

The Book Retail Sector in Canada



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The opinions expressed herein are those of the author and do not necessarily reflect those of the Department of Canadian Heritage.

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EXECUTIVE SUMMARY

Commissioned by the Department of Canadian Heritage and conducted from April to July 2007, this study aims to create a comprehensive overview of the changing book retail sector in Canada.

In its structure, *The Book Retail Sector in Canada* functions as a collection of linked studies, each of which explores a major aspect of the market: reading and book buying behaviour, the size and composition of the consumer book market in Canada, the traditional book retail channel, the book market in Quebec, non-traditional sales channels, and online book retail.

KEY FINDINGS

The paper begins by exploring a series of key developments—so categorized due to the frequency with which they occurred during the study, the weight given them by study respondents, and the degree of their actual or potential effect on the consumer book market in Canada:

The Canadian book retail sector is highly concentrated. The main issue here has been the shift in market share from the independent bookstores to a single national chain throughout the country and powerful regional chains in Quebec. This process has unfolded over the past decade or more, and the result has been to place a majority share of the Canadian consumer book market in the hands of a small number of retailers.

New sales channels are emerging. Aside from the potential of export markets, we expect the major growth channels for most publishers will be in non-traditional retail and online sales. Growth in these channels will be driven by increasing Internet usage and growth in online shopping, and the strong market position of major non-traditional retailers in the mass market and specialty categories.

Exchange rates are fuelling imports. The Canadian dollar has appreciated greatly against the US dollar, reaching \$.95 in July 2007, effectively resulting in Canadian list overpricing for many imported titles. This currency-price relationship has created a situation where Canadian retailers can now source some books outside of Canada at lower cost. This appears to have contributed to a recent spike in parallel importation within the Canadian trade.

The supply of books in the Canadian market is growing much more quickly than is consumer demand. Canadian publishers produce more than 16,000 new titles per year; publishers in the United States, 300,000. These books join the many millions of already published titles that are now virtually all available to consumers via improved search and ordering tools in bookstores and online retailers. In addition to this growth in new title output, there are burgeoning product categories, notably remaindered stock and used books, which further compete for readers' attention.

READING AND BOOK BUYING BEHAVIOUR

The habit of reading books for pleasure continues among Canadians despite increasing demands on and options for their leisure time. However, reading rates have been dropping in many comparable world markets, and Canadian readers face many of the same barriers and challenges to reading regularly as do the populations of these markets. Chief among these are pressures on time (leisure time in particular) and the perception that books are expensive.

Available consumer behaviour research is unanimous in declaring that book buyers are greatly influenced by the way books are displayed in-store. Many impulse buys are made as a result of book displays, and impulse buys account for a large number of book purchases. This provides the rationale for the co-op or placement fees increasingly requested of publishers by retailers.

THE CONSUMER BOOK MARKET IN CANADA

The study estimates the overall value for Canadian consumer book sales for 2006 at \$1.59 billion. The latest available Statistics Canada figures indicate that Canadian-owned firms hold 41% of domestic sales by Canadian-based publishers (with Canadian subsidiaries of foreign-owned multinationals accounting for 59%).

We note the Statistics Canada survey methodology has likely resulted in an overstatement of the market share for domestic firms, but, even so, illustrates the significant volume of imported books in the Canadian marketplace.

TRADITIONAL BOOK RETAIL

Despite all the changes in the book trade over the past ten years, traditional book retail channels still account for the majority of consumer book sales in Canada. The traditional channel is fairly easily defined as the domain of the specialist bookstore (i.e., the retailer whose primary business is selling books), whether chain or independent or whether a general or specialty bookstore.

The market share held by chain bookstores has increased in recent years, as the share held by independent bookstores has gradually declined. Canada's national book retail chain, Indigo, accounted for 44% of domestic book sales in 2006. Independent bookstores held a 20% market share, with non-traditional retail and online booksellers accounting for 20% and 4%, respectively¹.

Indigo operates 85 large-format stores under the Indigo and Chapters brands, and 152 smaller Coles, The Book Company, and SmithBooks outlets throughout Canada. At its June 2007 annual general meeting, the chain announced plans to open six new superstores in the next 18 months along with six new mall stores.

¹ We estimate that roughly 4% of Indigo's market share is composed of online sales, meaning that the online channel's share of the consumer book market in Canada is approximately 8%.

There are nearly 2,000 independent booksellers in Canada, ranging from single-outlet retailers to mini-chains of four to five outlets (such as Toronto's Book City or the Librairie Raffin chain in Quebec) to larger regional chains like Renaud-Bray. This retail category includes campus stores, large book departments in grocery stores, and also used bookstores.

THE BOOK MARKET IN QUEBEC

The Quebec book market is in many ways structurally similar to the rest of the Canadian market; it is characterized by market concentration, powerful chains that claim a large market share, a vast majority of consumer book sales made via bookstores, high levels of returns, and a large volume of imported product. However, the market in Quebec has a number of distinctive characteristics as well, including a greater level of government support for the book trade, accreditation of bookstores, the role played by major regional chains, the vertical integration of publishers, distributors, and retailers under the same ownership, and cooperative arrangements for the distribution of new releases.

NON-TRADITIONAL RETAIL CHANNELS

The study defines non-traditional accounts as anything other than a specialist bookstore, and employs a broad categorization of non-traditional channels into mass market retail, warehouse clubs, and other non-traditional accounts.

The US market provides a fascinating window into the world of non-traditional book retail. Not only do non-traditional channels hold a major market share, but mass market, grocery, and specialty retailers are also among the fastest growing retail channels for books. One US publisher, Simon & Schuster, recently reported that its sales to non-traditional accounts had grown by 50% from 2002 to 2006, and had surpassed total sales to independent bookstores.

Non-traditional sales occupy a much smaller share for many Canadian publishers at present, mostly in the range of 10–20%. Several factors contribute to the difference in what this channel represents for American and Canadian publishers. In part it reflects a greater maturity and critical mass of retail channels in America. However, there are also a number of practical issues that determine the level of access that Canadian publishers have to non-traditional accounts. These include required investments in technology, fulfillment systems, inventory, and sales, as well as buying procedures and vendor arrangements.

ONLINE BOOK RETAIL

Indigo, Amazon, and AbeBooks have established themselves as the leading competitors in online book retail in Canada. Many of the patterns and principles of the bricks-and-mortar world apply to the online sales channel. For instance, location is important, as expressed in the role played by major online brands. So is selection, in terms of available titles, the way in which they are featured, and the shipping times at which they can be conveyed to customers.

Online booksellers have played an important part in entrenching price discounts on new books—a consumer expectation that now extends to bricks-and-mortar book shopping as well. With widespread discounting, transparent pricing, and a vast selection of listed titles, online booksellers represent a serious competitive challenge to all book retailers. At the same time, the online sales channel brings real benefits to consumers, in the form of more price and selection options, and to publishers, for whom it represents a way to efficiently connect with readers.

As such, online bookselling is both a constructive and a disruptive force. It provides new choice and valued services to consumers, and it is a new sales channel for publishers; yet it breaks down conventional boundaries related to territory, trading information, and roles within the supply chain.

INTRODUCTION

The Canadian book retail landscape has shifted considerably in the past ten years, and it remains in flux, with significant implications for the book trade and for the choices available to book buyers. This study aims to contribute to our understanding of the book trade by presenting a comprehensive overview of the book retail sector in Canada.

Commissioned by the Department of Canadian Heritage and conducted from April to July 2007, the study began with an extensive research phase that identified and examined existing data and analysis pertaining to book retail in Canada. This first research phase was followed by a country-wide interview series with book professionals, including executives at various industry associations, booksellers, publishers, and sales agencies. Finally, the study includes some aspects of original research, carried out with the cooperation of statistical agencies and industry groups, which solicited sales data directly from publishers and distributors.

The study explores the book retail sector from three important perspectives: the publisher, the bookseller, and the consumer. The findings are summarized in this paper and organized in the following chapters:

- Key Findings. An overview of major trends that have the potential to materially affect the book trade in Canada in the medium to long term.
- Reading and Book Buying Behaviour. A review of published and proprietary studies that examine book reading behaviour and consumer behaviour with respect to books.
- The Consumer Book Market in Canada. A summary of the size, composition, and other key characteristics of the Canadian market.
- Traditional Book Retail. An overview of traditional book retail in Canada, and a discussion of the issues shaping the book trade today.
- The Book Market in Quebec. A summary of the Quebec market, and a discussion of its unique characteristics.
- Non-Traditional Book Retail. An examination of all other retail channels, outside of the specialist bookstore channel, in which books are sold.
- The Online Marketplace. A discussion of the development of the online sales channel, and the factors that are shaping online book retail today.

KEY FINDINGS

We begin with some highlights from the research carried out during this study. These developments have been categorized as key findings due to the frequency with which they occurred in the study, the weight given them by our research sources and respondents, and the degree of their actual or potential effect on the consumer book market in Canada.

1. Concentrated Market Share. As is the case in many world book markets, the Canadian consumer book trade is highly concentrated among a relatively small number of players.

There is one national bookstore chain in English Canada, Indigo, and two regional chains that have comparable market power within Quebec, Archambault and Renaud-Bray. Beyond this, the retail market is composed of a number of mass market retail chains, notably Costco Wholesale, that have embraced the book category; a growing number of players in the online channel, led by the web retailer Amazon; and an independent bookstore sector that, while reduced in numbers in recent years and still under pressure, has lately shown some signs of recovery.

Leaving aside for a moment the important developments in mass market and online retail, the most significant development affecting the Canadian book retail market — “the tectonic event,” as one of our study respondents termed it—has been the shift in market share from the independent bookstores to a single national bookstore chain throughout the country and powerful regional chains in Quebec. The result has been to place a majority share of the Canadian book retail market in the hands of a small number of companies.

This process of concentration began in the mid-1990s and has had the following market effects in the years since:

- A retailer with a majority share in a market without a comparable competitor is a very powerful trading partner. In the case of Canada’s consumer book market, this is reflected in the ability of major retailers to negotiate terms of trade with vendors², notably in the areas of trade discounts and co-op promotions³, and in the discretion that a single buying team (or two buying teams in the case of Quebec) has over the product mix and title selections available nationally.

This suggests by extension that a retailer holding a majority market share can also have a direct effect on production decisions within Canadian publishing houses. A new title that relies on the trade sales channel and that does not gain the support of such a key buying team will almost certainly be published with a lower print run, and so will be less widely available to Canadian book

² We use the term “vendor” as a general reference to the different types of firms that sell to retail accounts. These include publishers, distributors, and wholesalers.

³ Please see “A Brief Introduction to the Canadian Book Trade,” pg 29, for an overview of key players in the supply chain and terms of trade.

buyers, than it would be if it had the strong support of a major national or regional chain.

- A dominant market position reinforces itself. A retailer with a majority share in a market without a comparable competitor enjoys a number of structural advantages. It can occupy prime retail locations and invest in marketing to reinforce its position, thereby discouraging new market entrants or existing competitors. It is inextricably linked—by virtue of its ability to provide national market access, its material effect on inventory holdings and cash flow, and its share of vendor receivables—to its major vendors, and vice versa. This is especially true in the book trade, where vendors are often undercapitalized and operate with relatively slim profit margins. The result is a climate in which trading information is closely held, and in which the conduct of a major account—particularly with respect to buying procedures, inventory management, returns practices, and accounts payable—can have a direct effect on the financial condition of publishers and distributors.

2. The Importance of Emerging Sales Channels. While the retail market is highly consolidated today, it will be less so in the years ahead. With overall sales in the traditional book channel trending close to flat, and with the current concentration of market power in the channel, Canadian publishers are motivated to find new outlets for their books.

Aside from the potential of export markets, the major growth channels for most publishers in the years ahead will be in non-traditional retail and online sales. Along with publishers' natural interest in increasing sales, there are other factors that will drive growth in these channels: increasing Internet usage and growth in online shopping, and the strong market position of major non-traditional retailers in the mass market and specialty categories.

While it currently accounts for only a small percentage of sales for most publishers, online bookselling represents a compelling range of opportunity. Already, a major online account like Amazon is the second- or third-largest customer for some Canadian publishers. The Internet's ability to filter and present a vast selection of books, and to support innumerable niche markets, will continue to encourage more consumers to buy books online. Some publishers will continue to realize increased sales via a major online retailer (such as Amazon or Chapters.indigo.ca), and some will take the extra step of selling directly from their own websites and/or other niche sites.

We expect that non-traditional channels will develop along these lines:

- Larger publishers and distributors will have greater access to mass market and discount retail chains in the short- to medium-term (this may change as the book category matures in this channel and adapts to better match its product mix to local markets);

- The costs of serving these larger accounts (which are often associated with requirements for significant investments in inventory and marketing) will likely mean that smaller firms will find specialty and gift accounts more viable.

The increasing share of sales that non-traditional outlets are likely to represent in the years ahead raises a number of issues with respect to cultural policy and market access for Canadian titles.

First, many of these large retail chains are owned by foreign firms. If, as expected, these accounts gain market share in the Canadian book trade, this will dilute the share of Canadian-owned retailers. In addition, an increasing market share for these non-traditional accounts will likely increase the total sales claimed by a relatively small sample of bestselling frontlist⁴ titles. In other world markets, notably the United Kingdom, this pattern has been accompanied by aggressive price discounts that have shaped consumer expectations regarding book prices and pressured bookstores to match prices and/or offer additional customer incentives.

Finally, as the range of trading accounts becomes more varied by publisher and more widespread across a greater range of retail accounts, the overall consumer book market may become more challenging to measure and understand.

3. The Impact of Exchange Rates and Technology on Parallel Importation. The large volume of imported titles in the Canadian marketplace has created a situation where Canadian list prices⁵ are markedly informed by the list prices established in the originating foreign market, and by extension, by the exchange rate between the Canadian dollar and the relevant foreign currency. This relationship is generally true in the Canadian consumer book market as a whole, and especially true for foreign-published books imported by a Canadian-based subsidiary or Canadian-owned publisher or distributor.

The book importation regulations of the *Copyright Act* require that the Canadian list price for such titles not exceed the Canadian-dollar equivalent of the foreign currency list price by more than 10%. If the Canadian price exceeds this point, a Canadian bookseller is permitted to source the book from outside of Canada. This provision has very much been in play in recent years as the Canadian dollar has appreciated greatly against the US dollar, reaching \$.95 in July 2007, and effectively resulted in Canadian list overpricing for imported titles. More to the point, this currency-price relationship has created a situation where Canadian retailers can now source some books outside of Canada at lower cost.

⁴ The term “frontlist” refers to books whose publication is imminent as well as those published within the previous year. Books published more than one year ago are generally referred to as backlist titles.

