U.S. or U.K. edition? Copies which can be imported in reasonable quantities and restocked as they sell. Why publish 5000 copies when 500 can be imported at a time?

It seems probable that the larger international publishing groups now taking shape, will be, if anything, less willing to entertain the idea of Canada as a separate publishing place.

Although individual Canadian authors, publishers or agents, may occasionally provide the means of producing a Canadian *coup*, it is unlikely that any great improvements will be made in the Canadian rights area.

Baie Comeau

Since the Baie Comeau policy is intended to facilitate the access to lucrative areas of the Canadian book market through joint ventures with foreign investors, for Canadian-owned publishers, its working is of great concern.

Dissatisfaction with the application of the policy has been growing for some time. Publishers took note that in introducing the policy on July 6, 1985, the Minister of Communications Mr. Marcel Masse acknowledged that publishing, like broadcasting and the press, was an element essential to Canadian identity and cultural sovereignty.

Concerns about the exclusion of the distributing activity aspects of publishing, (as in the case of Penguin/NAL which was allowed, and Harper/Collins which is still unresolved) from a policy application, which quite explicitly includes 'book distribution', are being voiced by many who have previously been strong supporters of the policy.

Current feeling among Canadian-controlled supporters of the policy is that it requires much amendment. At a minimum, issues relating to control — apparent and actual — need much closer scrutiny. Matters would be improved if arms length financing were insisted upon, and it seems clear that the issue of whether 'distributing' constitutes publishing is important.

For the future, Baie Comeau may bring benefits, in the opportunity to make acquisitions, to the larger, better-financed, Canadian-owned companies. Repatriation of any segment of the foreign-owned educational publishing or book import market, is seen by the industry to be a desirable end.

Its effect on smaller or medium sized firms is harder to gauge. They certainly are not likely to be involved in the acquisitions of foreign divestments. Heavy capital sums will be required to play in that league.

In the medium term, it is difficult to imagine any scenario involving beneficent change, which does not include heavy government involvement probably in the shape of programs designed to deliver money into the Canadian-controlled sector of the industry, either to assist in financing acquisitions or as some form of tax-relief which would make the partial divestment process more attractive to foreign owners.

Postal Subsidy

The government postal subsidy amounts to \$220 million. \$35 million of this comes from the Department of Communications. A large portion of the subsidy goes to the mailing cost of paid circulation magazines (about \$89 million). The second largest beneficiary is the book industry with \$60 million being spent to support the mailing of books.

Clearly this is a valuable asset to publishers. About 4,000 companies took advantage of the book rate in 1988.

Use of book rate has been regulated since the beginning of 1989, by the requirement of a registration number for users. Government is attempting to get use of book rate under control and filter out a huge amount of use by foreign users who ship into Canada in bulk and then enter the Canadian postal system.

The book rate subsidy is to be reduced annually, \$10 million in 1989, \$35 million in 1990.

Although publishers will undoubtedly continue to lobby for as much book rate subsidy retention as possible there is an acceptance that it has been in the past utilized by materials produced by publishers operating outside Canada and that it can survive only in a much reduced form, more aligned to Canadian interests. This is an issue of much more concern to direct-mailers who have been largely left to carry the flag into battle for the retention of the book rate.

Retail Issues

It is in the retail marketplace that industry problems are highlighted. Issues exist in a context of customer demand for books which is the *raison d'etre* of all the activity we are examining. This fact is often overlooked in an industry which is to a very great degree product driven.

The importance of these issues arises from the possible effects that changes in the retail marketplace are likely to have on the ability of Canadian consumers to get the books they want.

According to the study *Book Reading in Canada*, already referred to, bookstores are the predominant source of books read by Canadians,

followed by borrowing from friends, followed by gifts. They are overwhelmingly the consumers' source for the publications of Canadian-controlled publishers.

Margins and Discounts

Independent retail bookselling operates on tight margins. A typical operating statement looks something like this:

Sales	100.0
Cost of goods	63.6
Gross	36.4
Personnel	17.9
Occupancy	7.9
Promotion	1.7
Other expenses	7.6
Net Profit	1.9

Books are purchased, usually on a returnable basis, from publishers at a suggested retail price from which a discount is given. Most freight is paid by the retailer, thus the landed cost to the retailer is higher in B.C. than in Ontario. Retail prices however, set by publishers, are the same coast to coast. The retailers inability to pass through higher inward shipping costs due to established retails means that these costs must be absorbed.

There are two issues here that bear on the price of books to the Canadian consumers:

1. whether publishers are the right people to establish retail prices on books.
2. whether freight ought to be paid by publishers, thus equalizing the cost of landed shipments throughout Canada.

Retail Prices

Of course, publishers cannot enforce retail price maintenance upon a retail bookseller. Any such attempt would be illegal under Canadian law. In practice, however, any reduction by retailers from the publishers established price - often printed on the book - is regarded as 'price cutting' and will evoke a storm of protest from other retailers and frequently from the publisher. If the offending retailer is a chain store, as has been most often the case in recent years, or if the book is a high profile best seller, the acrimony will be intense.

Nor is a solitary bookseller easily able to increase the price of books above that charged by his immediate competition.

In a country the size of Canada, where transportation is so significant a feature of landed cost, and where local markets may differ in essential ways, the arguments for either reducing the price of a book promotionally or increasing it to yield a more appropriate margin of profit are seen by many to be persuasive.

The proposal that publishers should sell books to retailers at net prices and let the retailer decide in his local marketplace what to charge the public, is a fairly recent one, brought about by the cost squeeze in which many retailers find themselves. Briefly the arguments for net pricing run as follows:

- a publisher-determined list price 'caps' a retailers profit opportunities; this is inappropriate.
- books ought to be priced according to the market. A local bookseller knows what is a 'fair' price better than a publisher in Toronto.
- overhead and freight costs borne by the retailer differ from store to store. To expect all stores to operate on the same margin is to make bookselling less viable in markets where there are extraordinary costs.
- Net pricing is a better answer to booksellers demands for higher margins. Higher discounts from the retail price would reduce publishers profitability, while net pricing would pass increases on to the consumer, as is done in other retail industries.

The opponents of net pricing among publishers and retailers, tend to focus not on 'bottom line' arguments of the kind offered by the ideas proponents, but on issues relating to distribution and consumer confidence:

- net pricing by encouraging a multiplicity of retail prices undermines consumer confidence in an established price and causes people to defer purchases by comparative shopping.
- publishers would lose control over their product prices at the retail level, thus losing their ability to 'position' their own title competitively in the marketplace - while the bookseller may not care which cookbook or gardening book is sold to a consumer, the publisher certainly does.
- author royalties which have been calculated on retail prices and programmed into publishers computers on that basis, would have to be re-thought.
- predatory pricing by large retailers would be encouraged if the 'moral' pressure of publishers suggested retail price were removed.

Other arguments abound on both sides of the discussion but these are the main ones.

In the medium term, as retailing costs rise, this issue will assume more prominence. Certainly if net pricing in the U.S. trade book marketplace — where the pressure for it is much greater — becomes a reality, it, or some selective version, might very quickly become accepted in Canada.

Freight Issues

As we have seen, freight charges between publisher and bookseller are a major factor in the erosion of bookseller profit. Despite industry programs of consolidation of shipments, and free freight, offered by some (mainly mass-market) publishers, freight cost is still a cause of major irritation to retailers located at a distance from the centres of supply. Since virtually no publisher inventory is held regionally, bookstores feel some justice in seeking the institution of an F.O.B. Canada policy on the part of their suppliers. In the U.S. there is a rapid movement toward supplier-paid shipping in the book industry. This will undoubtedly heat up the issue in Canada.

Rental Costs

Another major concern of independent retailers relates to what has been identified as the crisis in rental costs.

Bookstore gross margins are less than many other retail sectors:

<u>Store Type</u>	<u>Gross</u>	<u>Net Profit</u>
Bookstore	36.4	1.9
Women Apparel Store	40.4	3.1
Shore Store	39.4	5.1
Gifts and tableware Store	46.2	7.3

1987 Operating Survey , Retail Council of Canada.

Costs, however, are not. Rental costs are escalating as an alarming rate in most Canadian urban centres. A recent C.B.A. survey of its members found that the average bookstore size is just over 1600 square feet and the average cost of rent, expressed in dollars per square foot is \$14.41.