⁵ The list price (the established retail price of the book) is determined by the publisher and printed on the cover of the book. The list price provides a fixed reference point for the calculation of trade discounts extended by publishers to booksellers, price discounts extended by booksellers to consumers, and also author royalties. Prices may be listed in various currencies for imported titles or for Canadian books sold outside the country, in which case the currency of the nation where the book was originally published often provides the basis for a foreign-currency equivalent price. Publishers generally establish foreign currency prices (or Canadian dollar prices for imported titles) up to a year in advance based on anticipated exchange rates.

This appears to have contributed to a recent increase in parallel importation within the Canadian trade⁶. Anecdotal reports describe cases where a Canadian rights-holder or distributor places X copies of a book in the Canadian market, but then observes the actual number of copies in the supply chain are X + Y (where “Y” is an additional supply sourced from outside of Canada). Such discrepancies are now more visible because of point-of-sale tracking data and other supply chain improvements.

Another contributing factor may be an unintended side effect of recent supply chain improvements in Canada. Through tools such as BookManager, an integrated inventory and accounting system for independent bookstores, and BookNet Canada’s SalesData, a point-of-sale tracking system, booksellers and publishers can now better monitor sales performance and easily determine product availability and pricing from suppliers both inside and outside Canada. As the Canadian dollar strengthens against the US currency, booksellers have a good reason to consider foreign suppliers if they can buy from them at attractive terms and recover greater margin due to the strong Canadian dollar. In many cases, booksellers are able to do so at reduced shipping costs or shipping times relative to buying from a Canadian supplier.

Booksellers in Canada operate in an era of high consumer expectations with respect to product availability, at a time when distribution costs are rising to keep pace with high fuel costs. All of this means that ordering from suppliers outside of Canada is, from the bookseller’s point of view, an entirely rational act. Commenting on Canadian-US list price discrepancies, Cathy Jesson of Black Bond Books noted recently, “We’re just reducing the prices [ourselves], but the way we’re doing it is we’re having to bring [books] in from the US.”⁷

The structural effects of increased parallel importation activity are significant. First and obviously, increased foreign sourcing undermines the territorial rights of Canadian rights holders. This issue is relevant to Canadian subsidiaries of multinational publishing firms, Canadian distributors, and Canadian publishing houses that also act as distributors for foreign publishers (and so rely on distribution revenues to varying degrees to support domestic publishing programs). More broadly, increasing parallel importation could also contribute to imported books claiming a larger overall share of the Canadian market.

The Canadian dollar’s appreciation has had additional immediate effects on the book trade in Canada. First, Canadian list prices on many imported titles have been reduced to bring Canadian prices more in line with the foreign list prices and current exchange rates. Through the first six months of 2007, this had mainly meant price reductions in the \$2–\$4 range—a significant amount, as it is not enough of a

⁶ Parallel importation occurs when one party imports non-pirated goods into the domestic market, but outside of the authority of the Canadian copyright owner or distributor. Within the Canadian book trade, the practice is colloquially known as “buying around.”

⁷ Leigh Anne Williams in “Publishers try to narrow gap between US and Canadian prices,” *Quill & Quire*, July 10, 2007.

discount to notably affect consumer behaviour or demand for books but more than enough to create a corresponding decrease in revenues for Canadian booksellers (i.e., as unit volumes remain roughly the same and dollar volumes decrease to reflect the price deflation). However, additional Canadian price adjustments announced during summer 2007 will result in overall reductions in the 11–12% range for some imported books (compared to 2006 prices). This level of reduction may have a more noticeable effect on consumer behaviour.

This level of price deflation on imported titles also creates downward pressure on list prices for titles originally published in Canada, which further squeezes the margins of publishers and booksellers alike. Further, the current level of Canadian list price reductions may strengthen consumer demand for imported titles, particularly for bestselling books in the commercial fiction or topical non-fiction categories.

4. More Product Competing for Readers' Attention. Title output—the number of new books published each year—is on the rise. Canadian publishers produce more than 16,000 new titles per year; publishers in the United States, 300,000. These books join the many millions of already published titles that are now virtually all available to consumers via improved search and ordering tools in bookstores and online retailers.

In addition to this major growth in new title output and availability, there are now new product categories available in bookstores and online that further compete for readers' attention. The two following scenarios will illustrate, from the consumer's point of view, the sheer volume of available product.

Scenario #1: Walk into an average large bookstore in Canada and observe the types of products there. In many stores, you will see roughly this product mix from the front door: featured frontlist and bestsellers, deeply discounted remainders⁸, non-book inventory (e.g., stationary, gift, magazines), and in the case of major national accounts such as Indigo or Costco, books self-published by the retailer⁹.

After years of market shifting, expansion, and upheaval, growth via increasing market share is harder to come by in the Canadian book retail sector, and overall sales are flat. In this climate, growth in revenue and profitability has to come from increased margin on the products sold at retail. This places pressure on vendors to increase trade discounts and marketing spending through co-op (which in turn accounts for the featured frontlist we see upon entering a large store). But this drive for more margin affects the product mix in other ways.

⁸ Remaindered books are those the publisher has determined are no longer saleable at their established list price. Such books are liquidated by the publisher at greatly reduced prices and sold at retail at deep discounts from the cover price. Note that this practice applies only to hardcover and trade paperback editions. Mass market paperbacks are generally pulped and recycled rather than liquidated through a remainder sale.

⁹ The practice of self-publishing inventory is well established among large retailers in many markets, including Canada and the United States. Essentially, the retailer publishes public domain (i.e., works on which copyright has lapsed) or packaged books (i.e., created and manufactured at very large volumes for multiple publishers in various national markets) for sale in its outlets.

First, it encourages the retailer to set aside more square footage for non-book product. As square footage is something of a zero sum game in a stable retail sector, this generally means less room for books. Second, it encourages the retailer to make ever more space available for higher-margin product, including remainders and retailer-published book inventory.

The remainder trade has been characterized as a highly liquid component of inventory in a Canadian bookstore (i.e., it's rapidly changing and sells quickly at deep discounts from the list price). This is a product category that is generally well supplied as the book industry in Canada and the US (and, of relevance to Quebec, France) continues to produce high levels of returned inventory. We note American remainder inventory here since a disproportionate share of American remainders seem to be finding their way to Canadian bookstores.

This remainder trade is not exclusive to national chains in Canada. Vancouver's Book Warehouse outlets have carved out a value-based market niche fuelled in part by discounted remainders, and Quebec's leading regional chain, Renaud-Bray, has one store set aside to largely handle remainder stock from France.

Regardless of venue, the consequence of this considerable remainder inventory is to reduce the retail square footage available to trade frontlist or backlist titles, and to put a large amount of excess stock on sale at very low prices. This has the effect of lowering the consumer's general perception of the value of books (i.e., the price they are prepared to pay, and the cultural, information, or entertainment value a book represents for them). In the case of deeply discounted imported remainders that are also published or distributed in Canada, this can also undermine the position of the Canadian rights-holder.

The available floor space for traditional trade frontlist and backlist titles in certain bookstores is further reduced by books that are self-published by the retailer. Typically, these books are sold at lower prices than conventionally published titles. They can represent an important product category for the retailer, and are particularly attractive for the relatively higher profit margins they offer.

Indigo publishes books of this type for sale in Canada, but the practice is in some ways more visible in the United States. Barnes & Noble, the leading bookstore chain in the United States, publishes an extensive series of public-domain titles under its Barnes & Noble Classics imprint. It acquired Sterling Publishing, an established trade publisher with several thousand titles in its catalogue, in 2003. In a 2006 teleconference with industry analysts, Barnes & Noble executives noted that titles published by the retailer accounted for more than 5% of total sales, and returned higher margins than those books not published by the chain. Both Barnes & Noble and Borders, America's second-ranked bookstore chain, have indicated they want to realize a higher percentage of sales from self-published titles in the future.

This is significant because it reflects an emerging strategy among larger retailers to increase profitability by devoting more floor space to higher-margin product. It also illustrates the retailer's natural interest in providing self-published product with

premium display space in stores. The result is that correspondingly less space is available for books sourced from trade publishers and distributors.

Scenario #2: Type the address of a major online bookseller into your web browser and take a look at the type of product selection there. In the case of a high-profile online retailer such as Amazon, we can see discounted frontlist, a vast selection of backlist, and a considerable supply of used books integrated with new stock. But consider as well the case of a major online bookselling platform like AbeBooks, where the majority of the stock is used, out-of-print, or collector's editions, and you quickly understand that the Internet has unveiled a vast inventory of book product that resides in used bookstores and private collections of all sizes.

Victoria-based AbeBooks handles no inventory directly but instead aggregates the used book holdings (and, to a lesser extent, inventories of new books) of booksellers from around the world. The AbeBooks bookselling community is large, currently numbering more than 13,500 booksellers. Its inventory is correspondingly vast, with more than 100 million titles listed at www.abebooks.com. Moreover, AbeBooks is the relatively low-profile partner that provides used book inventory to major e-commerce players like Amazon and eBay.

We do not have concrete figures on the share of market for used book sales in Canada. However, the US-based Book Industry Study Group recently estimated that used editions account for more than 8% of total US consumer spending on books.

The tipping point for used books seems to have come in 2002. Studies indicate that more used books were sold through the Internet that year than were sold to walk-in customers at used bookstores. In the years since, the growth of second-hand book sales has outpaced that of new books. Used editions now account for about 15% of total unit sales in the US. This dramatic web-enabled growth in used book sales suggests that the category will figure more prominently in our understanding of the consumer book market in years to come.

Taken together, these scenarios illustrate the ways in which structural and technological changes in traditional and emerging retail channels are drastically affecting the book marketplace in Canada today. The result is a very large volume of low-priced product in the market, which represents a major source of competition for the book-buying dollars of Canadian consumers. Even more fundamentally, these new product groups are a source of competition for the attention and available reading time of Canadian readers.

READING AND BOOK BUYING BEHAVIOUR

This chapter will present available research on Canadians' reading and buying behaviours as well as spending on books, and examine this research to see what implications it suggests for Canadian book retailers.

READING

Canadians are living in an increasingly saturated media environment, and in an era in which we have more and more options for our leisure time. The extent to which these factors are influencing Canadians' book reading behaviours are the subject of much debate, and their impact is in fact quite hard to gauge through studies based on self-reports. Reading is arguably a habit that connotes thoughtfulness, education, and even high-mindedness, and study respondents may be reluctant to admit a slipping reading habit.

In other words, many reading studies will overstate reading behaviours, simply because they rely on respondents' subjective estimations of an activity that is often laden with values. That said, the studies are useful for benchmarking and tracking purposes, as well as general trends.

The studies cited in this chapter point to some common general traits of the Canadian reading public in 2007, which we can observe before embarking into more detailed breakdowns of findings.

- Reading for pleasure remains a popular leisure activity in Canada, and there are no conclusive studies proving that Canadians are dropping books read for pleasure in favour of the Internet or other uses of leisure time.
- That said, Canadians face many more demands on—and options for—their leisure time today, and they are finding it difficult to fit everything in, including reading for pleasure.

GENERAL READING HABITS AND DISPOSITION

A 2005 readership study by the Department of Canadian Heritage (PCH), *Reading and Buying Books for Pleasure*, found that nearly 9 in 10 (87%) Canadians said they read at least one book for pleasure in the 12 months preceding the study¹⁰ and that half (54%) read virtually every day. The average time spent reading is 4½ hours per week (unchanged since 1991); the average number of books read per year, 17 (down only slightly from 1991). Fully one-quarter (26%) reported that reading is the leisure activity they most commonly engage in, as many as cited TV-watching, putting reading and TV-watching in the #1 spot among leisure pursuits in Canada (and dwarfing “Internet activities,” which only 9% cited). These findings support the PCH report's conclusion that “reading for pleasure remains a solidly established and widespread habit with little or no change over the last 15 years.”

¹⁰ Another 2005 study, Hill Research Strategies' *A Profile of the Cultural and Heritage Activities of Canadians in 2005*, came up with a different percentage: it said that 67% of Canadians read at least one book in the 12 months preceding the survey. The study did not specify type of book. Despite the dissonance in the statistics from the PCH and the Hill Research Strategies study, both studies found that the rate of book reading in Canada has remained stable since the 1990s.

Canadians' attitudes toward reading appear to be very positive. The following attitudinal findings are pulled from the PCH study as well as a report from the Canadian Publishers' Council (CPC), *Book Buying Attitudes and Behaviours* (conducted in 2004 among only English-speaking Canadian adults).

- Nearly half (43%) of Canadians said they enjoy reading "very much," and a further 39% like to read some of the time (PCH).
- Eighty-five percent indicated that "reading is very important to me" (PCH).
- Eighty-two percent said they "read for fun" and 72% to "relax/unwind," higher than the 60% who read to "learn" (CPC).
- Forty-three percent picked "reading books" as an activity they would choose to do if they had more time, virtually tied with the #1 pick, "visiting with friends in a home" (45%) and the #3 pick at 40%, "out of home entertainment" (CPC).

The PCH study, which included both French-language and English-language readers, found that only 13% of Canadians consider themselves non-readers. This group is divided into low literacy non-readers, reluctant non-readers, and dormant readers. In terms of potential audience for book retailers, aliteracy (the condition of being able to read, but not wanting to) may pose as serious a threat as low literacy (which puts up more practical barriers to reading). While the number of aliterate citizens seems to be growing faster in the US than in Canada, the book reading (and buying) market in Canada is small enough already that both retailers and publishers are justifiably concerned about increasing demands on and options for Canadians' leisure time, and the accelerant effect this could have on aliteracy.

Such concerns are underlined in the CPC study, in which 37% of the English-speaking respondents said they are reading fewer books than five years ago, compared to 22% saying they are reading more.

SOCIO-DEMOGRAPHIC TENDENCIES

The PCH study showed that the general intensity of Canadians' reading behaviours goes up with age and level of education; that women are significantly more engaged with reading than men are (e.g., less than half of men read regularly and twice as many women as men are heavy readers); and that Canadian anglophones are more bibliophilic than are francophones (especially those living outside of Quebec).

The aging Canadian population was cited as a potential boon for reading and book culture in the years to come, given that older people tend to read more and that the baby boomer generation is relatively highly educated, interested in continuous learning, and enjoying longer life spans.

CANADIAN-AUTHORED BOOKS

There is conflicting evidence about Canadians’ commitment to reading Canadian authors. For example:

- The PCH study found that 71% of Canadians are interested in reading Canadian authors, and 72% had done so (48% within the 12 months leading up to the survey).
- The CPC study found that more English-speaking Canadians disagreed (64%) than agreed (37%) that “it is important to read books by Canadian authors.”
- The CPC study found that an author’s being Canadian was ranked very low as a purchase driver for books, and the PCH study estimated that despite its respondents’ high claims of interest in Canadian books, Canadian authors made up only 12% of all books read in 2005 (down slightly from 17% in 1991).

However, whether or not they consciously seek them out, Canadians are buying Canadian books in significant quantities. Statistics Canada data reports that 2004 sales of Canadian-authored books (including both trade and educational titles) exceeded \$750 million.

THE EFFECT OF THE INTERNET ON READING FOR PLEASURE

The PCH study found little evidence that growing Internet use has deleteriously affected Canadians’ reading of books for pleasure, and even found a positive correlation with reading rates and use of the Internet at home. At the time of the study’s writing, the Internet was found to have a greater—and negative—impact on Canadians’ consumption of magazines, newspapers, and TV.

However, Canadians today do face many demands on their leisure time, including the Internet. The following graphic from the CPC study shows how reading books is competing against other entertainment options among English-speaking Canadians. As we can see, audio-visual entertainment is exerting more pull on the Canadians surveyed than is reading.

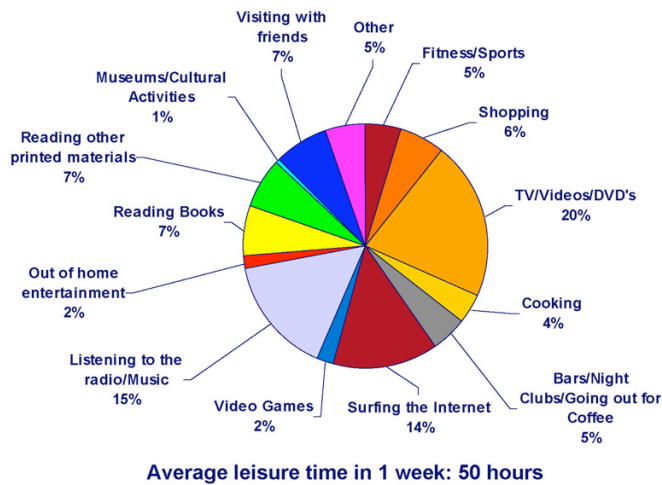


Figure 1. Canadians’ Leisure Activities.
Source: Canadian Publishers’ Council, *Book Buying Attitudes and Behaviours*, 2004

READERS' SOURCES OF AWARENESS FOR BOOKS

The PCH study found that Canadians deem the four following sources the most important for finding out about books: recommendations from friends (40% “often helps”), gifts (24%), book reviews (23%), and advertisements (19%).

READERS' SOURCES OF BOOKS

Canadian book readers in the PCH study said they most commonly obtain their books from bookstores (62%), but sizeable proportions also rely on public libraries (32%) and borrowing from other people (19%). Nine percent said they source books from second-hand bookstores, but we note that sales of used books had been expanding over the period of the study (and since) and this percentage may be higher now.

Heavy readers (reading 50+ books per year) represent high potential sales to retailers, but they are not generally the heaviest buyers. While avid readers do buy some of their books from bookstores (62%), they are disproportionately reliant on public libraries and second-hand bookstores (PCH, 2005).

When the PCH study looked specifically at buyers (as distinct from readers but often overlapping with them), bookstores increased in their importance as a source of books (81%). Similar to heavy readers, heavy buyers are more reliant than lighter buyers on alternate (often cheaper) sources of books, including second-hand bookstores, big box stores, and the Internet, which is very likely related to the bigger volume of books they buy.

COMPARISONS WITH THE UNITED STATES

Despite many market similarities, Canada and the US appear to be following different trend curves at the moment regarding reading. For example, looking at the 2005 PCH study and the American Census Bureau's 2002 *Reading at Risk* study:

- Canadians' reading rate remained virtually constant over the past two decades, while Americans' declined.
- Where 87% of Canadians read a book in a 12-month time frame, 57% of Americans had.
- Where 79% of Canadians read literary materials in a 12-month time frame, 47% of Americans had.
- Where one-half of Canadians read virtually every day, almost half of Americans read an average of less than one book per year.

THE QUEBEC MARKET

Reading rates in Quebec are the lowest measured in Canada. According to the PCH study, the percentage of Quebecers who read books regularly is now estimated to have dropped below the one-half mark (46%), and fewer than 4 in 10 (37%) are mainly literary readers (compared to between 43% and 48% elsewhere). Reading rates among Quebecers appear to be on the decline, especially among francophones.

BOOK SPENDING

According to Statistics Canada, in 2004, half (50%) of Canadian households reported purchasing books (excluding textbooks). The average household expenditure on books was \$106, higher than reported spending on magazines and newspapers in the same year. While magazine and newspaper spending appears to be on the decline, spending on books has actually risen by 25% since the mid-1980s to \$85 per person per year, according to the 2005 PCH study.

A 2005 report by Hill Strategies Research, *Consumer Spending on Culture in Canada, the Provinces, and 15 Metropolitan Areas in 2005* (based on Statistics Canada’s *Survey of Household Spending*), provides further insights into book buying in Canada. This study pointed to strong growth (48% between 1997 and 2005) in overall cultural spending in Canada and reported that:

- \$1.4 billion dollars was spent on books (excluding school books) in Canada in 2005, representing a 55% increase since 1997, and representing 6% of total spending on cultural goods and services (\$25.1 billion) in 2005.
- The \$1.4 billion spent on books was higher than spending on movie theatre admissions (\$1.3 billion), newspapers (\$1.1 billion), and magazines and periodicals (\$730 million).
- While book spending grew since 1997, movie theatre admissions and magazines and periodical spending was relatively stagnant and newspaper spending decreased.

The following table breaks down spending on books by province (excluding school books) according to Hill Strategies Research (2005):

Table 1. Spending on books by province, 2005

	TOTAL	PER CAPITA
ONTARIO	\$610 MILLION	\$50.16
QUEBEC	\$280 MILLION	\$37.10
BRITISH COLUMBIA	\$200 MILLION	\$48.62
ALBERTA	\$140 MILLION	\$42.54
MANITOBA	\$39 MILLION	\$33.96
NOVA SCOTIA	\$33 MILLION	\$36.12
SASKATCHEWAN	\$27 MILLION	\$27.88
NEW BRUNSWICK	\$23 MILLION	\$31.51
NEWFOUNDLAND/LABRADOR	\$13 MILLION	\$25.72
PRINCE EDWARD ISLAND	\$4.2 MILLION	\$30.92

Source: Hill Strategies Research, Statistics Canada, 2006 Census

An earlier report from Hill Strategies Research, *Who Buys Books in Canada?* (based on 2001 Statistics Canada data) found that in 2001:

- Book spending was most common in the Prairies, British Columbia, and Ontario, and least common in the Atlantic provinces and Quebec.
- Ontario had the highest spending per household on books (\$212).
- The incidence of book buying did not vary significantly between large cities, small cities, and rural areas, but household spending on books rose in large cities.
- Nearly two-thirds (64%) of book buying households spent more than \$200 per year on books.

- Book spending went up in households active in other arts and leisure activities.
- Book spending was much more common in high-income households (76%) than in lower-income households (23%), and high-income households spent an average of \$282 on books compared to \$111 among low-income households¹¹.
- Those aged 25 to 54 were the most likely to spend money on books.

BOOK BUYING

According to the 2005 PCH study, 81% of Canadians said they bought at least one book (new or used) in the 12 months preceding the study. The CPC study found that among its English-speaking base of buyers, 23% reported buying more books today than five years ago, while 38% said the same number and 39% said fewer.

Book buyers aren't limited to book readers: in the PCH study, 36% of non-readers said they had bought a book in the previous year. This points to an important motivation for book purchases: gift-giving to others. A 2002 Pollara survey, *English-Language Book Buyers in British Columbia, Canada*, found that buying a gift for someone else was the second-most important motivator for buying a book among its respondents after "interested in subject/pleasure/personal interest." The 2004 CPC study corroborates this trend.

GENERAL FINDINGS

The PCH study's general findings on book buying include:

- The average number of books bought per year in 2005: 12.
- On average, the Canadians surveyed said they spent \$147.37 over the 12 months preceding the survey on books for pleasure.
- Although they read less, francophones outside Quebec spend more on books than average.
- Roughly one-third (34%) of Canadians reported buying at least one book per month.
- Canadians read more than they buy each year, and an estimated 7 in 10 books read are not purchased.
- An average of 62% of books bought are for personal reading, while 38% are bought for others.
- Heavy readers buy the lowest amount of books on a proportional basis.
- Just over half (53%) of buyers thought they bought a book by a Canadian author in the previous 12 months (but importantly, 25% couldn't say).
- Heavy buyers of books (12 books and more) represent 76% of total books sold and 70% of the monetary value of industry sales.

¹¹ Hill Strategies Research was careful to note how much more this \$111 meant to low-income households as a proportion of total income than the \$282 to high-income households: five times more, to be exact. The study concluded, "Clearly, the financial commitment required to buy books is much more significant for low-income households than for high-income households."

More on Heavy Buyers

As well as the PCH study, the CPC study of English-speaking Canadians, *Book Buying Attitudes and Behaviours*, provided these findings on English-speaking heavy book buyers:

- They are a smaller segment of the book buying public than non-buyers and light buyers.
- They use a wider variety of sources for their purchases (in particular, used books—almost a third of the books they bought were used; more on used books below).
- Only 1% of them said they paid full price for all of their book purchases.
- They spent \$200 or more on books.
- The author is especially important to them as a purchase driver.

USED BOOK BUYERS

The importance of the used book market continues to grow, as consumers investigate an increasing selection of discount channels (including online) that lessen the financial toll of book buying. The 2005 PCH study found that 41% of Canadian book buyers reported purchasing at least one second-hand book in the 12 months prior to the survey.

Before its discontinuation in 2004, the syndicated study *BookTrends* (by market research firm Ipsos), commented increasingly frequently on the impact of the used books sector in the US. For example, *BookTrends* found that the number of used books bought by Americans in 2003 increased by 5% over the same period in 2002, while demand for new books fell by 2%. Barrie Rappaport, *BookTrends*' manager, summed up the trend this way:

“Why should publishers need to know about used books? Many have told me that they can't publish against them. All publishers, however, sell against them the retailer also sells against them.”

BookTrends found that (in 2002):

- Leisure books (i.e., books read for pleasure) composed the most sought after used book genre, led by mystery/thrillers, romance, science fiction/fantasy, and religious fiction novels, while used informational books like cookbooks and relationship/personal health books were the least in demand.
- Most used books were bought in person, with Internet purchases a distant second. But the Internet rose in prominence as a source for used books in the categories of non-fiction and antiquarian.
- The four key channels of used book distribution were used bookstores, independent bookstores, online retailers, and “others” (including library, church and garage sales, and thrift shops).
- The typical used book-buying household resembles a new book-buying household in terms of demographics.

As noted in the first section of this chapter, used books (and used bookstores) are especially important to heavy book readers and buyers.

THE VARIABLE OF PRICE

Having noted the importance of used books to Canadian book readers and buyers, we should also highlight the crucial role that price plays to prospective book buyers. A 2003 *Quill & Quire* article, “Who Reads?”, observed that “many consumers perceive books—especially hardcovers—as expensive.” This presents a challenge for the book industry given the number of other leisure options competing for Canadians’ time.

The 2002 Pollara survey found that “discount price” followed only “author” and “recommendation from a friend” in the attributes British Columbian respondents considered important when buying a book; price outdistanced book reviews, placement in a best-seller list, Canadian authorship, award, book cover, and in-store promotion. Moreover, the Pollara survey found that “price/cost/affordability” was the biggest hurdle respondents encountered when buying books (30%).

In the 2004 CPC study, respondents buying fewer books today compared to five years ago cited price, second only to lack of time, as the main reason they were buying less.

Consumers are looking for, and expecting, discounts on book prices. The CPC study found that more than three-quarters (78%) of its English-speaking respondents bought at least some of the books they purchased in a three-month time frame at a discount; fully one-third (33%) had bought all their books at a discount. This tendency goes up among heavy buyers. Similarly, the study found that loyalty programs do encourage book purchasing, especially among higher buyers.

THE PLACE OF THE INTERNET

The 2005 PCH study found that the Internet is currently more important to Canadians as an information source for books than as a channel for book buying. Specifically:

- Nearly 4 in 10 (37%) Canadians went online in the 12 months prior to the survey to find books or information about books.
- Just over 1 in 10 (12%) went online in the same period to buy books.

The study also found that the rate of going online to seek information about books is growing at a much faster rate than is the rate of buying books online. But the study did note that interest in buying books online is increasing: in 2005, 1 in 5 (21%) buyers said they were interested in making an online book purchase in the near future versus 14% in 2002. The PCH study estimated that in 2004, about 4% of all books sold in Canada were bought online.

Convenience is a key draw for online book buyers. The 2002 Pollara study found that by far the top two reasons British Columbians cited for buying books online were “couldn’t find the book in-store” (44%) and “it’s easier/for convenience/to save time” (29%).

Despite respondents’ professed satisfaction with Internet book buying (in both the Pollara and PCH studies), both studies found that Canadians still prefer traditional purchasing to the

online sort for their books: the Pollara study found that 67% of respondents' preferred mode of purchase was the bricks-and-mortar bookstore, versus just 15% for the Internet.

RETAIL FACTORS IN BOOK BROWSING AND BUYING BEHAVIOURS

Hewlett-Packard conducted a fascinating (if sample-limited) qualitative study in 2003 called *An Observational Study of an Independent Book Store*, the contents of which suggest what advantages traditional book retailers have over the online channel. The authors observed and interviewed customers and staff of Kepler's, a large independent bookstore in Menlo Park, California, over a two-week period. The resulting research underlined the importance of tactile, visual, and environmental stimuli in influencing book purchasing decisions. Some of the study's most interesting observations included:

- Most people in the store had come in to look around and browse; many were there to kill time before meeting someone or passing through from some other place.
- Many of those who had an intention to buy something were looking for a gift for someone, which often led to their buying something for themselves, too.
- But customers often didn't know what they were looking for, and most spent more than half an hour browsing books before leaving with or without purchases. Very few customers brought lists, suggesting a very different experience than that of grocery shopping or other task-oriented missions.¹²
- The *experience* of being in the bookstore emerged as very important; buying a book was not necessarily customers' main motivation for being in the store. Looking around, talking to staff, comparing books—all these generally happened before a purchase was made. One could extrapolate from this and imagine that the Kepler's customer who buys a book is in one way paying for an experience *as well as* a product.¹³
- The average Kepler's customer used a good deal of the store's space to wander around, sample products, and socialize with other customers or staff.
- Customers' main focus was the display tables—much more than the shelves. Tables highlight books' visual attractiveness and convey much more information than shelves do—pictures, comments, quotes, award stickers, etc.
- Bookstore customers are *samplers*. As with so many other important purchase decisions, consumers want a sense of what they are committing to before purchasing

¹² This exploratory impulse contrasts with the more purposeful behaviours prompted by online book sites; as one Kepler's customer explained, she only ever bought online when she knew exactly what she wanted.

¹³ This hypothesis gains ground when we look at one customer's admission that he ended up buying something to justify his having used, in effect, the bookstore: "He liked spending time reading in the physical store because it was the only time he got to read properly and even if he didn't read the whole book, it was time away from other things. He did, however, feel some need to buy something just because he had been in the store and would often walk away with a magazine 'at least.'"

a book. The study noted, “People came to the store because they could see what was there, touch it, flick through it, compare it to other candidate products ...”