This 'average' store therefore pays \$23,000 per year in basic rent, plus about 25% more to cover taxes, utilities etc. Thus total rent is almost \$30,000 per year. This means that if occupancy costs are to be maintained at a sustainable level of 8% of sales, this 'average' store must trade at \$375,000 per year to remain even marginally profitable.

In Vancouver and Toronto, where the real crisis is looming, stores of the size we are discussing must expect, if they wish to occupy space on the more desirable shopping streets, to do \$1,500,000 in sales in order to meet \$60 p.s.f. rents. This problem of escalating occupancy costs for retailers is an international problem, occurring in both the U.S. and the U.K, in addition to Canada.

In the mid-term, the probable consequence will be to force independent book retailers - even old established ones - who do not own their premises, into secondary and tertiary retail environments, as leases come up for renewal. Prime locations in major centres will be occupied largely by the two bookselling chains, and independents will have to work hard to maintain their visibility in the marketplace. What effect this will have on the market share of independents in relation to chain stores will depend to some extent on other factors beside location.

Specialization in Bookstores

If the battle for location were to be fought out only between larger general booksellers and chains there is no doubt that the independent would gradually come to occupy a decreasing share of the retail bookstore market.

There is however another factor at work which may enable independents to retain market share even in the face of chain expansion and their virtual monopoly of prime retailing space.

Following a general retailing trend, book retailers are adopting specialization with gusto.

An estimated two out of every three new book outlets open as specialty stores. Typical areas of specialization are: children's books, cookbooks and food-related books and magazines, science fiction, women's issues, lesbian and gay bookshops, technical, business, computer, etc.

This trend will increase. The cost of opening a general bookstore in a big city, central location has now topped \$200,000 in cash and security. Certainly no one with less than \$100,000 available in cash ought to contemplate it.

For those seeking entry into the bookselling marketplace, speciality bookselling offers a less expensive opportunity.

- Speciality stores are less expensive to open.
- They will typically occupy:
 - a) less space in prime retail locations
 - b) space in secondary retail areas where because of their specialty their patrons will seek them out.
- Inventory for speciality stores is more focussed and it is therefore less expensive to stock a specialty store.
- In cities where the general bookstore marketplace is fully occupied by independents and chains, there is room for specialization.
- There is a general consumer trend toward specialty stores because of their better product knowledge and service.
- There is less resistance to higher product prices in specialty stores.

The problem posed for publishers is, of course, whether some books not attractive to chains as potential fast sellers, and not appropriate for

selling in specialty stores will continue to have sufficient exposure in the marketplace.

New Technology

Only a few years ago the book industry - not only in Canada but elsewhere - suffered from antiquated and inefficient systems of order placement and distribution, which had not changed in their essentials in generations.

Today the industry is rapidly - too rapidly for some - moving up through the ranks of those eager to adopt the new technology offered by the recent developments in electronics and the computer.

Availing itself of the benefits which have arisen from rapid advances in the information sciences and the revolutions in data storage and transmission, the North American book industry is busy creating a modern, efficient, production and distribution infrastructure. It is now possible to detect the beginnings of a completely international book ordering and fulfillment system. Electronic communications will soon affect all publishing activities both in-house and in the sales field.

The new North American electronic marketplace for books already well advanced in its formation, is the result of a determination on the part of economically powerful segments of the industry — international wholesalers, publishers and large chain retailers — to develop the means they need to use electronics in their ordering procedures across a wide range of book and non-book products.

This requires the rationalization of proprietary protocols and standards and the introduction of fully intercommunicative systems.

The forces at work on the Canadian industry to participate in this evolution are too pressing to be ignored. The Canadian Telebook Agency, Canada's sole electronic ordering system to date, will have to adapt to these new international standards or find itself in an isolated and almost certainly untenable position.

In a business environment where communication between a Canadian retailer and suppliers either national or international is equally expeditious, the consequences are apt to utterly change the present patterns of book distribution in Canada.

We return to this in our Forecast Trends section of the report (Chapter V).

Another Look at the Issue of Unprofitability in the Canadian-Controlled Sector

In attempting as we have to outline the workings of the Canadian marketplace for books, we have returned often in our discussion to the contrasts between the profitability of the foreign-owned sector versus that of the Canadian-owned sector. Among Canadian-owned producers of literary works even marginal profitability is almost wholly dependent upon grants and subsidies from various levels of government.

We have noted the desire — the subject of strong expressions — on the part of the Canadian-owned sector to participate more in agency-import activity, which they perceive to be of lower risk and higher profits than Canadian publishing.

We have also seen the urgency with which Canadian controlled publishers press the case for policies and interventions by government which would assist their own efforts to establish themselves in educational publishing.

It is worthwhile examining these two major issues in isolation in an attempt to assess the validity of the assumptions which underlie them.

These assumptions may be simply stated:

Trade book assumptions

- Canadian trade publishing in Canada is basically an unprofitable activity for those Canadian-controlled publishers engaged in it.
- Agency-import trade book activity is a less risk-prone and more profitable activity than Canadian trade publishing.
- It would be better if Canadian-controlled publishers could buy rights from U.S. and U.K. publishers and publish foreign authors in Canadian editions.

Educational book assumptions

- Educational publishing at the el-hi level is a profitable (probably by publishing standards a highly profitable) activity.
- The same is the case for educational agency import activities.

- It is 'better', i.e., more educationally appropriate, to have in use in el-hi's, books produced by Canadian-controlled publishers than books produced by foreign-owned publishers (because the books will be more suitable, i.e., more Canadian, and/or because the revenues produced by successful educational publishing would enable trade publishing activity).

Perhaps we can disentangle the educational issue first by dealing with the question of revenues from educational publishing impacting upon the trade book activity of a publisher.

Benefits to Trade Publishers of Engaging in Educational Publishing

If the question is one of profits from educational publishing allowing a publisher to mount a trade publishing program, one flaw would seem to be that any publisher who cannot attend to engage in trade publishing on a significant scale, certainly cannot afford to engage in educational publishing either at the el-hi or post-secondary level.

Furthermore, it seems quite clear from interviews with those engaged in educational publishing that the costs of development, marketing, etc., are much higher than in trade publishing. As well, returns on investment are over much longer periods, from 3-5 years frequently. Financing such activity is much more difficult than financing trade activity.

This being so, is it likely that a publisher would take developing revenues from an activity which is both financially demanding, and at the same time, ultimately profitable in order to finance an activity which, like trade publishing, is acknowledged to be less profitable, if not wholly unprofitable?

Nor is educational publishing activity apt to do anything to enhance a publisher's activities in trade publishing in the trade marketplace. Trade catalogue production, numbers of trade titles, sales force, etc., are likely to be unaffected. The prevailing view certainly is that in-house and in-the-field activities in connection with trade and educational publishing, are of a completely different order and range of requirements. Marketing and distribution differ totally from those of the trade sector.

Accepting that economies might be effected in warehouse and general plant overheads, and that educational publishing revenues could strengthen the overall financial position of a publisher who entered the field adequately

financed, it is difficult to imagine that they could be used to subsidize trade publishing.

Let us examine post-secondary and el-hi publishing separately.

Post-Secondary

The university textbook market is much more a known quantity than the market for trade books. Although university textbooks are, like trade books, delivered to students through bookstores, there are marked differences in the manner in which they are sold.

In essentials texts are sold not to students but to professors, and university bookstores are not engaged in selling texts in any sense understood by the trade market, but are more correctly seen as the final link in the publishers selling and distribution effort.

Since, where textbooks are concerned, university bookstores can only stock what is authorized by faculty, the real customer is the professor, and the publishers efforts are concentrated upon making an impact here, where the decision to purchase, by approving a text, will be made.

This does not mean of course that a publisher can afford to ignore the requirements of either bookstores or students. Clearly such matters as availability, price, quality, and so on will be matters of concern not only to teachers. Indeed publishers of university level materials must increasingly develop the means of dealing satisfactorily with three distinct but interrelated customers: bookstores, students, and faculty. Each has special needs and demands. Bookstores want improved profits and service. Students expect quality books at reasonable prices, faculty will be concerned with getting the best available teaching materials for their students and themselves.