- Related to the previous bullet is the importance of tactility to book buyers: “The people who bought the most books were those who touched them the very hands-on approach led to more time being spent in the store and more books being bought.”
- The majority of Kepler’s customers wanted more information, and “this was demonstrated by the fact that they spent time reading the front and back of book covers, read staff recommendations, and valued passing comments by other shoppers.” Information provided in-store can lead to an impulse buy, which as we detail next, is a crucial component of book sales.

The Importance of Impulse

Pollara’s 2002 *English-Language Book Buyers in British Columbia, Canada*, found that virtually as many respondents (48%) said they bought books on impulse as said they go into a store knowing what book they want to buy (53%). An earlier (1996) national study by Barnes & Lorimer found that fully “63 percent of purchasing decisions were made in the store, and 39 percent purchased books they had never heard of previously.” These findings underline the crucial role the retail environment (including store layout and informational resources) plays in stimulating sales of books. Potential book buyers are looking for cues, as underlined in the following findings.

The Importance of Display

A provoking finding from Barnes & Lorimer’s 1996 study was that two-thirds (66%) of respondents bought books displayed face-out (as opposed to spine-out). Pollara’s 2002 study with British Columbians also revealed the advantage displayed books have: 32% bought books displayed face-out on the shelf and 16% bought books displayed on a table—combined, much higher than the 22% who bought books displayed spine-out on the shelf.

CPC’s 2004 study found a link between display and impulse purchases. Displays (40%) were the top reason cited by respondents for unplanned purchases, followed by the related reason of “book positioning” (27%), and then book reviews (20%).

Final Evaluation Criteria for Purchasing Books

Both Barnes & Lorimer and Pollara found the top three reasons for buying a book to be “interested in subject,” “gift for someone else,” and “because of the author.” The CPC study found that 86% of English-speaking book buyers said they bought books for themselves in the three months prior to the study, while 38% bought books for someone else.

When we look at these figures, we can surmise that the content and authorship of the books is very important to Canadians buying books for themselves. However, given the incredible selection they face, the fact that many of them go into a bookstore not knowing what they want to buy, and that many are looking for gifts, the display and information retailers provide to help potential buyers find books of interest is exceedingly influential.

IMPLICATIONS OF CONSUMER BEHAVIOUR

The habit of reading books for pleasure continues among Canadians despite increasing demands on and options for their leisure time. According to some research, reading for pleasure has so far proved more resistant to the competition of the Internet than have magazine or newspaper reading or TV-watching. But the habit is not to be taken for granted; reading rates have been dropping in many comparable world markets and Canadian readers face many of the same barriers and challenges to reading regularly as do the populations of these markets.

Chief among these are demands on time (leisure time in particular) and the perception that books are expensive. The trend toward used and/or discounted books is well underway, and retailers of all stripes and colours cannot but acknowledge this. The question facing them is what to do about it. One possibility would be stocking both new and used titles to give potential buyers price choice. Another would be rewarding heavy buyers for their purchasing behaviour through loyalty programs or other incentives. Clearly, there is a need for brainstorming on the issue of potential book buyers’ price sensitivity.

In terms of online or offline channel preference, Canadians seem to be valuing each for different reasons. They like the convenience and selection of online bookstores, and the experience provided by a good bricks-and-mortar bookstore. The Hewlett-Packard study shows that Kepler’s customers appreciated the visual and tactile stimuli, social atmosphere, physical space, and in-person informational aid available in-store—all of which were observed to be key precursors to the actual purchasing of books. The bookstore served as a leisure experience in itself. While we note that these factors will vary by type of retail outlet, traditional Canadian bookstores might be well served by leveraging the Kepler’s findings through attention to atmospheric and spatial elements, informational resources (e.g., staff picks or shelf talkers), and staff training, quality, and support.

Finally, the research is unanimous in declaring that potential book buyers are greatly influenced by the way books are displayed in-store. Many impulse buys are made as a result of book displays, and impulse buys account for a large number of book purchases made. This provides the rationale for the co-op or placement fees increasingly requested of publishers by retailers.

THE CONSUMER BOOK MARKET IN CANADA

MEASURES OF MARKET SIZE

The consumer market for books refers to books purchased at retail by Canadians for personal or professional use. As such, it excludes domestic sales of textbooks or scholarly titles, which are mainly sold through academic or institutional channels. While a global view capturing all book retail sales in Canada is often elusive, the country's consumer market for books can be measured in various ways.

Statistics Canada reports total sales for Canadian publishers of \$2.15 billion in 2004, and total book sales in Canada of \$1.37 billion. This figure does not completely reflect the size of Canada's domestic book market as it excludes some large sales volumes of imported titles (see discussion on following page). As the excluded firms do not report publicly, we cannot account for their sales with confidence. Further, 41% of the \$1.37 billion in domestic sales reported by Statistics Canada is accounted for by educational texts (excluding scholarly titles). As such, while it contains much useful information on the Canadian book publishing industry, the Statistics Canada data do not provide us with a complete measure of the domestic consumer market for books.

More recently, Hill Strategies Research released a Statistics Canada-based report¹⁴ that calculated total consumer spending on books (excluding school books) for 2005 at \$1.4 billion.

In 2005, BookNet Canada, a Canadian supply chain agency, implemented a point-of-sale data tracking system for retail book sales known as BNC SalesData. This system now gathers sales data from 647 retail outlets¹⁵ in Canada, with an estimated market coverage of 65–70% of retail trade sales for English-language books in Canada.

BookNet reports a total sales volume of \$839,714,492 on unit sales of 45,976,827 for 2006¹⁶. Taking BookNet's estimate of 70% market coverage into account, we can extrapolate this to an approximate value of \$1.2 billion for 2006 consumer book sales in English Canada.

Given BookNet's limited coverage in the Quebec market (stores reporting from Quebec are limited to those reporting English-language title sales), we can further extrapolate this figure by factoring in retail sales for Quebec. The *Institut de la Statistique de Québec* (Statistics Quebec) reported total retail sales of books as \$585,500,000 for 2006. Statistics Quebec figures also indicate that textbooks account for 20% of this total value. If we factor out these textbook sales from the overall sales volume for Quebec, this gives us an estimate of \$468,400,000 for consumer book sales in the province.

¹⁴ *Consumer Spending on Culture in Canada, the Provinces and 15 Metropolitan Areas in 2005*, Hill Strategies Research, February 2007.

¹⁵ 82% of these are accounted for by Indigo, Costco, and HDS (Hachette Distribution Services) outlets.

¹⁶ In fall 2007, BookNet Canada published a detailed summary of BNC SalesData in its first annual review entitled *BNC Research: The Canadian Book Market 2006*. Copies of the report can be ordered through the BookNet Canada website at <http://www.booknetcanada.com>.

Given the natural overlap between BookNet and Institut figures—statistics from both include sales by Indigo, Costco, and HDS outlets operating in Quebec—we will reduce this figure to a more conservative estimate of \$385,000,000, giving us an overall 2006 value for Canadian consumer book sales of \$1.59 billion.

This is perhaps the closest global market figure we can responsibly estimate, but it is still not likely to be a complete measure of consumer sales in this sector. The non-traditional channel, particularly outside of Quebec, will not totally be captured in these values and as we discuss in a subsequent section, the non-traditional channel accounts for an increasing proportion of market share.

Similarly, remainder and used books sales have figured more prominently in the domestic book market in recent years. These sales are not reflected in the other measures of consumer book sales presented here; nor can we estimate them with precision at this time. We should therefore understand the estimate of \$1.59 billion given here to refer mainly to the domestic sales of new books to Canadian consumers.

SHARE OF MARKET FOR CANADIAN FIRMS AND TITLES

Beginning with its 2004 survey of book publishers, Statistics Canada adopted a sampling methodology, as opposed to the population-wide survey it had employed in previous years. This change has implications for the ability to capture accurate market share data for Canadian firms and titles. The study sample is now drawn from those firms whose primary business is book publishing, as identified by the North American Industry Classification System. This methodology excludes two types of firms: (1) those whose primary business is something other than book publishing but that nonetheless have an active publishing program, and (2) those that are exclusive agents or distributors of other publishers' titles, but which do not have an original publishing program themselves. Consequently, the survey represents a significant, but not complete, picture of the Canadian book market.

The 2004 Statistics Canada figures indicate that Canadian-owned firms accounted for 41% of domestic sales by Canadian-based publishers (with Canadian subsidiaries of foreign-owned multinationals accounting for 59%). However, due to the methodological changes identified above, these figures likely overstate the share of market for Canadian firms, as some large distributors of imported titles (e.g., exclusive agents) are excluded from the survey sample.

The share of domestic sales held by Canadian-owned firms is a significant market characteristic in its own right, but even more so given the relationship between ownership and production of Canadian-authored titles. Statistics Canada title output figures show a high correlation between ownership and publication of Canadian authors, with Canadian-owned publishers accounting for roughly 77% of new Canadian-authored titles published in Canada. That said, a number of foreign-owned publishers in Canada also maintain an active publishing program of Canadian authors.

Canadian-authored titles represent 80% of the portion of Canadian book sales covered by the Statistics Canada survey. Similarly to the figures for Canadian-owned firms, however, the exclusions in the survey scope mean that this figure is likely to be overstated¹⁷.

TITLE AVAILABILITY

As of 2007, BookNet Canada’s BNC SalesData system tracks sales performance for more than 675,000 unique titles available to the Canadian retail market. Statistics Canada indicates that overall title production in Canada, for both Canadian-owned and foreign-controlled firms, grew by 40% from 1998 to 2004.

Table 2. Total new titles published in Canada, 1998–2004

1998	2000	2004
11,980	15,709	16,776

Source: Statistics Canada

The number of total new titles published in Canada provides an important performance benchmark for the national publishing industry, and indeed, the growth in title output over time can be taken as an indication of strength in the sector.

The significance of title output numbers, however, should also be assessed in the context of consumer demand. Title output, as described in the table above, grew by 40% from 1998 to 2004, while the combined sales volume of publishers in Canada grew by only 11% (after adjusting for inflation)¹⁸ during the same time period.

The net effect is that a growing number of books are contending for the attention of roughly the same number of book buyers, a situation that is amplified by a number of the other trends discussed in this study, such as the growth of used and online book sales.

¹⁷ In comparison, the 1996 Statistics Canada survey—the most recent year in which the data included exclusive agency sales (thus providing a more complete picture of the overall Canadian market)—estimated the market share of Canadian-authored titles (both educational and trade) at 47%.

¹⁸ Statistics Canada, Bank of Canada.

MARKET EFFECTS

The estimate of the consumer market given here—\$1.59 billion in 2006—is as interesting for what it doesn't measure as what it does. As noted earlier, a number of aspects of the domestic consumer market are hidden from statistical view at the moment, including some book sales in emerging non-traditional channels, used book sales, and sales of remaindered stock. However, the increasing availability of such stock to Canadian consumers, combined with a demonstrable increase in new title output, dramatically increases the supply of books in the Canadian marketplace.

Caveats aside, the various measures of market size available to us indicate modest sales growth in the domestic market. Much of this growth appears to be driven by inflation over time, as opposed to growth in unit sales.

This relationship—between a marked increase in title output and overall supply, and relatively flat unit sales—suggests that both the average sales per title in Canada and average print runs in many title categories have been falling in recent years. This observation is supported by anecdotal reports and proprietary data sets contributed by study respondents.

We believe these patterns create the following market effects:

- More new titles are available to Canadian consumers, as is a wider range of product and price options, including used and remaindered stock.
- Used and remaindered books compete with new books for consumer attention and retail shelf space. At the same time, Canadian publishers increasingly encounter higher costs of sales, having to pay for co-op advertising, placement fees, and other promotional costs to secure retail space for new titles.
- A title's placement and promotion within retail outlets is a highly important selection filter for book shoppers faced with a huge range and volume of available books. Many respondents noted during the study, "There are too many books [competing for a fixed amount of buyer and reader attention]."
- Fewer economies of scale are available to Canadian publishing firms, as they grapple with declining average unit sales per title. This is especially significant for smaller publishing houses, which produce the majority of Canadian-authored titles as well as literary titles and books that are culturally significant but often marginally profitable.

TRADITIONAL BOOK RETAIL

A BRIEF INTRODUCTION TO THE CANADIAN BOOK TRADE

Despite all the changes in the book trade over the past ten years, traditional book retail channels still account for the majority of consumer book sales in Canada. The traditional channel is fairly easily defined as the domain of the specialist bookstore (i.e., the retailer whose primary business is selling books), whether chain or independent or whether a general or specialty bookstore (e.g., a store specializing in cookbooks or children's titles).

TRADING PARTNERS

The major participants in the traditional retail sales channel—those that create the linkages between author and reader for the majority of consumer book sales—are publishers, distributors, wholesalers, and retail accounts.

Publishers acquire and prepare material for publication through a series of integrated, value-added editorial, design, and production processes. They either distribute the finished books themselves or contract this service to a specialized distributor. Distributors provide a wide range of services for client-publishers, including sales management, sales representation, warehousing, fulfillment (processing and shipping of orders), and returns processing as well as invoicing, collections, and comparable office administration services. Typically, the same distribution firm will offer these services in various combinations to different client-publishers.

The line between a publishing firm and a distribution company is sometimes blurry; a number of companies play both roles. Some undertake their own original publishing program as a primary area of business and accept additional publishers as distribution clients to defray excess warehouse or fulfillment capacity and/or underwrite the publishing program. Other firms rely on their distribution business as a primary source of revenue and undertake an original publishing program as a secondary aspect of operations. Still others focus entirely on providing distribution services.

Publishers may retain their own in-house staff to act as sales managers or sales representatives, or they may contract for these services with an independent commissioned sales agency or with a distributor. In each case, the sales representative is the critical point of contact who then represents the publisher's books in the sales process to trade accounts.

Trade accounts can be broadly classified in two categories: wholesale and retail. Trade wholesalers play an important role in the supply chain, particularly with respect to serving lower-volume retail outlets, both bookstores and otherwise, and with respect to providing prompt fulfillment services for key backlist and frontlist titles. A good book wholesaler allows accounts of all sizes to fill re-orders quickly, and smaller accounts to efficiently order small amounts of stock from multiple publishers.

Retail accounts select and present book inventory to the consumer—the final buyer in the supply chain—and can be categorized in various ways. The first distinction often drawn among bookstores is between chain and independent stores.