Since the market, in the form of those individuals to whom the product must be made known, is identifiable, limited in size and described by computerized lists, etc. it is possible for a publisher to contemplate a coordinated approach. Sales force, promotional materials, advertising, and the text itself can be deployed in an orchestrated manner.

This is the theory of which the practice may often fall short. Successful higher educational publishing requires the marshaling of an impressive array of creative and business talent.

It is a marketplace in which only the very large educational publisher may expect to do well and maintain a continuing presence of product.

Most attractive to publishers competing to supply texts in this post-secondary market are the major, first year introductory courses, in key undergraduate curriculum areas such as social sciences, economics, arts, etc. In these areas there are internationally accepted texts distributed by educational giants (such as McGraw-Hill International) or their subsidiaries. The development of these books and their subsequent marketing require levels of investment beyond any but the largest companies.

In texts where Canadian content is required (or in geography or social sciences) the development cost is no less a factor in determining who can compete.

EI-HI

The elementary and high school marketplace is a subject of great frustration even to those engaged successfully in supplying its needs.

Since education is a provincial responsibility, each province is in effect a different market. Despite some experiments in the commissioning of texts, or the common acceptance by more than one province of materials, it is true to say that there have been no serious continuing initiatives among the provinces to cooperate in textbook and materials approvals and acquisitions. It is difficult to find evidence of even common standards of textbook evaluation.

The consequence is an intimidating and fragmented marketplace, one requiring substantial amounts of effort and money on the part of publishers, with no assurance of success beyond their capability to interpret current educational trends, and in a timely way to introduce a product which they hope will find acceptance by a wide enough segment of the marketplace to be profitable. When this happens the results can be very profitable, but the demands on the publisher are great.

A consequence of this approach on the part of provincial education authorities to materials development has been to create a marketplace in which only publishers with large financial resources and capable of supporting expensive and sophisticated marketing and distribution efforts can be successful.

Because of this central fact the majority of educational publishing in Canada is now in the hands of a few (about 10) large well financed foreign-owned companies.

These companies, the result of mergers and takeovers which have reduced the number of active educational publishers by about 50% since 1980, will probably undergo further consolidation in the decade to come.

Ultimately the educational community in Canada may find itself obliged to deal with three or four internationally operating, educational publishing sources for their needs. One consequence of this may be to impose a more rational approach to materials development.

It is interesting to speculate what the effective economies might be if some rational approach to textbook and educational materials development were to be adopted in even a few key subjects. On the other hand, since less than 1% of educational budgets are spent on books (as compared with 80% for example for teachers) the incentive to cut costs is probably not acute.

This is the market place into which some Canadian-controlled trade publishers wish to plunge. Only the larger and most financially secure need apply.

In order for any but the few largest of Canadian publishers to be able to operate at all successfully in the el-hi educational market, several modifications would have to be made to existing patterns of text development and adoption. The most obvious of these are:

1. Some interprovincial co-operation would be helpful in the mutual assessment and adoption of textbooks.
2. The cumbersome, lengthy and extremely costly marketing process necessitated by provincial adoption methods would have to be simplified. At present even after the adoption of a text, a major effort must be mounted by the publisher in order to ensure sales by making certain that all the levels of the education community are aware of its adoption, and potential users are able to utilize it effectively.

The expenditures of 13 major educational publishers on marketing in 1978 broke down as follows:

Field representatives salaries	70%
Complimentary copies	9%
Displays	2%
Workshops	2%
Catalogues	11%
Mail and space advertisements	6%

This would probably not look much different in 1989 except that workshops, or in-service assistance as it is now known, would be a much larger number. In-service is an important selling feature for educational publishers today. The capacity to send authors of textbooks to conduct seminars on their use, and to provide consulting services to school boards and supply supporting materials is a feature of modern textbook marketing. The costs of all this are of course calculated into the development costs of texts.

3. Loan guarantees and funding up-front for tailor-made text development and guaranteed purchase by education authorities of significant numbers of key texts, of which they had assisted in the development, would greatly expand the field of those publishers able to compete for educational business.

Without changes of this kind the educational market will remain a minefield for other than large, well-financed publishers.

If it is true that educational bodies take little account of the convenience of publishers, as the above view (which is widely held) suggests, what happens to the argument that one consequence of a Canadian-controlled el-hi publishing industry would be more Canadian content in textbooks?

To approach the issue in another way, what value is there in the assertion that el-hi publishing in the hands of foreign-owned branch plant operations, has a vested interest in attempting to promote foreign (mainly in the event, U.S.) educational product, at the expense of developing Canadian alternatives?

Without an extensive survey it is impossible to know the amount, or relative importance, of Canadian-produced educational materials in the educational system nationally. Statistics Canada figures suggest that more than half the texts currently being distributed are published in Canada, either by foreign-owned or Canadian-owned companies. This is useful but not conclusive since we know nothing about the content of direct imports by 'others'. Also, it might be assumed that from province to province levels of Canadian content would vary, influenced by such considerations as regionalism, and curriculum emphasis.

However, we have found considerable agreement among people engaged in educational publishing, and in education, that the levels of Canadian texts are high in those areas where their use is warranted. Areas which critics of the educational system's lack of commitment to Canadian content, would identify as culturally or politically sensitive, (such areas as language, art, social studies, history) have been described to us as now

regarding Canadian content as obligatory and giving Canadian preference to and actively seeking out Canadian books.

Many believe that there is a substantial Canadianization of texts going on, and that it will continue as publishers take note of the educator's wishes and Canadianize their lists. Most of this activity is of course being carried out by foreign-owned publishers.

For many a question remains. If it were true that all texts at the sensitive el-hi level fully reflected the Canadian experience, would that be sufficient if their development and production was in the hands of foreign-owned companies - as is largely the case.

Ought the production of such critical learning material to be under the control of companies which are ultimately directed from outside the country and are answerable to international corporations, for whom their Canadian operations are probably of minor importance.

Put in this way, the question begins to sound like a moral issue. Do Canadian-controlled publishers have some kind of moral right to the business of producing educational materials for Canadian schools?

However one regards the question, the answer surely lies within the educational community rather than elsewhere.

To what extent 'big' texts books and their attendant pedagogical aids influence curriculum development by being available and heavily promoted to the educational community is a delicate question.

But it seems extreme to suggest that textbook publishers have the capacity to drive the educational system.

Based on what we have learned of the agonies to which educational publishers are subjected, it seems clear that if educators wanted more or better Canadian texts, or if they considered it important that the books should be produced by Canadian-controlled national publishers, then they have the means individually by province, and collectively to achieve these aims.

It may be that Canadian-controlled publishers should have expended more of their collective political expertise over the years during which this has been an issue, to bringing the educational community into the arena of debate. Discussion of Canadian content and the achievement of some unity of approach by the provincial education authorities to educational materials ought, if properly presented, to be of great public interest.

If it is important that currently excluded Canadian-controlled publishers be enabled to participate in the considerable revenues from the production and sale of educational materials, only the provincial ministries of education can bring this about.

Trade Books

Now we consider the trade book questions which we identified earlier regarding:

- the unprofitability of Canadian-trade publishing as a whole
- the superior profitability of agency activity
- the question of acquiring Canadian rights to publish foreign authors in Canada.

These three issues are intimately connected and we shall attempt to deal with them in a connected way.

The question of trade publishing profitability hardly needs to be debated. Under Canadian conditions of market size, lack of subsidiary income, inability to achieve a selling price which yields an adequate margin of profit, and an inability to acquire the market rights to important and popular foreign authors, it could hardly be otherwise.

Any publisher from any market in the world would instantly recognize the central problems confronting Canadian publishers.

This is not to say that all trade publishing in Canada is unprofitable; some of it is very profitable. One publisher interviewed claimed that his Canadian publishing program yielded higher net profit than his agency activity, which is extensive.

Still it is undoubtedly true, as the records of the Department of Communications and the Canada Council show, that the majority of Canadian-controlled publishers engaged in varied trade publishing or in literary publishing are unprofitable, and some acutely so.