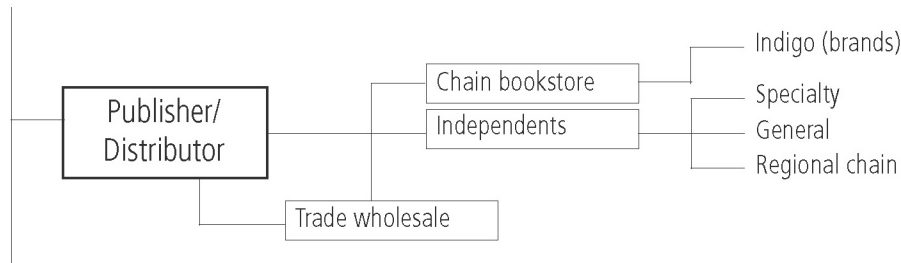


Figure 2. The structure of the traditional book retail channel

Chain bookstores have played an important role in Canadian bookselling since the 1930s, when the first Coles and Classics outlets opened. These early chain outlets were joined in 1950 by the first WH Smith outlets in Canada. Both Smith and Coles went on to establish nationwide chains of bookstores in the following years.

In 1995, a combined 400 SmithBooks/LibraireSmith and Coles outlets, roughly 20% of the country’s bookstores at the time, were acquired by a private investment group and merged to form a single national chain: Chapters. The new chain began an ambitious expansion program that saw:

- (1) the creation of a network of large-format bookstores—carrying up to 100,000 titles per location and featuring in-store cafés, music, and other product extensions;
- (2) the launch of an online bookselling site in Chapters.ca;
- (3) the establishment (and subsequent closure) of Pegasus, a trade wholesaler and wholly owned subsidiary.

In 2001, Chapters was subsequently acquired by Indigo Books & Music, a smaller chain that had also established a number of large-format stores throughout the late-1990s.

In contrast to this national network of stores, independent bookstores are smaller, locally owned firms. Independent bookstores can be further broadly categorized as general or specialized bookstores. General stores carry a wide selection of titles for the general public (e.g., Toronto’s Book City), and specialized retailers carry a deeper selection of books in a specific category (e.g., Barbara Jo’s Books to Cooks in Vancouver).

Barely contained in the independent category are large regional chains, such as Renaud-Bray in Quebec, that operate through several store locations and hold a significant share of a provincial or local market. These regional chains are the exception in the independent category; more common are the large number of independent booksellers in Canada that operate a single outlet.

TERMS OF TRADE

Unlike in other retail sectors, in the book trade, the manufacturer (the publisher) establishes the list price for each book. This price is printed on the cover, and it provides the basis against which trade discounts and author royalties are calculated. In theory, the list price also provides cost certainty for consumers and a level playing field for all retailers by establishing

a common price. In practice, this is not always the case, as price discounting, especially on bestselling frontlist, has proliferated.

Even so, there are well-established price conventions for the different types of trade titles¹⁹. In the English-language market, prices are usually set at roughly \$29.95–\$34.95 for many hardcover books, \$19.95–\$22.95 for trade paperback, and \$9.95–\$12.95 for mass market paperback. In the French-language trade book market, a regular-format paperback will generally be priced in the area of \$23.95, while books in *livre de poche* or pocketbook format are generally priced between \$12.95 and \$13.95. These price conventions are informed by consumer expectations/price sensitivity, established practice within the book trade, and the list prices of comparable titles imported from foreign publishers, particularly those from the United States and France. Most publishers feel that they have little flexibility to price above these established ranges. The ability to raise prices has been further constrained by the current appreciation of the Canadian dollar, which has created a situation of price deflation in the Canadian book trade, with many Canadian list prices dropping by roughly 6% in 2006–2007. Additional Canadian price adjustments announced during summer 2007 will see overall reductions of 11–12% from 2006 prices.

Books are sold to wholesalers and retailers at a “trade discount” from the list price, which effectively represents the margin for a wholesale or retail account on each copy sold. For example, if a publisher sells a book with a list price of \$20 at a 50% discount, the publisher will receive \$10 for the book and the retailer will realize a \$10 margin, presuming the book is sold for the full list price.

Historically, these discounts have been in the range of 50% for wholesalers and 40–44% for retail. Over the past ten years, however, retail discounts have crept upward (particularly for high-volume accounts) and are now more commonly in the 44–48% range. Given the limited ability of publishers to increase list prices, the deepening of trade discounts has transferred up to 4% of margin from the publisher to the retail account.

The following example illustrates a typical breakdown of the list price of a book, based on information provided by a small literary press in Canada²⁰. This approximates the distribution of a dollar received at the bookstore cashier for a publisher’s book:

- \$.48 to the bookseller
- \$.10 to the author (royalty)
- \$.10 to the sales representative (sales commission)
- \$.15 for fulfillment (distribution fees to a distributor, or costs for a self-distributing publisher)
- \$.08 for the costs of producing the finished book (paper, print, and binding)
- \$.09 for the publisher (for administration, marketing, editorial, and pre-press production)

¹⁹ Standard book formats differ according to language market. For instance, hardcover books are common only in the English-language market.

²⁰ This cost breakdown is intentionally simplified here for illustrative purposes. The cost and margin structure of an individual publishing house will vary somewhat by scale of operations and across different types of publishing programs and sales channels.

Three other issues figure prominently in the mechanics of the Canadian book trade: returns, payable periods, and co-op promotions.

Contrary again to the trading practice in many retail sectors, all books sold through traditional bookstores are sold fully returnable; booksellers can return books to distributors or publishers if they find they are unable to sell them. This practice dates back to the 1950s, and it was prompted by intense competition and an agreement between booksellers and publishers to share the risks of the business.

The returns practice persists in the book trade under the following rationale: each book is, at least to some extent, a unique product; even a small general bookstore will carry roughly 20,000 titles (a daunting buying and inventory management proposition for any retailer); and given the oversupply of books there is considerable pressure on retailers to buy aggressively (i.e., to take as many titles as possible and as many copies of each title as they can reasonably expect to sell). Seen in this light, returns practices in the traditional book retail channel can be understood as an accommodation between publishers and booksellers, and as an attempt to establish an equitable distribution of inventory risk, particularly with respect to new titles, across the supply chain.

Under conventional returns practice, the retail account must hold the stock in store for at least 90 days but not more than one year; must return the books undamaged and suitable for resale; and must pay the shipping charges on return shipments. Under this practice, the retailer receives a credit on its account for the value of returned stock. The publisher reduces its accounts receivable and cash flow forecast by an equivalent amount.

Many publishers believe a certain level of returns is a necessary cost of doing business, and that otherwise it would be impossible to get retailers to take the same degree of risk in stocking new titles. In any case, the practice has proven to be extremely entrenched within the book trade and any previous attempts by publishers to move to non-returnable sales to bookstores have been short-lived and unsuccessful.

The issue of returns is tied to another business practice in the book trade: payables. Partly because of established returns practice, most publishers accept a payable period of 90–120 days on bookstore receivables. This is a lengthy period compared to many industries, and one during which the publisher bears responsibility for underwriting all cash requirements of editorial, design, production, and marketing. If a retail account is itself pressed financially, this payable period can stretch beyond the 120-day mark and/or the publisher may receive a shipment of returns, as opposed to an invoice payment, to draw down accounts payable for the current period.

A final aspect of trading practice, the issue of co-op promotions, has become more pertinent in recent years. The concept of co-op is well established in many industries and refers to a budget that a vendor (in our context, a publisher or distributor) makes available to a retailer to subsidize a specified promotional program designed to support both the retailer and the vendor's products. In the context of a publisher-retailer relationship, co-op could range from an in-store promotional event to a newspaper advertisement to a window display to a customer newsletter.

Co-op, as the term suggests, is intended to be a joint initiative of the vendor and retailer, and often an initiative where each will share the costs involved through some combination of cash and in-kind contributions. Increasingly, however, the term is also used to refer to placement fees that a retailer receives to secure a prominent in-store position for the publisher's title(s); for example, a display table, a featured title wall, or an end-cap display. While common in many retail sectors, such placement fees were previously unknown in the book industry. They have become more common in the past ten years, particularly among large retail accounts.

Co-op budgets for a given year are generally based on a percentage of the previous year's sales. The convention in the book business is that this ranges between 3% and 5%, and as such establishes an estimated budget for the co-op contribution of the vendor for the current year. This budget then becomes a framework within which the vendor or retailer may propose various co-op contributions, and against which the level of co-op contributions actually made can be evaluated by all parties.

In practice, these co-op commitments may be made broadly in support of a publisher's list as a whole, or for a subset of featured titles, or may be assigned on a case-by-case, title-by-title basis throughout the year.

MARKET SHARE BY SALES CHANNEL

In Canada, one national bookstore chain, Indigo, holds a leading market share in all regions except for Quebec, where two regional chains—Archambault and Renaud-Bray—hold the major share. In addition to the national and regional chains, there are nearly 2,000 independent booksellers of various kinds throughout Canada. These stores include general booksellers, specialty stores (e.g., children's, cookbooks, genre fiction), campus outlets, used bookstores, and others.

There are certainly other important retail accounts for Canadian publishers, and many other outlets where consumers can buy books. These can be broadly categorized as non-traditional and online and include general merchandise retailers, such as Costco and Wal-Mart, and major online retailers, such as Amazon. We address these sales channels at length in separate chapters in this paper. For the moment, however, we will consider how consumer book sales in Canada break down across these different points of sale.

As with the question of market size, there is no single authoritative source for how book sales are distributed across sales channels in Canada. To arrive at a reasonable estimate, we compiled sales data for a large sample of Canadian publishers. This sample included both Canadian-owned and multinational publishing firms operating in Canada.

The combined domestic sales for firms in the sample are equivalent to roughly 50% of the total consumer market estimate of \$1.59 billion given previously, and the sample set of publishers is otherwise representative of the Canadian publishing industry with firms of all sizes and from all parts of the country included. For the sake of creating a meaningful and representative estimate, reported sales percentages were combined with corresponding net

sales volumes for publishers within the sample to create the weighted average breakdown given here.

As such, we believe the distribution given in Figure 3 can be reasonably applied to the domestic book market as a whole.

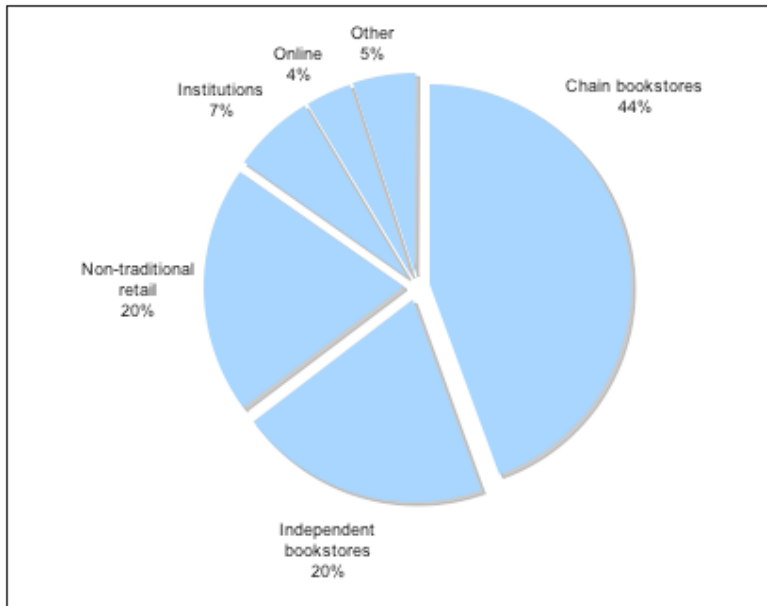


Figure 3. Distribution of domestic book sales, excluding educational texts, in Canada, 2006

As Figure 3 indicates, chain bookstores accounted for 44% of domestic book sales, excluding textbooks, in 2006. Independent bookstores held a 20% market share, with non-traditional retail and online booksellers accounting for a further 20% and 4%, respectively.

There are various ways of categorizing book retailers and sales. Within the breakdown in Figure 3, chain stores include all Indigo-brand outlets. As noted earlier, the two major regional chains in Quebec (Renaud-Bray and Archambault) hold a comparable share of market in the province (44% in 2006²¹).

The independent bookstore category in Figure 3 comprises single-outlet booksellers, including campus bookstores, as well as major chains in Quebec and multi-outlet independent booksellers throughout the country.

The non-traditional retail category includes mass market and discount outlets, such as Wal-Mart, as well as other general merchandise and specialty retail accounts. The online bookseller category includes both online-only retailers, such as Amazon, and bricks-and-mortar affiliates, such as Chapters.indigo.ca. Figure 3 indicates that the online channel accounts for 4% of sales, but we note that most publisher or distributor sales data do not discriminate between sales to Indigo's bricks-and-mortar stores and sales made via Chapters.indigo.ca. Indigo's public revenue reports suggest that its online operations account

²¹ L'Observatoire de la culture et communications.

for roughly 4% of consumer book sales. This suggests in turn that the overall share of consumer book sales for the online channel is approximately 8%.

Finally, the institutions category includes sales—both direct-from-publisher and via a specialty wholesaler—of trade books to libraries and schools. “Other” captures direct-to-consumer sales along with any other transactions not captured within one of the other categories in Figure 3.

With the exception of Quebec (see “The Book Market in Quebec”), we do not have detailed historical data that illustrate the distribution of book sales by channel. However, the available data do allow us to make a few general observations.

- The market share held by chain bookstores has increased in recent years, both in Quebec and in the rest of Canada, as the share held by independent bookstores has gradually declined.
- Any nationwide breakdown of sales by channel, including the one given here, is best understood as an average of the individual sales distributions of Canada’s diverse publishing community. The actual percentage of sales accounted for by each sales channel will vary by publisher, according to the type of books being published, the sales strategies employed, and the scale of operations of the individual publisher. For example, while Figure 3 attributes a 44% market share to chain bookstores in Canada, this number will be as high as 60–65% for some large firms with more commercial lists, and often below 40% for many smaller firms, particularly those with more niche publishing programs.
- Similarly, there is a correlation between the size of the publishing firm and the degree to which it relies on the independent bookstore channel. Independent bookstores currently account for an average of 27% of sales for publishing firms with revenues of \$499,999 or less, but an average of only 15% of sales for those with annual revenues of \$3 million or more.

TRADITIONAL RETAIL ACCOUNTS

THE NATIONAL CHAIN

Indigo operates 85 large-format stores under the Indigo and Chapters brands, and 152 smaller Coles, The Book Company, and SmithBooks outlets throughout Canada. Large-format stores (also referred to as “superstores”) range in size from 13,000 to 67,000 square feet, with the majority in the range of 20,000–30,000 square feet. The average superstore has roughly ten times the square footage of Indigo’s smaller outlets or “mall stores.”