Is agenting the answer? If they controlled the distribution of foreign trade books in Canada would their problem be ameliorated or removed?

Leaving aside entirely how this state of affairs might be brought about and assuming that every publisher could be equipped with compatible product, there would clearly be benefits of the kind described in the Issues section of this report.

One thing seems clear, that the only way in which it is likely to become possible for Canadian-controlled publishers to acquire rights *to publish* foreign authors in Canada is if they control the agencies through which those authors enter the Canadian market.

We have described the reasons why a foreign publisher would be unwilling to pluck individual titles from his list, and sell the rights to the Canadian market to a publisher other than his agent.

In the longer term — which may not be so long — changes in the ownership of the foreign publishers who are the source of the imports, and in the distribution system, may render the whole discussion irrelevant. The creation of a North American marketplace for books may make both extensive foreign use of agenting and the concept of a Canadian edition, confined to Canada, obsolete.

Whether this would be desirable or not will be a matter of opinion. How quickly it may happen and through what intermediate stages the Canadian marketplace will have to travel cannot be predicted with absolute assurance.

We can however identify current trends and speculate on their development in a responsible way.

This we have attempted to do in our Forecast Trends.

V - Forecast Trends

Retail Market Trends

Canadians will continue to buy books despite competition from other media, video, etc. If retail prices can be kept under control they will probably buy books in increasing quantities, though not necessarily the types of books which have been bought in the past.

Book buying will be encouraged by the increased presence of bookstores. Chain bookstores will be even more in evidence than ever, and more variety will be introduced into their retail activity. New, smaller, special-interest stores will become a feature of the book market place. Books will be better presented in superior retail environments and will be more imaginatively promoted to the public.

Promotion and advertising of best sellers — books with mass appeal — will come from the chain stores and major publishers intent upon identifying books with the leisure entertainment market. The identification of books as an elitist activity will be evaded since this will be seen to be negative. Associations of the book on the part of the public with study and intellectual effort, will be combated by attempting to move popular books firmly into the 'fun' sector of leisure activity.

The presentation of books as cultural icons will be confined increasingly toward advertising in appropriate (i.e., scholarly and “serious” journals) markets.

On the other hand, the use of books as carriers of information will continue unabated, publishing ventures combining the unique features of books and video, television etc., as learning tools will be marketed increasingly.

In the general market the emphasis will be on best-sellers — “blockbusters”.

Children's books will grow in importance in the market place as the tendency, already well under way, for some bookshops to specialize in this area continues. Some chain stores will move to occupy this niche and possibly others, along with independent booksellers.

Smaller, smarter, speciality stores of many kinds, i.e., for, how-to, travel, new age, etc., will increasingly be a feature of book retailing.

Non-bookstore retailing in stores selling products of which books can enhance the use and enjoyment will increase markedly.

As a consequence wholesalers and distributors servicing non-book retailers will experiment with adding appropriate books to their inventories. This will accelerate the development of "cross-over" bookselling.

Many book retailers in an effort to meet higher space and operational costs will explore sidelines related, sometimes tenuously, to book product.

These developments may tend in some areas to blur the distinctions between booksellers and other similar kinds of retailers.

For independents, operating large general bookstores with wide inventory requirements, will become more difficult as time goes on. Attempts will be made to introduce a self-service element, perhaps modelled on European examples, into book retailing to reduce overheads.

General bookstores which do not enjoy some operating cost advantage, such as owning their retail premises, will consider relocation in lower cost retail environments.

Chains will experiment in moving into the market niche now occupied by larger independent retailers in better retailing environments, opening stores characterized by wider inventories and with customer service oriented systems.

Chain diversification into areas other than book product will continue in the form of stores specializing in cards, games, gift items.

Chain stores of the type with which we are familiar today - narrower inventories concentrating on high turnover titles, low staff ratios, high traffic locations, will continue to increase but at a much slower rate than in the past.

Discounting from the retail price may appear as a feature of increased competition for book-buyers. This may originate in book-selling retailers outside the bookstore community.

General Distribution Trends – U.S. and Canada

More U.S. publishers at present selling their lists through Canadian agents or subsidiaries will withdraw from Canada and fulfill orders from the U.S. They will probably retain a Canadian sales organization to deal with bookstores and other accounts, and to provide feedback of market information.

U.S. wholesalers, both of a general and speciality kind, will increase their market share in Canada, partly due to the implementation of new technology ordering systems.

The two last mentioned developments will be facilitated by the increasing adoption of new electronic ordering systems which will progressively make the US/Canadian border — previously a significant psychological hurdle — “transparent” to ordering transactions.

Publisher-agents and Canadian distributors of foreign book product will be adversely impacted by the increase in direct buying from the U.S. If the impact is sufficiently serious, legislative remedies may be sought.

Pressure for a legislative or licensing solution to the erosion of agency business (to be imposed at the federal or provincial level) by government may develop from Canadian-controlled agencies.

In the new changing marketplace, a feature of which will be more controlled flows of product (from U.S. wholesalers) and larger foreign publishing concentrations, medium and smaller sized Canadian publishers will seek ways of forming cooperative means of marketing and distribution, probably based on the University of Toronto Press model which handles billing and distribution for over thirty publishers.

Publisher Distribution Trends

Unless significant savings occur due to consolidation of distribution, credit conditions will tighten throughout the whole industry. Publishers will seek to reduce their accounts payable recovery time, at present lengthy (60–120 days), as they sell and distribute cooperatively through larger units.

If a feature of consolidation of distribution is the development of a wholesaler community, publishers margin may shrink due to selling more books at increased discounts (50–55%) to intermediaries.

This demand on publishers may be partially offset by increased sales and economies in order processing due to new technology and improved distribution.

Returns in the trade sector will decrease, maybe dramatically, due to improved methods of inventory control at the retail level, due to the introduction of computerization by bookstores and a habit of smaller, more frequent, orders.

Publishing decisions may become more difficult to make in regard to edition size due to lower advances from the retail sector. In the medium term this may mean more out-of-print situations due to smaller initial printings and more frequent reprints where warranted.

There will be even more emphasis by everyone in the distribution chain on titles with a potential for strong sell-through.

Publishers will develop aids to assist in stronger marketing at the retail level. These will probably take the form of incentives on individual titles and the introduction of space/display-period bonuses for retailers.

The trend to larger publishing configurations will continue.

Some medium and smaller publishers may become less 'literary' and seek to publish more 'popular' products.

On the other hand the emphasis of larger publishers on lists of broader appeal may offer opportunities for smaller publishers to 'take up the slack' by publishing for a more discriminating market — although that market will be more difficult to reach.

Publishers who choose to persist in more fringe, literary, or avant gard publishing with small sales potential, will be increasingly dependent upon government assistance.

Educational Marketplace Trends

National, and most larger regional educational publishing, will remain the prerogative of larger, mostly foreign-owned publishers.

Small regional publishers may continue to find opportunities to exploit in the educational market, by publishing certain types (e.g., social studies) books for educational use in their region. Their degree of success in other more financially demanding areas of educational publishing will depend to a

large extent upon the degree to which provincial government and educational authorities are willing to co-operate. Profitable regional educational publishing will remain difficult, if not impossible, without active provincial partnership in the form of guaranteed purchases or front-end grants or loans.

For smaller or medium sized publishers who remain active in limited (regional) educational publishing, it is unlikely that this activity will have any impact in the medium term, upon their ability to increase profitability in their trade publishing programs.

Authors who have developed a level of public acceptance significant enough to interest a larger publishing concern will continue to migrate to those larger publishers who can offer them the benefits of greater distribution in the market place.

Policy Trends

Barring some legislative or licensing solution the ability of Canadian publishers to acquire the rights to publish foreign authors will not significantly improve.

Pressure to supplement the existing Baie Comeau policy with substantial financial aid to publishers wishing to participate in acquiring ownership in divested companies will grow. The amounts of capital available to Canadian-controlled publishers, to act without federal government financial assistance in this area will remain very limited.

Canadian-controlled publishers may achieve some measure of ownership of currently foreign-controlled agency activity if the Baie Comeau policy is rigorously applied, and money materializes.

International Trends

Perhaps the central issue which has the potential to influence the developments outlined above is the evolution of the North American marketplace for books, with Canada as one region of that marketplace.

If even those parts of the scenario described, relating to the impact of new technology and the changes in physical distribution, are accepted, some of the implications for Canada seem clear enough.

In terms of supplying American trade book product, Canada will be in no essential way different from any region of the United States. There exist no currency barriers, such as exist between many nations. Neither are there tariff or non-tariff barriers to impede the flow of books.

In el-hi educational publishing, matters, as we have pointed out, are different. Canadian content and some printing requirements would seem to assure that such books would continue to demand a physical corporate presence on the part of the publisher in Canada.

Another consideration is that the flow may not have to be all one way. A truly continentalized book ordering and distribution system might have the potential to carry Canadian publishers books into those larger markets they so desperately require.

Even beyond that, the concept of a de-nationalized publishing industry is gathering force in the publishing world. Ideas have no nationality. It has been pointed out that "in many industries frontiers are fading, in publishing they have virtually disappeared, and the fastest growing publishing corporations today are those who have noticed the fact."**

The emergence of a single European market in 1992 will reduce the trade in rights between U.K. and U.S. houses. Publishers established on both sides of the Atlantic will retain rights for both the U.S. and Europe — a market as large as the U.S., and with a huge potential to absorb English-language books.

English is the fastest growing language in the world today. More and more European publishing is done in English. Increasingly international companies decree that the working language of the organization be English. These are important indicators for English language publishers everywhere.

Are there opportunities for Canada in all this international publishing ferment? Surely there are. Larger markets are what Canadian publishers need. Larger markets than ever before, intricately linked by evolving new communication and distribution initiatives, are taking shape throughout the world. Are these today more relevant concerns than some of the issues Canadian publishers have traditionally pursued?

* W. Gordon Graham, Chairman, Butterworths, U.K.

Some Concluding Observations

Before leaving this study of the Canadian marketplace for books we would like to make some general observations, partly provoked by our survey of past industry studies.

Now more than ever before there is a need for all segments of the book industry in Canada to attempt to understand the changes that are taking place, both nationally and internationally in book publishing and in its marketplace.

Compared with twenty, or even ten years ago, the industry operates in a much more complex environment. Many changes have occurred and are occurring, the longer term consequences of which at present remain unclear.

To briefly enumerate only some of the most obvious factors at work on Canadian society and on the book industry as a whole:

- changes in available leisure time and the increasing pressure on leisure time.
- changes in population, its character, ethnic complexion.
- the birthrate and its cyclical movement.
- changes in the educational system (the underlying philosophy and extent)
- changes in disposable income (two income families, the increasing costs of maintaining a living standard).
- new technology applications which challenge the traditional role of books, not only for entertainment dollars, but in information, learning and self-improvement applications.
- the growth of non-traditional selling outlets and marketing procedures for books.
- increasing specialization in bookselling.
- the increasing disarray in which the mass-market distribution system, (in some ways the most *socially* important means of book distribution) operates.

These are vital issues for the future of books. Although considerable amounts of money (mostly government) have been spent on various book industry studies in Canada, the focus has been on the problems of the Canadian-controlled publishing sector.

Whilst useful, even essential, and touching in some degree upon book consumers concerns, they have not attempted to supply the need for market-oriented, consumer purchase-related, information, nor have they done much to explore on the scale required the possibilities which may exist for Canadian-published books in markets outside Canada.

This is illustrative of the extent to which the industry as a whole is product-driven rather than consumer driven.

The Need for Research

In other countries with similar societies, such as the United Kingdom and the United States, researchers agree that issues relating to consumer accessibility to product, and the production of appropriate product, are the most critical of the factors affecting the larger issues of reading and book purchasing.

Data on the interactions between consumers and published product which could be of practical use and benefit to the book industry are almost totally lacking in Canada.

In a country like Canada, where the philosophy of government support for the publishing industry rests on the acceptance of the crucial cultural role played by books, considerations both economic and cultural would seem to urge a closer examination of all the possible market places for books.

Until we have better information of this kind, constructive thinking about the current effectiveness and future prospects of all sectors of our book industry will be critically inhibited.

Of perhaps even more pressing concern in our view is the comparatively low level of activity associated with the identification and development of export markets for Canadian publishers and the production of suitable materials for those markets. This seems to us the most potentially fruitful of all the alternatives available to be explored by Canadian publishers in their search for expanded markets.

Appendix A

A Brief Sketch of the U.S. Marketplace

A Brief Sketch of the U.S. Marketplace

U.S. Publishers Sales - Exports-Imports

Market Size U.S.

The consumer market for books in the U.S. in 1986 was \$15.6 b. U.S. This represents the amount spent by purchasers in the marketplace. Purchasers would include private book buyers, institutions, libraries, etc.

Publishers sales value was probably about \$10 b. U.S.

Breakdown by Distribution Channel

Of the \$15.6 b. purchased, sales through general retail stores totalled \$7.b.*

College and university stores sold \$2.8 b.

Direct sales by bookclubs and direct sale organizations totalled \$2.3 b.

Libraries and institutions bought \$1.3 b.

Schools bought \$1.9 b.

Another \$0.2 b was spent on special sales (uncategorized outside normal channels).

General retail store sales include bookstores, airport shops, newstands, drug stores, K-marts, department stores.

U.S. Export and Imports of Books

According to U.S. Department of Commerce figures U.S. publishers book exports in 1987 totalled over \$739 m U.S.; an increase of 22.4% over the 1986 figures. Of this total, \$289 m U.S. was exported to Canada; an increase of

* Source: American Booksellers Association figures.

40% over 1986. The United Kingdom is the U.S.'s next largest customer for books with a figure of \$109 m U.S.

Imports of books into the U.S. in 1987 reached a figure of over \$700 m U.S.

U.S. international trade in books is actually larger than these figures suggest since the Department of Commerce in the U.S., which compiles the figures, does not take account of the undoubtedly sizeable number of export shipments valued under \$500 U.S., nor the import shipments valued under \$250 U.S.

The figure given by the Department of Commerce for imports from Canada into the U.S. in 1987 is \$97 m., a drop of 6.7% from 1986.

Most of the U.S. *imports* of books from all sources are in the science, social sciences, and technical and professional categories. Fiction and general books account for a very small proportion of books bought in from abroad.

U.S. book *exports* are also heavily weighted to text and technical and reference materials. Almost half the books exported in 1986 were of this kind.

U.S. Book Production*

U.S. book production (like its U.K. counterpart) has increased steadily in recent years.

1987 book production in all formats totalled 56,027. Of this number 16,700 were paperback publications of which 3,916 were mass market.

The following table of titles issued for 1987 illustrates the character of U.S. book production by category.

1987 Titles	
Category	All Hard & Paper
Agriculture	652
Art	1,693
Biography	2,259
Business	1,462
Education	1,081

* *Publishers Weekly*, October 7, 1988 and *American Book Publishing Record*, Bowker, U.S., 1988.

Fiction	6,298
General Works	2,620
History	2,882
Home Economics	1,168
Juveniles	4,642
Language	699
Law	1,544
Literature	2,358
Medicine	3,995
Music	352
Philosophy, Psychology	1,845
Poetry, Drama	1,236
Religion	2,850
Science	3,658
Sociology, Economics	8,115
Sports, Recreation	1,263
Technology	2,756
Travel	629
TOTAL	56,027

The U.S. now has about 780,000 titles in print. It is the largest world producer of books, after the U.S.S.R.

Readership

The most recent survey of U.S. readership is a Gallup organization poll taken by telephone in late 1988. 1,005 telephone interviews were conducted.

It revealed that the incidence of book reading had grown 16% since 1962 when the poll was first conducted. This in spite of a 14% increase in television watching.

50% of the adults interviewed read a book completely sometime in the previous month.

28% had read a book during the previous week.

The same group estimated their annual consumption of books at about 17 (more than one a month).

College educated women seem to be the greatest readers in American society.

Retail Marketplace

General retailers as defined, took about 45% of the book dollars spent in 1986. This compares favourably with 39.3% in 1981 and 44.2% in 1985.