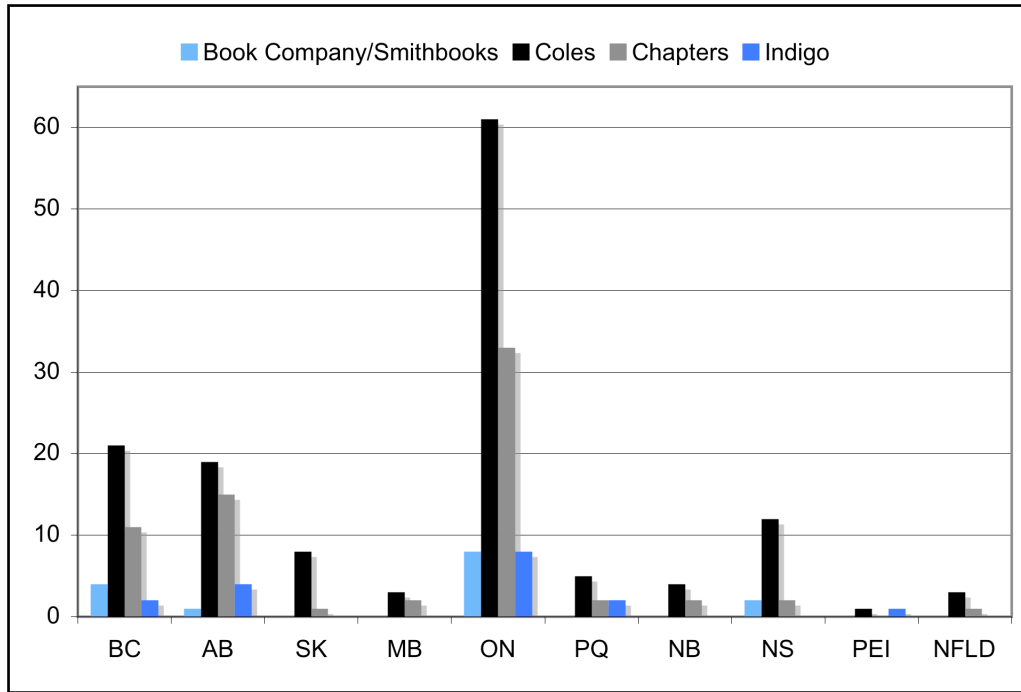


Figure 4. Distribution of Indigo and Chapters brands by province²²

Indigo carries a wide general book selection—70,000–100,000 titles in its large-format stores and closer to 10,000 in mall outlets—along with significant non-book inventory in the stationary, gift, music, and magazine categories.

In addition to its bricks-and-mortar stores, Indigo also operates a major online bookselling site at Chapters.indigo.ca. (See “Online Book Retail” for more.)

Any market leader will earn its fair share of scrutiny and criticism, and Indigo is no exception. Critics point out that to have only one national chain leaves too much choice in the hands of one retailer, and that the preferences of Indigo, in terms of stock selection and terms or trade, will effectively determine the books available to consumers. Objectively speaking, this is a real possibility. If an Indigo buyer decides not to carry an individual book, the publisher of that title effectively loses access to roughly half of the Canadian retail channel.

²² Indigo also operates a Coles outlet in Whitehorse, Yukon Territory.

On the other hand, proponents credit Indigo with efforts to work cooperatively with industry groups and with creating more accessible, high-visibility retail spaces that boost the profile of books overall. This is hard to measure, but it appears that the expansion of Chapters, and subsequently the Indigo chain, has resulted in a net increase in retail square footage for books in many local markets across the country.

In any case, and both before and after Indigo's acquisition of Chapters in 2001, trading partners and industry observers have evaluated the national chain's performance against a number of practical considerations: its buying processes, requirements for co-op, effects on trade discounts, level of returns, and payment schedules.

Indigo's Toronto-based buying team buys for all Indigo stores in the country. Each buyer is responsible for a category, or categories, within the store and is evaluated against category performance. Indigo's buying for regional books (i.e., local interest titles) is centralized at head office, but in recent years the regional buyer in Toronto has been supported by a network of regional buying consultants who work together to help ensure that regional titles are properly stocked.

By all accounts, Indigo's buying has become more conservative in recent years as it works to manage its inventory investment and to focus on stock that will turn reasonably quickly²³. Orders for backlist have been trending downward as have advance orders for frontlist. Following the conclusion of its much-discussed SAP implementation in 2006²⁴, publishers report that Indigo's buying patterns have stabilized and that orders for backlist have been picking up as a result.

Indigo has also implemented an "open to buy" system that has come more actively into play for 2007–2008 orders. Open to buy is a system for managing inventory budgets and cash flow across the chain. Under this approach, category buyers are given weekly or monthly budgets and charged with managing their buying within them. This new system is likely to have implications for the timing and size of orders as buyers work within their assigned budgets.

As noted earlier, store placement is a vital determinant of sales in the traditional retail channel, and Indigo expects its vendors, particularly mid-sized or larger firms, to contribute co-op dollars in return for premium placement in the store or other marketing supports.

This practice is common in other retail sectors, but remains somewhat controversial in the book trade. Critics argue that this system favours larger firms that can commit to co-op for

²³ The terms "inventory turns" or "inventory turnover" refer to salability of stock and are used to measure the relationship between inventory holdings and sales. In practical terms, stock that sells more quickly, meaning that the retailer "turns" its inventory more during a given period, is a measure of operational efficiency as every retailer will try to manage its inventory investment to an optimal level in relation to sales.

²⁴ SAP is a German-based software company, the largest in Europe and the fourth-largest in the world. The company is the category leader in enterprise-level operations and resource management software, and provides extensive customer relationship management, supply chain management, and other systems to large corporate clients worldwide. Indigo began implementing an SAP system in 2004 to achieve greater efficiencies in the areas of sales analysis, ordering, inventory management, and returns.

premium placement, and that this is an inappropriate filter for the book buyer. Others see it as a necessary cost of doing business in today's book trade. In the end, that publishers continue to contribute these co-op budgets, and even compete for optimal co-op placements, suggests that those who can afford to do so not only find it acceptable, but also worthwhile to support their books in this way.

However, the cost can be significant, to the point that this presents a barrier in the chain bookstore sales channel for smaller firms. For example, if a publishing firm with \$1,000,000 in annual sales has half of those sales with Indigo, this could translate into a projected co-op budget for the following year of \$15,000–\$25,000. Given the slim profit margins of many publishing firms, this additional demand on cash flow may simply not be feasible.

The strong market position of Indigo appears to have contributed to some notable shifts in other terms of trade in Canadian book retail. Prior to the launch of Chapters and then its acquisition by Indigo, publishers' discounts to major trade retail accounts ranged from 42% to 45%. They are now more in the 46% to 49% range. While there are hopes that a successful SAP implementation and broader improvements within the supply chain will help to manage returns downward, returns rates have been high under Indigo. At their worst, trade publications and the general press have reported returns rates as high as 50–70% for some publishers, and this as recently as 2005²⁵.

As the country's largest book retailer, Indigo is the top-ranked retail account for many Canadian publishers. As a result, those publishers that rely mainly on traditional retail channels for domestic sales will have considerable inventory and accounts receivable investments with the chain. Practically speaking, these firms are exposed to risk and instability to the extent that ordering and returns patterns are unpredictable, or that payment periods run too long. These effects are generally felt most acutely by smaller firms that will have lower volumes of business, and so lesser influence, with a major national account.

Indigo recently released its annual financial results for the fiscal year ended March 31, 2007, reporting overall revenues of \$875 million and profits of \$30 million (an increase of 3% and 18%, respectively, from the previous year). This growth has been fuelled by increases in superstore sales of 4.5% and mall store sales of 8.5%. However, Indigo's online operation was the fastest growing area of sales, gaining 18% in 2006–2007.

Given the company's reported \$48 million loss in 2002, these results mark a major turnaround in the fortunes of the combined Indigo-Chapters chain over the past six years. *The Financial Post* recently commented on Indigo's improved financial condition:

“[Indigo CEO Heather Reisman²⁶] has poured in capital, improving disorderly supply chain and warehouse systems, and increased sales through loyalty programs and incorporating more high-margin gift items, stationery, educational toys and games into the stores.²⁷”

²⁵ Scott MacDonald in “Settling Down,” *Quill & Quire*, May 2006.

²⁶ Indigo is 70%-owned by Ms. Reisman and her husband Gerry Schwartz, chief executive of Onex Corp. The company is publicly traded and listed on the Toronto Stock Exchange.

²⁷ Hollie Shaw in “Indigo pens next chapter,” *Financial Post*, June 22, 2007.

This increased profitability, combined with recent reductions in its long-term debt, has given Indigo new capacity to expand. At its June 2007 annual general meeting, the company announced plans to open six new superstores and six new mall stores in the next 18 months. Indigo has also hinted at a number of additional plans, including a redesign of its superstore outlets (suggesting a new retail concept referred to as “Indigo 2.0”), the introduction of new in-store search kiosks, expanded space for non-book inventory, and the launch of a social networking website for avid readers.

INDEPENDENT BOOKSTORES

The current edition of *Quill & Quire’s* “The Book Trade in Canada” lists 1,937 independent booksellers throughout Canada. These range from single-outlet retailers to mini-chains of four to five outlets (such as Toronto’s Book City or Montreal’s Librairie Raffin), to larger regional chains like Renaud-Bray.

The term “independent bookstore” can be applied to a considerable variety of retailers, and the *Quill & Quire* listing reflects a wide range of retailers within the category. These include campus stores, large book departments in grocery stores, and used bookstores.

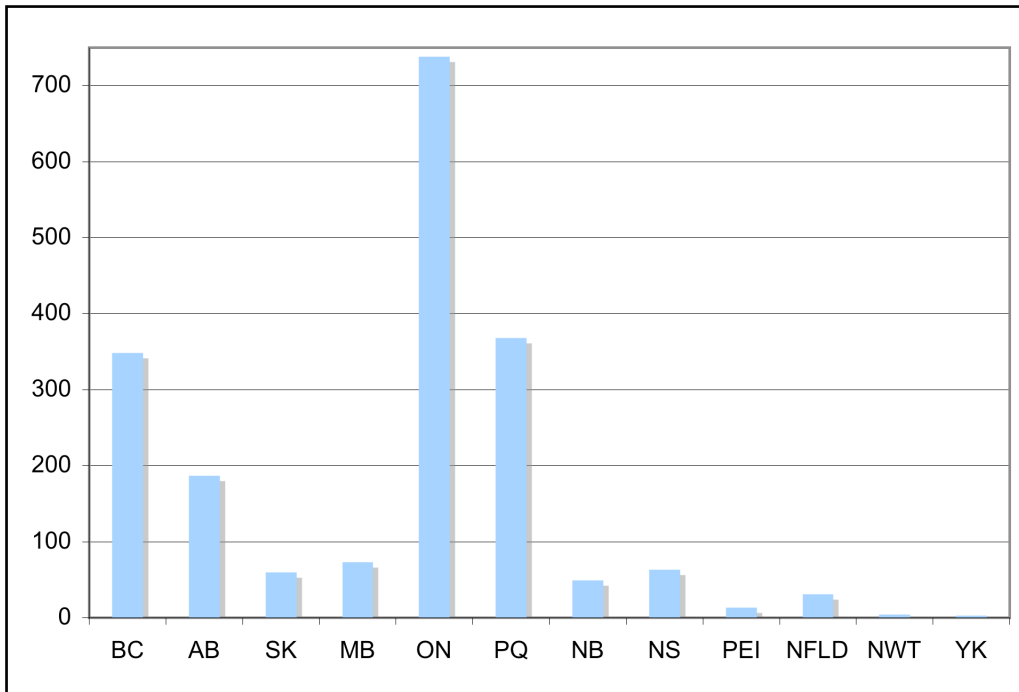


Figure 5. Distribution of independent bookstores by province and territory

The number of independent bookstores in Canada has declined over the past ten years, with notable store closures in most major Canadian cities and in communities throughout the country. A 2001 study commissioned by the Association of Canadian Publishers notes that between 1995 and 1999 alone, the number of independent stores in Ottawa dropped by 19%

and in Calgary by 42%. During this same period, the then-Chapters chain increased its retail square footage by 50% in Toronto, Ottawa, and Calgary, and by 44% in Vancouver²⁸.

There appears, however, to have been some strengthening in the independent bookstore channel within the last year or two. Many independents that have held their market position through the challenging conditions of the last several years appear to be more stable today. Some, notably Black Bond Books and McNally Robinson, are expanding, and new bookstores are beginning to enter the market, including the high-profile openings of Type and Ben McNally Books in Toronto.

Many of these new outlets target communities or neighbourhoods that are currently underserved by specialist book retailers. As *Quill & Quire* recently commented on the market position of independent booksellers:

“Independent booksellers who have managed to grow, whether in recent months or over the past 10 years, all say that the key is finding a niche, either in terms of product or location. Indeed, for all of the talk of community involvement and customer service, which are universally considered to be important parts of success, location is essential.²⁹”

One study respondent characterized the independent bookstore not as a retail outlet but as a community service whose role it is to reflect the interests of the community and to contribute to an exchange of ideas, perspective, and information. This commitment to intellectual and artistic engagement represents an ethic for many independent booksellers, and reflects the importance of the professional bookseller in helping readers find books.

This also illustrates a major strength of independent bookstores: knowledge of the local market combined with expertise in selecting and selling a wide range of books. It is this combination that has led Canada’s independent bookstores to play such a crucial role in introducing new writing to readers across the country, and why the shift of market share in Canada is not just a story of market concentration. There is a widely held view in the book trade that a weakened independent bookselling sector means the erosion of a vital platform for introducing new authors and new work, for supporting quality backlist, and for connecting the book industry to its diverse communities of support. It is difficult to test such ideas with the available data. However, we can make some general observations about how the shifting distribution of sales at retail affects the choices available to publishers and readers. Please see “Current Issues” below.

We underline the notion of community service as ingrained within independent bookstores not to ascribe a higher moral idea to the independent bookseller. Rather, we do so to highlight the reality of the independent retailer as a locally owned and operated business—and to recognize that this local orientation can be a source of competitive advantage.

One of our survey respondents commented, “A successful bookstore is a neighbourhood bookstore.” This point of view came through from a number of respondents during the

²⁸ *A Review of the Canadian Book Industry*, Evans and Company, February 2001.

²⁹ Dan Rowe in “Indie booksellers rise again,” *Quill & Quire*, July/August 2007.

study, and it reflects the idea that the great opportunity for the independent bookstore is to be responsive to the tastes and needs of the community in which it is based. An independent retailer that is locally owned and operated arguably has a better ability to connect its knowledge of the local market to its inventory and services than does a national or multinational competitor that makes its buying decisions outside the local area.

The implications of this local knowledge stretch beyond the competitive position of an individual bookstore. As noted previously, there is a strong association between Canadian-owned publishing houses and the publication of Canadian-authored titles. Many of these titles have a local or regional interest element that is practically built-in because they are published, authored, or set within the region. A strong community of locally owned booksellers, who make their buying decisions in the local area, are on balance likely to be adaptable and open to such titles³⁰. For all these reasons, the health of the independent bookselling sector remains an area of enduring interest for Canadian book publishers.