Projections are for retailers to have 48.8% share by 1990.*

Based on this figure and the projections for growth, the book retailers collectively can look forward to an increase in book sales of about \$733 M in consumer book expenditure by 1990.

Exactly how much of this buying activity takes place in trade bookstores is unknown but estimates by the ABA put the figure at around \$4.6 b.

Retail bookstore chains in the U.S. have done much to enlarge the market for trade books. The two major chains, Walden Books and B. Dalton, each have a major presence in the marketplace. Most suburban shopping centres and central business districts now have either a Waldenbooks or B. Dalton store. Many have both.

B. Dalton have over 1000 stores operating, Waldenbooks about 700. According to Harry Hoffman, Waldenbooks CEO, about 300 million people enter their stores each year (though 75% leave without making a purchase).

There are about 6,500 general bookshops in the U.S. Including chains, these carry a mixed inventory of hardcover, trade, paperback and mass market books and the majority will also carry book related sidelines such as bookmarks, book-carrying bags, cards, etc. Fewer, though a still considerable proportion, will have extended sidelines such as video and audio tapes, gifts and possibly music products such as LPs and CDs.

College stores account for another 3,000 or so outlets in addition to the 6,500 mentioned above. Many of these will sell trade books and have large general book sections as well as an extensive array of student-oriented merchandise such as tee-shirts, jackets and even food products.

Mini chains of 3 to 10 stores are increasingly a feature of U.S. bookselling. Although exact numbers are not available, as many as 20% of book outlets may be members of a mini-chain. This is a phenomenon we look at more closely in the Canadian market section.

* *Book Industry Trends*, Dessauer, 1986.

Trade Book Wholesalers

Wholesalers play an increasingly important role in book distribution in the U.S. marketplace. Originally the wholesaler's role in trade retail bookselling was to provide order fulfillment services, representing many publishers and offering the convenience of one order, one shipment and one invoice, to the retailer. Retailers generally relied upon wholesalers for replenishment shipments, sending initial orders for newly published titles in each season to publishers.

Although this is still an important feature of the wholesaler/retailer relationship, many bookstores now rely on wholesalers for much more.

Book information about new titles and promotions, author tours, and book merchandising programs, are all an everyday feature of major trade wholesaler services.

Marketing information both on microfiche and electronically, monthly catalogues of lead titles, and periodic specialty catalogues along with point-of-sale materials, are all available as part of service to retailers from the larger wholesalers.

In a trade where over 700,000 titles are available and 40,000 new titles are released every year such services are invaluable to busy retailers.

In the 1990's there will be increased emphasis on rapid stock replenishment as booksellers move toward wider, shallower, inventories and seek faster inventory turns. Wholesaler systems which ensure faster delivery, electronic order verification, and high fill rates, will be the objectives of the distribution system.

Mail Order Sales, Book Clubs and Direct Mail

Since 1971, when for the first time the mail order publications were tallied as a separate category, combined book club and mail order sales of books have held fairly steady as a portion of total book sales, rising from 14.5% in 1971 to 15.1% in 1974.* Most of the growth in market share in the 70's was contributed by the direct mail order publishing category rather than book clubs. In 1982 direct mail and book clubs accounted for 14.8% of the total revenues of the book publishing industry in the U.S. at \$1.2 b U.S., a slight decline from the end of the 1970's.

* *Book Distribution and Marketing*. 1976-1980. Compaine. Knowledge Industries. 1976.

* In 1982 book club revenues in the U.S. were \$581.6 m U.S. 17% of book readers and 9% of total population reported that they were book club members.

Book of the Month Club, Literary Guild, and Readers Digest Condensed Books are the three most important U.S. book clubs. Together they account for a very substantial share of book club membership in the U.S. 68% of book club members in the U.S. belong to one of these three clubs.

In recent years book clubs in the U.S. have had to work harder and promote more strongly in order to maintain market share which began to slip just a little in the late 80's.

Heavier sign-up premiums and more bonus books have become a feature of book clubs.

Since book clubs were originally, in the U.S., an answer to publishers' perceptions that the bookstores were not reaching all the potential book buyers, it may be that the huge increase in retail outlets of all kinds selling books since the 1960's, when retail growth began to climb, has slowed book club expansion.

Industry expectation is that mail order publisher sales are expected to show increases in sales during the decade to come with expansion on a larger scale than any other industry segment. Book clubs on the other hand are seen as having to continue to fight hard to retain market share.

U.S. Book Industry Current Issues

Mergers and Foreign Ownership of U.S. Companies

High on the list of concerns in the U.S. publishing industry is the interest of European publishing giants in the U.S. marketplace, evidenced by takeovers and mergers.

Foreign interests such as Bertelsman, Pearson News Corp. and International Thompson, already control about 15% of the U.S. industry's sales volume. Some 55% of the book publishing businesses that have changed hands in the past four years have been sold to foreign buyers.*

* *Book Clubs and Direct Mail, Publishing and Marketing of Books.* Audley. 1984.

* Christopher Shaw. Henry Ausbacher Inc. N.Y. Investment Bankers.

This is a percentage of ownership that makes many U.S. publishers nervous. It is recognized that the affluent, one language, U.S. market is attractive to top publishers who have at their disposal top authors and book packages, and the ability to take advantage of a weak U.S. dollar.

Experienced European publishers evaluate the key elements of a potential acquisition, the company's editorial and design skills, its sales, marketing and distribution capabilities, and the extent to which its operation can be integrated into their own, and are prepared in favourable cases to bid high for entry into the lucrative U.S. market.

To foreign buyers one particularly attractive feature of the U.S. book scene is the textbook market. Now that baby boomers' children are beginning to go to school, enrollment will increase and money for textbooks is expected to become more available throughout the U.S.

Entry into the market is prohibitive for a newcomer, however, and the number of textbook publishers has been concentrating in recent years. Purchase is one way in which to acquire an established enterprise with solid expertise and connections in this marketplace.

Implications of Europe 1992

Another issue close to the surface of U.S. concern is the matter of establishment of a European Economic Community in 1992. The implications of this historic event are not yet entirely clear to the U.S. publishing industry.

* When the trade barriers between the twelve members of the EEC are erased in 1992 it will create a vast commercially united book market, with a high capacity to absorb english-language books.

British publishers are concerned that EEC regulations will override existing copyright laws and are fearful that even in cases where they have bought exclusive U.K. rights to an American title, that the book could still be sold into the U.K. by a European middleman (wholesaler) taking advantage of the open territory, thus destroying their exclusivity (see the U.K. profile section of this report).

* Publishers Weekly Round Table, December 1988.

Just what this will mean in terms of existing contracts seems to be unclear but the matter is obviously of great concern to publishers on both sides of the Atlantic.

Concentration

American publishers are increasingly being forced to think in terms of global publishing. Since all the major U.S. publishers are now connected in some way internationally agents and authors are beginning to understand and appreciate the value to themselves of a major worldwide publishing strategy. The effects of this new approach to the value of a literary property will be far reaching. This new perception, combined with the ability of mega-publishers, with inter-media connections into movies, TV, and video, to attract more and more top authors to fewer and fewer giant publishing corporations will fuel the concentration of both book creators the book producers.

Baie Comeau

For some of the U.S. publishing industry the implications of Baie Comeau policy, combined with the Free Trade Agreement commitment to assure 'fair market value' in the case of a forced divestiture, are deeply repugnant and a subject of great concern.

John Dingell (Michigan, Democrat) of the House of Representatives, has described the "fair market value" clause in the Free Trade Agreement as:

... adding a new expropriatory gloss to the "indirect acquisition" policy. Instead of a "fire sale" within two years, to Canadian private interests, the controlling American-owned equity interest can now be "condemned" or seized by the Canadian government at "fair value". As now practised by the Canadian government, it would first pay "fair value" to the Americans, then it would flip over the interest to a Canadian business group at a discount, perhaps a steep one. It would thus create a new form of involuntary partnership or "shotgun marriage" between the American company and a new Canadian venturer. The Canadian would then control a valuable publishing property with a 51% share of the equity transferred through this discounted resale device, while the Americans, against their will, are

relegated to a minority position, or may retreat out of Canada altogether in sheer frustration.*

This, in our recent experience, sums up pretty well the current state of U.S. publishing industry feeling regarding the issue.