³⁰ Indigo has also demonstrated its interest in the sales and strategic potential of this local orientation. As noted earlier, Indigo recently revised its centralized buying process for regional titles to allow for more effective buying of local-interest titles. Interestingly, *Quill & Quire* reported in June 2007 that the chain intends to go further in its efforts to match the inventory of its individual stores with the communities or neighbourhoods in which they are located.

CURRENT ISSUES IN TRADITIONAL BOOK RETAIL

SUPPLY CHAIN MANAGEMENT

If there is one constant challenge across all retail channels, it is operational efficiency. It is extremely important to all retailers and vendors that orders are procured, fulfilled, and shipped efficiently from business to business and business to consumer. A number of factors argue for improved supply chain management in the book business:

- Distribution and fulfillment remains a major cost component throughout the book trade.
- In particular, there are significant costs associated with current returns practices.
- New technologies and technological standards have raised expectations for improved practice among trading partners.

The real opportunities some new technologies present for greater efficiencies in the supply chain have prompted an increasing emphasis on them, and on systems development in general, both on an industry-wide basis and at the level of the individual firm.

Within the broad topic of supply chain management in Canada, there have been three main areas of inquiry in recent years:

- Bibliographic data systems and standards
- Electronic data interchange (EDI)
- Point-of-sale tracking (POS) systems

BookNet Canada, a non-profit organization focused on Canadian supply chain improvements, has introduced new innovations in all of these areas over the past five years, including Canadian Bibliographic Certification (bibliographic data standards), Pubnet (an EDI service contracted from Bowker), and BNC SalesData (a point-of-sale tracking system).

The Canadian industry's use of these new tools reveals a couple of interesting patterns. On the one hand, vendors (e.g., publishers and distributors) are driven to invest in technology to create efficiencies in internal operations and reduce the costs of doing business. On the other hand, these efficiencies, especially in order fulfillment, have meant that retailers are buying stock for a shorter time period and expecting fast turnaround times on order fulfillment. This has the effect of shifting warehousing, small-order fulfillment, and stock management costs from retailers to publishers.

Supply chain improvements have also created greater transparency with respect to title availability and pricing data. As noted earlier (see "Key Findings"), this appears to have contributed to increasing parallel importation, as both consumers and retailers seek the best prices and delivery terms from vendors in and outside of Canada.

These considerations aside, supply chain management systems have found wide acceptance within the book industry, and this is a testament to their current worth and to the potential they represent for further gains. Bookseller respondents to this study described major increases in operating efficiencies associated with supply chain improvements. Publishers

and distributors reported similar time and cost savings and indicated that Canada's supply chain improvements have already had an important impact on sales management, sales analysis, and management decision-making.

BESTSELLER CULTURE AND THE VALUE PROPOSITION OF BOOKS

We have described a Canadian book market in which (1) market share is shifting from independent to chain bookstores, and (2) non-traditional retail and online booksellers are gaining market share and poised for future growth. These market shifts have profound implications for the traditional bookstore channel but also for the Canadian consumer book market as a whole, as detailed below.

Discounts are affecting the perceived value of books. More books are being sold by chain bookstores, online booksellers, and non-traditional retailers, including mass market or discount stores, and these outlets generally offer deep discounts from the publisher's list price, particularly on bestselling frontlist or other featured titles. Such discounts are firmly entrenched as a marketing strategy in these sales channels, and are in fact best understood as a marketing cost for the retailer—one that is often underwritten in part by the publisher in the form of an increased trade discount or a co-op investment.

Amazon, for example, has recently conceded that its deep discounts to consumers will mean it will lose money on the final installment in the Harry Potter series, a book certain to be the bestselling title of 2007 and a loss that Amazon is apparently comfortable to incur as a marketing expense.

Whatever its benefits to consumers—and lower prices are certainly important and attractive to book buyers—this discount strategy also has some adverse effects. Consumers quickly become value consumers, looking for the lowest price, either offline or online. They then develop expectations for what bestsellers and new releases should cost, expectations that are difficult for independent retailers to match.

Many observers note that there is a self-reinforcing quality to this discount practice. Consumers become conditioned to locate retail sources for discounts, and to identify what type of books discounts usually apply to—and they make their shopping decisions accordingly. There is a concern that this undermines the perceived value of books, making it less likely for consumers to buy a book, particularly a new release, at the established list price.

In the extreme sense, this concern describes a process where consumer purchases are more informed by price and less by the unique aspects of the individual book, including its literary or artistic merit. As consumer behaviour becomes more weighted by price, so does the supply chain and in particular the selection of books that are featured, or even available, within a given sales channel.

Concentration means more sales for fewer books. This discounting practice also has the effect of concentrating sales at a couple of levels—both by title and by channel. It concentrates sales by title, in that discounted bestsellers prominently featured will sell in large

numbers. In contrast, books not featured in this way will be left on the shelf or simply not be available in store.

We do not have extensive data on how sales are distributed across all available titles in Canada, but these will likely become more available as BNC SalesData's archive continues to grow. Early data from BNC SalesData indicates that:

- Of the 689,020 unique ISBNs tracked by the system in 2006, 373,402 titles sold one or more copies during the year (i.e., 315,618 titles had no sales during the year).
- The top 500 titles accounted for 22% of unit sales and 23% of sales volume in 2006.
- The top 10,000 titles accounted for 64% of unit sales and 61% of sales volume during the year.
- From this, we can deduce that the remaining 36% of unit sales (39% of sales volume) was distributed across 363,402 unique ISBNs.

In addition, we can also look to comparable data from the United States. Nielsen Bookscan (the American equivalent of BNC SalesData) reported the following figures for 2004 in the US:

- 1.15 million titles—representing 93% of all tracked ISBNs that year—sold less than 1,000 units.
- The remaining 90,000 titles, or 7% of all tracked ISBNs, accounted for 87% of sales, generally selling between 5,000 and 50,000 copies during the year.

This type of sales distribution has long existed in many product sectors, and certainly in the cultural industries. However, the degree of concentration within a shrinking number of bestseller titles is generally acknowledged to have increased in recent years.

In 2000, US journalist David Kirkpatrick prepared a report for The Authors Guild that explores these sales patterns. On the specific question of sales distribution across titles, the Kirkpatrick study found:

“About a fifth of the frontlist sales revenue at the chains comes from only 100 books. Among backlist books, one-fifth comes from the top 500 titles ... Below these elite titles, sales drop off precipitously. The second 20% of frontlist sales revenue comes from 6,000 titles. The next 20% of backlist revenue comes from 25,000 titles. At Barnes & Noble and Borders, the vast majority of the titles in stock sell fewer than two copies a year. Selling them may not pay the rent for their shelf space, but their presence in the store contributes to the atmosphere that draws customers.”

In addition, sales of these bestselling frontlist titles, long an important driver of profitability for all booksellers, have been increasingly concentrated among chain bookstores and other larger retailers due to the aggressive price discounts within these accounts. This effectively erodes the profitability and market share of smaller bookstores that are unable to match the deep discounts available elsewhere.

MARKET ACCESS FOR CANADIAN TITLES

In a climate where sales are increasingly concentrated, the question of the availability of Canadian-authored books naturally arises. This is difficult to measure in a comprehensive way, in part because there are several aspects to the question of availability. At the most basic level, title output, as discussed earlier, is one such measure. However, there is also the question of stock selection—whether or not a book is carried in a retail outlet and in what quantities. Finally, there is also the degree to which a title carried in inventory is visible to consumers in the store (i.e., its placement in the store and how it is displayed or merchandised).

In this sense, we can imagine a continuum of availability. Just because a title is published, it does not necessarily follow that it will be widely available to consumers. Further, just because a title is carried in inventory, it does not mean that it will be widely carried within a retail chain, stocked in quantity, or easily visible to browsing customers.

BookNet's BNC SalesData will no doubt make an important contribution in this regard as it accumulates a richer archive of historical data. In the meantime, however, there have been some early attempts to explore the question.

Quill & Quire conducted a survey of chain and independent bookstores in 2006³¹ that assessed the availability of a standardized list of 30 new release and backlist titles, including Canadian titles. The survey examined stock selection at roughly 20 chain and independent stores in six Canadian cities, and found that on average the chain bookstores offered a wider selection of both frontlist and backlist titles than did the survey sample of independent bookstores.

“On average, the chances of finding one of the five recent Canadian fiction titles we selected in an independent store were only 58%, while chances of finding one of the same titles in a Chapters/Indigo were 90%. Chances of finding one of the new Canadian non-fiction titles were similar: 56% in an independent and 77% in one of the chains...When it came to Canadian classics, the situation wasn't much better, with a 60% chance of finding a title at the indies and an 86% chance at the chain.³²”

Chain stores were also found to offer better selection of the new international non-fiction releases and small press titles included within the survey.

These findings are not entirely surprising considering that the larger-format chain stores will generally stock many more titles than would the average independent bookseller. That said, it is noteworthy that chain stores are playing an important role in presenting a wide selection of Canadian titles to consumers.

Even so, several study respondents commented that current ordering patterns among Canadian bookstores, both chain and independent, may be reducing the diversity of stock

³¹ Scott Macdonald in “Indigo vs. the indies,” *Quill & Quire*, June 2006.

³² Ibid.

selection. Aided by improved inventory systems, booksellers are managing inventory more carefully: placing smaller orders, re-ordering more frequently and as needed, monitoring sales performance more closely, and returning or not even carrying slow-moving stock. This approach of minimizing inventory and maximizing the salability of in-store stock is abundantly rational from the bookseller’s point of view. We speculate, however, that it is likely to constrain stock selection, and make it less likely that cultural titles, in particular, will be held in store. Such patterns reflect the important role of stock selection in determining which titles are available to consumers, and do not necessarily reflect consumer demand for a given title or category.

Poetry, drama, fiction, and non-fiction from new or established writers may be culturally significant, but they also tend to be relatively slow moving, from an inventory management point of view. They typically require a longer sales window, compared to more commercial titles, to establish a sales pattern. This longer period (often more than the minimum of 90–120 days a book may be kept in stock before being returned) allows review coverage and word-of-mouth to develop, both of which are important sales drivers for cultural titles. If the books are not ordered in quantity or are not held in store for long enough, they are much less likely to establish the sort of track record that would help ensure their remaining in stock for the long term.

With this in mind, we assembled sales data for a sample of 11 English-language Canadian literary presses, all of which shared comparable sales distribution arrangements. Table 3 illustrates the sales pattern for these publishers for the period 2003–2006, a timeframe during which most booksellers in Canada have implemented stricter inventory controls.

Table 3. Sales for a sample of 11 Canadian literary presses, 2003–2006

	2003	2004	2005	2006
Chain bookstores	\$135,272	\$100,722	\$94,835	\$69,180
Independents	\$136,802	\$130,169	\$110,375	\$114,176
Institutional	\$86,973	\$76,311	\$132,776	\$107,897
Non-traditional	\$7,556	\$9,533	\$4,124	\$8,132
Online	\$7,826	\$12,163	\$7,749	\$20,738
Trade wholesale	\$15,561	\$11,326	\$27,880	\$5,568
Misc	\$5,568	\$4,546	\$7,954	\$119
Total	\$395,558	\$344,771	\$385,704	\$325,910

As Table 3 illustrates, combined overall sales for these literary presses fell by nearly 18% from 2003 to 2006. Sales to chain bookstores fell by the largest amount, dropping almost 50%. (Chain stores accounted for 34% of combined sales in 2003 but just over 21% in 2006.) In contrast, sales to independent bookstores, while declining somewhat in dollar terms, remained steady in terms of their percentage of combined sales (35%). The table also indicates that the greatest sales growth for this group has come from library wholesalers (a 37% increase) and online retail (+165%).

These firms had comparable sales and distribution mechanisms in place throughout this period, and the number of presses involved would suggest that normal variations in sales from year to year for any one press would be offset by the rest of the group. We could reason, therefore, that the sales patterns illustrated in Table 3 have more to do with changes in the channels to market for these presses than anything else. Specifically, it appears that

changing ordering and inventory practices within traditional bookstores in Canada have resulted in declining net orders for many literary presses in this channel.

We could make a couple of additional observations about this sample of literary publishers. First, these are fairly categorized as small firms, all of which have annual in-Canada sales of less than \$100,000 per year. We could reasonably imagine that these houses are publishing relatively small print runs and have limited marketing resources—factors that could in turn inhibit their ability to maintain or increase sales with large retail accounts. Second, the decline in chain store sales that we have observed above is a relatively recent development, having occurred in the years since 2003. As such, it is difficult to say whether this decline reflects a near-term market adjustment in response to changing inventory systems and buying practices within Canada’s major book retailers, or if the 2003–2006 sales pattern for these presses will persist in the years ahead. Finally, the figures reported above do not include any direct or export sales that the publishing houses in the sample may have made during this period.

This last point is potentially significant as we note that, in contrast to the pattern described above, other literary publishers have been able to successfully diversify and increase revenues in order to help offset stagnant or declining sales through traditional retail channels. A sample of 20 larger English-language literary publishers drawn from BPIDP data indicates a 21% increase in overall sales (including exports) for this second sample over the last five years.

THE BOOK MARKET IN QUEBEC

The Quebec book market is in many ways structurally similar to the rest of the Canadian market. It is characterized by market concentration, powerful chains that claim a large market share³³, a vast majority of consumer book sales made via bookstores, high levels of returns, and a large volume of imported product. Yet it has unique traits that are worth noting in a report devoted to understanding the overall Canadian book retail environment. This chapter will provide some basic information on the Quebec market and outline the ways in which it is different from the rest of the Canadian market.

DISTINGUISHING CHARACTERISTICS

GOVERNMENT SUPPORT

Of all the provinces, Quebec is particularly dedicated to supporting its cultural industries. A recent Statistics Canada report³⁴ indicates that Quebec leads Canadian provinces in both per-capita federal spending on culture (\$153 per person in 2003) as well as provincial per capita cultural spending (\$97 in 2003).

Some of the many provincial governmental organizations tasked with supporting writing and publishing in the province include the Ministère de la Culture et des Communications, the Ministère de l'Éducation, the Conseil des Arts et des Lettres du Québec, and the Société de développement des entreprises culturelles du Québec (SODEC).

These organizations work within a context of a government-mandated law designed to bolster and protect Quebec businesses involved in the book trade: *la Loi sur le développement des entreprises québécoises dans le domaine du livre* (the law on the development of Quebec businesses in the book industry, or *loi 51*). Among other effects, this legislation provides a way for Quebec book businesses to distinguish themselves: accreditation.

ACCREDITATION

The government of Quebec established the accreditation system to serve two overarching goals: (1) to ensure effective distribution of and accessibility to Quebec titles for Quebecers, and (2) to establish professional standards for the Quebec book industry and protocols for business agreements between publishers, distributors, booksellers, and book buyers.

³³ In 2002, the ten major distributors in Quebec fulfilled 98% of sales for chains, according to the 2004 report, *L'État des lieux du livre et des bibliothèques*, by the Observatoire de la culture et des communications du Québec (OCCQ).