The Canadian aspects of the issue are dealt with in the Canadian section of this study.

U.S. Retail Concerns

Overhead costs and the proliferation of anti-pornography statutes are the two major concerns of U.S. book retailers at the moment.

Overheads

Ever-escalating real estate and rental prices particularly in the northeast and on the west coast threaten many booksellers.

Many famous and long-established bookstores have in recent months announced plans to seek less expensive premises, or have in some cases closed their doors. In New York City, where the problem is at its worst, several stores including National Book Stores closed, and Scribners 75 year old landmark bookstore on Fifth Avenue is threatened.

This is a distressing feature of retail life in most major North American cities and we shall return to it in the Canadian section of this study.

Anti-Pornography Legislation

A marked drain on U.S. booksellers' energies and on their pocket books collectively has been the spate of censorship laws proposed and passed at local, state, and national levels.

While, to date, sweeping anti-pornography and anti-obscenity laws have ultimately been thrown out of court, the fight against them, particularly when repeated year after year, is both costly and time-consuming.*

* Submission by Congressman Dingell on behalf of Gulf Western to the U.S. trade negotiator Carla Hills, March 2, 1989.

* *Publishers Weekly* report, January 1989.

At the national level the proposed Child Protection and Obscenity Enforcement Act was passed 97-0 by a senate that feared a nay vote would be interpreted as pro-pornography. the bill died when legislation it was attached to was defeated, but few booksellers were happy that it went as far as it did.

If these are indicators for the future the retail bookstore community and its publisher suppliers may be in for protracted, costly, fights in the courts to retain some measure of freedom about their ability to select their stock.

On the whole other industry concerns tend to cluster around such national issues as literacy, the increasing demands being made on leisure time - the American citizen typically works a much longer week, and enjoys only half the annual vacation time of his European counterpart - and falling levels of disposable income in sectors of the population.

These issues are only now beginning to be examined by an industry to which they ought to be of vital concern. Much interesting and informative debate should emerge.

Appendix B

A Brief Sketch of the U.K. Marketplace

A Brief Sketch of the U.K. Marketplace

Estimates of Size

The size of the U.K. marketplace for books is difficult to arrive at with absolute certainty. Various estimates exist and due to differing methodologies discrepancies abound.

We have relied on Euromonitor estimates backed by Publisher Association figures to arrive at the estimate below.

Market Breakdown

TOTAL U.K. MARKET BREAKDOWN			
Million £ 1986 (most recent figures available)			
Total	Public (schools, libraries, etc.)	Private	Consumer (schools, libraries, business, etc.)
1300	190	270	840

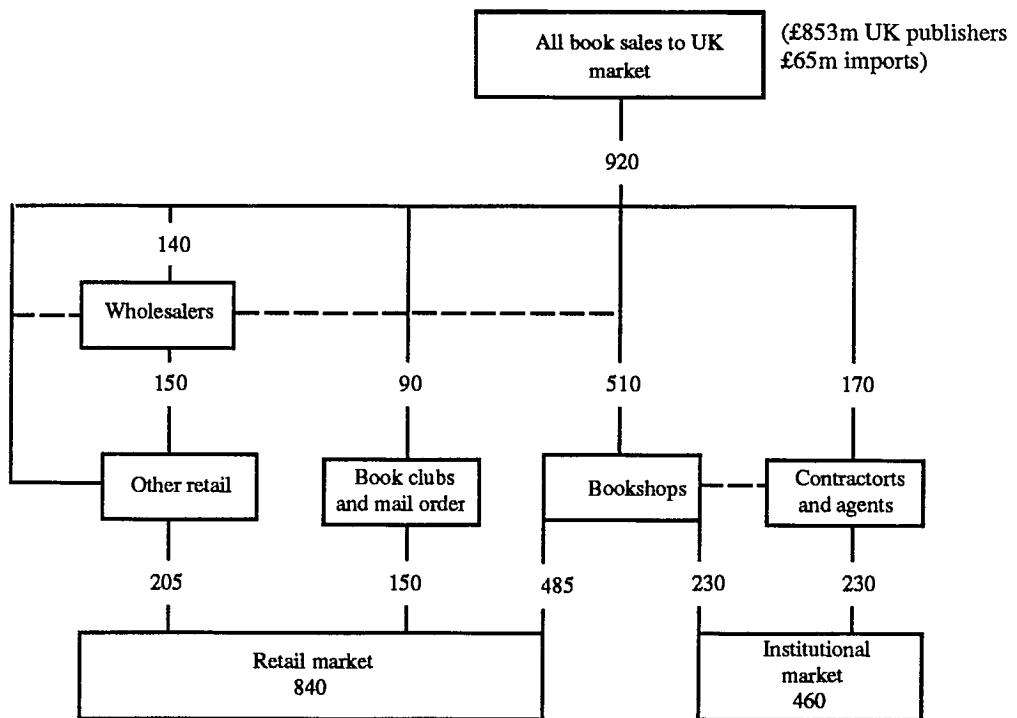
the above represent end-user prices paid

Major Distribution Pattern

The following diagram shows the broad distribution pattern of the U.K. book market.

Distribution of Books Throughout the Marketplace

£ million at achieved prices



Total market £840 + £460 = £1300

Notes:

The above figures include imports to the value of £65m at first sale value.

£ in figures represent the achieved selling price between any two tiers of the book distribution process. For example, Book Publishers sold £140m of product to wholesalers who in turn sold it to their customers for £105m who in turn retailed it to the public for £205m.

U.K. Publishers Production of Books

In recent years U.K. production of books has risen steadily. 1988 was no exception.

• 1988 Book Production		
- 43,188		<u>New books</u> were issued
- 13,326		<u>New editions</u> (or previously published works) were issued

In total	56,514	<u>Titles</u> were issued

Britain now has well over 1/2 m titles in print and accounts for about 8%-10% of world book production.

These figures put Britain 5th in the world publishing league after U.S.S.R., U.S.A., Federal Republic of Germany and Japan.

U.K. Publishers Export Activity

U.K. Publishers have always been strong exporters of books.

Export percentages have declined somewhat in the past decade, due probably in part to an increasing tendency to publish books (which would formerly have been printed in Britain and exported) through overseas subsidiaries.

In 1986 (latest estimates available) British publishers exported about 30% of their total production.

The following table gives the percentages in various categories of publication over recent years accounted for by exports.

**EXPORT BY PROPORTION OF TOTAL UK PUBLISHERS'
SALES BY CATEGORY**

%	1983	1984	1985	1986
<i>Hardbacks:</i>				
Scientific/technical/medical	47.4	47.1	50.6	50
bibles	48.1	52.2	50.4	53
School textbooks	40.9	46.6	47.3	46
Academic/professional	32.8	34.6	32.8	33
Children's	23.3	27.2	27.8	25
Adult non-fiction	24.0	24.5	27.7	24
Reference	23.4	25.3	24.0	22
Fiction/literature/classics	19.6	20.5	20.1	20
ALL HARDBACK:	29.8	31.2	32.0	30
<i>Paperback:</i>				
School textbooks	46.6	50.9	52.4	50
Academic/professional	37.8	35.4	34.9	29
Fiction/literature/classics	32.9	33.8	32.8	30
Children's	27.9	30.4	25.8	23
Adult non-fiction	26.8	29.0	25.4	24
Scientific/technical/medical	22.0	22.6	21.5	23
Reference	14.8	17.1	14.3	13
ALL PAPERBACK:	32.1	33.1	31.5	29
TOTAL:	30.7	32.0	31.8	30

- in 1986 value of U.K. publishers exports was estimated at first sale at £400m
- about the same amount was earned through the sale of rights in other countries
- Canada's share of U.K. publishers book exports has in recent years been about 5% of total exports or £20m.

Individual Publishing Enterprises

No reliable or accepted table of individual publishers' market shares exists.

However, it is known that about a dozen major publishing groups account for about two-thirds of the total output of U.K. publishers.

Distribution of Books in the Retail Marketplace

Retail Sales Distribution

In the £840m retail marketplace sales of books are split as follows:

Booksellers/stationers	65%
Mixed Retail Businesses (including W.H. Smith)	25%
Tobacconists/Newsagents	5%
All other retailers	5%
	<hr/>
	100%

The mixed retail category, which is estimated to capture about 25% of the retail book business, is defined as containing department stores, variety stores (such as Marks and Spencer), Boots (chemist) and W.H. Smith, the latter being the country's largest bookseller, but by description of activity a mixed retailer.

Bookstore Retailing

Although no means of monitoring sales volumes through the various segments of the retail industry selling books exists, estimates have been made in some areas.

It seems probable that about 60% of the £840m retail booksales in Britain go through single outlet or mini-chain (called in the U.K. small multiple 2-9 branches) retailers.

Another 31% is estimated to go through the five largest retail businesses involved in bookselling. These would be:

- W.H. Smith
- Blackwell
- Pentos
- Menzies
- Hachard/Gill Group

with Marks and Spencer stores close behind.

Recent gains in growth have been with the larger bookselling chains (100 plus outlets).

Small chains are usually regional, often local, concentrated within a particular city. They may be diversified with one general bookshop, a specialty shop (medical, legal) and perhaps a shop at the local university or polytechnical.

Most bookshops and small chains are owned by individuals.

There are probably close to 10,000 retail outlets selling books in the U.K.

The Booksellers Association of Great Britain and Ireland has about 3,300 members of whom 550 are members of the elite Charter Group of 'superior' bookshops.

U.K. Book Industry: Current Issues

The following is a summary of the major concerns agitating the U.K. book industry at this writing.

Much time and energy are expended each year in discussion of industry shortcomings such as:

- the reluctance of many publishers and booksellers to accept the role of the new electronic technology in book ordering and internal systems
- the increasing appearance of books for sale in non-traditional retail outlets like garden centres, hardware stores, etc.
- the loss of independent booksellers' market share to chains

- the reluctance of many retailers of books to accept credit card transactions

However important these issues may be they are secondary to four major problems. These are:

- the likelihood of the reimposition of a 15% value-added tax (VAT) on books, which are currently exempt
- the apparent threat posed to the exclusivity of British editions, under current copyright, in their home market
- the increasing hostility in certain government and book-industry quarters to the Net Book Agreement (NBA) which controls the retail price of books in the marketplace
- the much sought after, but elusive, improvements needed in the marketing of books in the domestic market.

The European Economic Community and the Threat From VAT

In 1985 the book industry campaigned successfully against the application of the 15% VAT to books. The arguments used to persuade the British Government were as follows:

- Books are a major means of education, both formal and informal.
- Books build and transmit the culture, science, and history of our society.

It was claimed by those opposed to the tax that its imposition would have the following consequences:

- a reduction in the demand for books since reliable estimates indicated a demand elasticity of unity in the case of books (that is that an x% increase in book prices would provoke an x% drop in purchases, a y% increase a y% drop and so on)
- that reduced demand would lead to shorter print runs and thus to higher costs per copy and thus to higher retail prices (the probable higher retail cost estimated on the basis of a 15% VAT was 20% increase)

- that decrease demand due to higher prices would hasten the demise of many small and medium size bookstores. Particularly affected would be those outside the larger centers. This would have the effect of limiting access to all books for segments of the book buying population.

Many further arguments were offered but these are the main ones upon which the case for exemption from VAT were made.

The argument was cogent enough to persuade Her Majesty's Government in 1985. The issue is once more timely because of Britain's projected entry into the EEC.

The EEC's avowed goal of a harmonization of internal market practices and an abolition of all trade barriers between individual members by 1992 is seen to threaten the exemption granted to books from VAT in the UK.

At present most member EEC countries tax books at rates ranging between 2% (in Italy) and 22% (in Denmark). Only three countries in Europe zero-rate books: Britain, Ireland, and Portugal.

The British book trade (including printers and consumer groups) are lobbying hard for zero-rating and have some support from book industries in other EEC countries.

The European Economic Community and Copyright

The issues of copyright and of market rights agreements which flow from it in the book publishing world, are very complex. Simply stated, to own the copyright in a title is to have the legally protected right to issue and distribute a book exclusively in a given market.

Historically agreements have existed between British and American publishers under which the British publisher would issue the book in his domestic market, protected by his copyright. The American publisher would issue the book in the U.S. protected by U.S. copyright. Under this arrangement Canada would usually be included in either the British or U.S. contract and whichever publisher was designated would have the exclusive right to market that title in Canada. Remedies against violations (such as a bookseller importing a non-copyright edition) could be sought legally.

Usually in agreements of this kind Europe would be designated as an open market in which both editions could compete equally subject to differences in retail price, etc.

The issue which concerns British publishers centres around a provision in the new copyright bill now before the British Parliament. The threat lies in the bills concession to the European Commission over exclusive territorial rights.

The ECC has endorsed the import of English-language books into the community as a whole including the U.K. in cases where British and American Publishers have contracted for Europe as an open market. This would be the situation in regard to the vast majority of books published up to the present.

The perceived danger to British publishers is that all existing contracts giving a British publisher exclusive U.K. rights in a book would be worthless if that same contract declared an open market for the title in Europe which under EEC rules would include Britain.

To meet this threat British publishers would in future need to obtain exclusive publishing rights to all EEC countries, in addition to the U.K. rights, in order to prevent a possible flood of American editions flowing from Europe into Britain and competing with their own edition.

Even if such contracts could be negotiated for future titles - which is not at all clear - it would be impossible to re-negotiate the thousands of existing contracts for already published books.

Naturally there would under the EEC's projected arrangement be no quid pro quo of entry into the U.S. market for British editions.

The Net Book Agreement and Its Opponents

Before 1900 the British book industry was severely threatened by retail price cutting. The retail trade almost collapsed and many publishers saw their futures threatened.

To bring the situation under control an agreement was reached under which publishers set the price of books and the discounts at which they might be sold.

This arrangement was challenged in the 1950's in the Restrictive Practices Court. The agreement between publishers and booksellers to maintain fixed prices was upheld by the court as in the public interest.

The Net Book Agreement (NBA), 1957, has become a cornerstone of publisher and bookseller profitability. It is an acknowledged protective device, but is regarded as necessary to maintain the presence of the most important 'cultural' and 'serious' elements in the industry.

In the current British economic and social climate, which has been characterised as one in which 'unrestricted competition is the only healthy atmosphere to breath' the NBA could hardly pass unchallenged.

Some of the larger retailing units in Britain see price manipulation as a desirable way in which to capture a larger market share. Some publishers support them. The argument is one in support of unfettered market forces.

On the other hand those, currently in a majority, who defend the MBA claim that such a scenario would lead to a savage attack on the smaller more vulnerable booksellers, many of whom would not survive.

The stability of the industry seems to be at issue and perhaps another legal test of the NBA is imminent.

Marketing Books In the U.K.

The fourth issue at present occupying the U.K. book industry is the condition and effectiveness of book marketing.

The following is a summary of the problems.

The large number of titles available from previous publishing years (over 500,000) and the numbers of new titles published each year (over 43,000 in 1988) creates formidable difficulties in keeping the marketplace informed.

Since budgets for marketing and promotion are necessarily limited only a relatively few of the new books get the attention and resources they need to achieve their potential.

Market research is hampered by the fact that each particular title is 'different' and would have to bear the cost of market research alone. Generic research and promotion is said to be difficult if not impossible.

A recent British study stated that 'it is a mistake to regard the market for books as analogous to, say, the whole market for food, because books are so heterogeneous. Different books are not just different brands, or types of tea,

they are as different from each other as meat and milk. There is a world of difference between a work of literature and a car maintenance manual and the audience to whom they are addressed.'

In recent years the prices of books in the U.K. market have been perceived to be expensive by the public. Books prices have risen at a rate faster than the General Retail Price Index. This fact combined with the excellent public library system in Britain has worked against the buying of books.

The above problems relating to marketing and promotion have been sporadically addressed by such means as the formation of a Book Marketing Council, but no broadly-based media-centred effort to promote book reading and book buying seems to be in view.