³⁴ *Economic Contribution of the Culture Sector to Canada's Provinces*, Statistics Canada, March 2007.

To be accredited, booksellers, publishers, and distributors must be Canadian and based primarily in Quebec. In addition to these basic requirements, the accredited bookseller must:

- be open year-round;
- be situated in an easy-access location for the public;
- be well-identified and use proper book display methods;
- have at all times at least 6,000 different titles, 2,000 of which are different titles published in Quebec³⁵;
- demonstrate that in the year previous to the application for accreditation, they have met minimum sales requirements of the Ministry;
- prove that they receive material from at least 25 accredited publishers and that they keep these materials on display for at least four months (unless otherwise agreed to with the publisher in question).

Specialized booksellers must also carry at all times titles that are representative of the entire published works in that discipline.

To promote accredited booksellers, the ministry of culture and communications impresses upon readers/buyers that *loi 51* and the accreditation process exist to provide a diverse selection of titles across the province regardless of location. It encourages them to play a role in this larger cultural ambition by supporting and purchasing from their local accredited booksellers. Perhaps most importantly, public institutions, such as libraries and schools, are required to purchase books from an accredited bookseller.

Due in part to these public-sector buying provisions, accredited booksellers accounted for more than 70% of new book sales in Quebec over the last three years. As one study respondent noted, “[Law 51] is an essential law that guarantees a minimum space for Quebec books.”

Table 4. Sales of new books by accredited and non-accredited book retailers, 2004–2006

	2004		2005		2006	
	M\$	%	M\$	%	M\$	%
Accredited	316.1	73.3	326.4	73.1	358.2	76.3
Non-accredited	115.3	26.7	120.4	26.9	111.0	23.7
Total	431.4	100	446.8	100	469.2	100

Source: Institut de la Statistique de Québec, Observatoire de la culture et des communications du Québec

Interestingly, the number of accredited booksellers in Quebec has expanded over time (though there was some slight contraction at the end of the 1990s). In 1983, there were 168 accredited booksellers; by 2000 there were 211, close to half of the estimated 450 book retailers in Quebec. This is a notable contrast to the declining number of independents in the rest of Canada, and, we can imagine, can be attributed in part to the accreditation provisions of *loi 51*.

³⁵ Except for general bookstores that sell English books, which are required to have 2,000 Canadian-published titles.

REGIONAL CHAINS

Another unique aspect of the Quebec market is the prominence of regional bookselling chains. These regional chains (Renaud-Bray and Archambault) play the same dominant role in the province that Indigo plays in the rest of Canada. Renaud-Bray has at least 25 stores in Quebec; Archambault has 15; and Indigo has just nine stores (including Coles Bookstores). Renaud-Bray is currently the largest French book retailer in North America, partly on the strength of a 1999 merger between Renaud-Bray and two other regional chains: Champigny and Garneau.

As for Archambault, the company began as a music store in the early-1900s and grew into a cultural institution over the past century. In the 1990s, it expanded greatly beyond the music sphere to become a cultural superstore, and was purchased by Quebecor in 1995. Currently, the chain is an important retailer of books, DVDs, newspapers and magazines, musical instruments, and sheet music; it also operates a popular francophone website, Archambault.ca.

VERTICAL INTEGRATION

The Quebec market is characterized by a process of vertical integration that has seen individual companies, or in some cases many companies owned within large corporate structures, integrate a number of functions within the supply chain. These integrated holdings include publishing, printing, distribution, and retail operations, and include the following examples.

- The publisher and distributor Sogides, which had previously acquired the publishing houses Éditions VLB, L'Hexagone, les Quinze, and TYPO, was in turn acquired by Quebecor Media. Sogides' distribution branch, Les Messageries ADP, has since been merged with Québec-Livres, another distributor previously acquired by Quebecor.
- In addition to the major publisher and distributor Sogides, Canadian printing and publishing giant Quebecor's holdings now include:
 - large publishers: Les Éditions Quebecor, Groupe Ville-Marie, CEC Publishing
 - smaller publishers: Les Éditions Libre Expression, Les Éditions du Trécaré, Les Éditions Internationales Alain Stanké, Les Éditions de l'Homme, Le Jour, Les Éditions Publistar, Utilis, Les Presses Libres, and Les Éditions Logiques
 - a growing music and book retailer: Archambault
 - a bookstore specializing in computer science: Camelot-Info
 - a key English-language bookstore in Quebec: Paragraphe
- In educational and scholarly publishing, Éditions Beauchemin, Éditions de l'Image de l'Art, FM, and Doure et Vandal merged to form the Groupe Beauchemin Éditeur, which then merged with Gaëtan Morin Éditeur and Graficor under Chenelière Éducation, which was finally acquired in 2006 by Transcontinental, one of Canada's leading newspaper and magazine publishers (and one of North America's largest commercial printing firms).

- This pattern of integration is found among both large and small competitors. Based in Montreal, Ulysses is a small—and specialized—publisher, distributor, and retailer of travel guides. Not only has it branched out across different sectors of the publishing industry, it also distributes books internationally and in different languages. Originally a bookstore, Ulysses then started distributing other companies' travel-related products, then publishing its own titles. Most recently, Ulysses is increasing product in its online stores. Where it used to only sell its own books online, it has now added all products (e.g., guides, maps, coffee table books) currently distributed in its stores.

This pattern of vertical integration appears to reflect a strategy of growth through acquisition. As noted elsewhere in this paper, the book trade is generally characterized by marginal year-over-year growth and intense competition. In such a market, larger players may elect to grow their share of the market by acquiring smaller firms. In the case of Quebec, it appears likely that acquiring firms also hope to achieve greater margins and operating efficiencies by integrating operations throughout the supply chain. Certainly, we see examples of publisher-distributor integration elsewhere in Canada, but the Quebec context is unique in its integration of publishing enterprises with printing, distribution, and retail operations.

The effect of this strategy on the operations of an individual firm is difficult to measure. However, one result of this pattern of acquisitions is to consolidate more market control within a relatively small number of powerful gatekeepers and at key points of decision making: acquisition (i.e., publishing), distribution, and retail sales.

DISTRIBUTION COVENANTS FOR NEW TITLES

There are notable trade arrangements for the distribution of newly released titles in Quebec. These include the *ystème d'office*, and a more targeted program for literary titles established through the French-language publishers' association, the *Association nationale des éditeurs de livres* (ANEL).

Introduced in the 1970s, the *ystème d'office* involves the rapid distribution of new titles from publishers to booksellers, based on the fact that books sell better in their first 90 days in-market. (A SODEC study confirmed that 75% of new titles are sold within the first 90 days.) Under the system, publishers can automatically and regularly send books via distributors to book retailers based on specific book categories and on pre-determined quantities. Distributors pay for shipping, while booksellers assume responsibility for returns. Booksellers must keep books for at least 90 days—or 120 days if they are Quebec books (under *loi 51*). This system was developed for new titles, but it is also used in the case of any book experiencing a surge in sales. It permits booksellers to receive books without ordering them. There is no equivalent to the *ystème d'office* in the English market of Quebec or Canada; the closest approximation would be “standing orders.”

In contrast, ANEL's program is more targeted than the *ystème d'office*, both in its focus on new literary titles, and in its implementation among a small number of retail outlets in Quebec. Established in 2005, the ANEL program currently operates in four Archambault

and five Renaud-Bray stores. The two regional chains have entered into an agreement with ANEL whereby each of these stores will stock at least one copy of each new literary title published by a Quebec press. The stores have agreed to keep these titles in stock for at least one year following publication.

These types of distribution arrangements represent real innovations in terms of helping to ensure the availability of Quebec-published titles in Quebec. They also recognize important characteristics of the sales cycle for frontlist titles, and literary titles in particular. First, this prompt distribution of frontlist titles helps ensure they are available province-wide shortly after publication. This enables promotions planning, which creates a better likelihood that a new book will enjoy strong early sales.

This is especially important for literary titles, which often take more than 90 or 120 days to establish a track record for sales. The longer stock period specified by the ANEL program appears to be based on this extended sales cycle for literary works. It provides these books with an opportunity to remain in stock long after they would ordinarily.

SALONS DU LIVRES

Salons du livres are a series of publicly funded annual book festivals and fairs that welcome publishers and industry people, as well as millions of readers, for book signings, readings, discussions, conferences, panels, and entertainment. A SODEC study of the *salons du livres* from 1997 to 2002 shows that attendance grew by 6% from 1997 to 2002.³⁶ The popularity of the *salons* located in areas of lower population density was especially impressive during this time, welcoming roughly 40% of these areas' total populations.

The presence of well-known authors is very important to the success of a *salon* event; authors draw both the public and publishers who want to rent stands for profile. The *salons*' popular success over the years has of course made the presence of such authors more common: from 1997 to 2002, author attendance at the nine *salons* jumped from an average of 670 to more than 1,000, a 52% increase.

In short, these populist literary events draw broad public attention to book culture in Quebec. *Quill & Quire* notes, "Unlike the big American and English-Canadian trade shows, which cater to booksellers and others in the publishing industry, *salons du livre* target the general public. And unlike the one-day Word on the Street festivals... [the salons] are elaborate indoor events that last anywhere from three days to a week or more and play a major role in the Quebec publishing industry's strategy for promoting new books."³⁷

As such, the salons are an invaluable platform for book marketing and also represent an additional sales channel—both for retailers and for direct-to-consumer sales by publishers—that is specific to the Quebec market (and to New Brunswick by virtue of the one affiliated *salon* that takes place in that province each year).

³⁶ Publishers' participation in the salons has also grown. From 1997 to 2002, the number of stands publishers rented increased by 20%.

³⁷ Mary Soderstrom in "The beauty of salons," *Quill & Quire*, January 1998.

MARKET COMPOSITION

The Quebec book market is, in the main (but not entirely), a market for French-language titles. The 2002–2003 L'Observatoire de la culture et des communications du Québec (OCCQ) study, *Enquête auprès des distributeurs de livres du Québec*, found that of the books listed by Quebec distributors, 90% were in French and 11% in English.

Only a minority of the titles distributed in Quebec—French- or English-language—are produced in Quebec. The 2002–2003 OCCQ study found that of the titles its studied distributors carried, 17% were from Quebec, 1% were Canadian outside of Quebec, and 81% were international.

Of the French-language titles, 19% were from Quebec, 80% were international, and less than 1% were from Canada outside of Quebec. Of the English-language titles, 3% were from Quebec, 10% were from Canada outside of Quebec, and 87% were international.³⁸

As is the case with the US and English Canadian market, there is an active supply chain between trading partners in France and Quebec. This integration is in some ways exemplified by the Quebec operations of Hachette, a major publishing, distribution, and retail operation based in France. Hachette Canada, a division of Hachette Livres, has a strong presence in the Quebec book market as a distributor (Hachette Distribution) for 40 French and Quebec-based publishers and as a retailer (Relay, Virgin, and other HDS retail outlets in Canada).

Although the Quebec market is flooded by foreign titles, when we look at the actual numbers of books (as distinct from titles) being distributed, things look different.

- A 2004 OCCQ study found that, of the 26.8 million copies of books distributed in Quebec in 2002–2003, 41% were Quebec books (compared to 7% from the rest of Canada, and 52% from foreign publishers).³⁹
- Moreover, 90% were in French, while 10% were in English.⁴⁰
- On average there were 193 copies per title of book from Quebec being distributed compared to 83 copies per international title. As such, the average sales of Quebec titles are approximately 2.5 times higher than foreign titles, which may be a good measure to determine the supply and demand of Quebec titles for Quebec readers.⁴¹

³⁸ These figures are based on Quebec-based distributors; in other words, they do not represent the total number of English-language books in Quebec. Ontario distributors are responsible for a number of English-language titles (both from Canada and internationally) coming into the Quebec market. As such, it is difficult to arrive at a definite number of English-language titles in Quebec.

³⁹ Benoit Allaire and Marc Ménard, *L'État des lieux du livre et des bibliothèques*, Observatoire de la culture et des communications du Québec (OCCQ), Institut de la statistique du Québec, 2004.

⁴⁰ Ibid.

⁴¹ Ibid.

INDEPENDENTS VS. CHAINS

With the increase in chains, it might be surprising to see that in Quebec, independent book retailers accounted for more than 50% of total revenues in 2001 and from 2004 to 2006, but, given that there are more independent than chain outlets the average revenue per chain store remains higher than that of the average independent bookstore.

Table 5. Sales of new books by independent book retailers vs. chains, 2001 and 2004–2006 (not including university/school book retailers)

	2001		2004		2005		2006	
	M\$	%	M\$	%	M\$	%	M\$	%
Independents	205.0	53.7	250.1	58.0	263.9	59.1	263.5	56.2
Chains	176.9	46.3	181.3	42.0	182.9	40.1	205.7	43.8
Total	381.9	100	431.4	100	446.8	100	469.2	100

Source for the years 2004 to 2006: Institut de la Statistique de Québec, Observatoire de la culture et des communications du Québec. Source for 2001: Allaire and Ménard, Chapitre 8, *L'État*, p.152

To counter the growing market share of chain booksellers, the Association des libraires du Québec (ALQ), the association of independent booksellers in the province, and 72 of its members formed a marketing group called “Les librairies indépendantes du Québec.” The group will shortly launch joint promotions to position independent bookstores as a strong alternative to chain bookstores and other large retailers.⁴² These independent booksellers are officially associated with the magazine *Le Libraire*, whose website serves as a promotional and book news platform for a trade and general audience which will eventually operate as a bookselling platform. While maintaining their independence and unique characteristics, by joining forces, the independent book retailers aim to offer additional discounts and specials, negotiate terms of trade as a buying group, and publish joint catalogues and other promotional materials.⁴³

RETURNS

For the period 2001 to 2006, returns rates for independent bookstores have been fairly stable, in the range of 27% (see table below). Over the same period, however, the returns rate for chain bookstores increased by six percent, from 19% to 25%.

Table 6. Distributors' rate of returns based on the market sector for resale 2001–2006

	2001	2002	2003	2004	2005	2006
Booksellers and cooperatives	28.0	27.4	27.8	27.6	26.9	27.7
Chain bookstores	19.2	24.9	21.9	23.0	17.9	25.5
Department stores	15.0	21.5	17.6	17.4	14.2	24.2
Other retail	35.9	36.7	34.0	35.6	31.4	30.9

Source: Institut de la Statistique de Québec, Observatoire de la culture et des communications du Québec

⁴² Mary Soderstrom in “Quebec indie booksellers join marketing forces,” *Quill & Quire*, February 27, 2007.

⁴³ Carole Montpetit in “Les librairies indépendantes s’unissent,” *Le Devoir*, February 23, 2007.

There are no comparable global statistics for returns in the rest of Canada. However, available OCCQ statistics and anecdotal reports from publishers throughout this study suggest that the returns rate in Quebec is generally lower than in English Canada.

We note, however, that some of the general patterns experienced outside of Quebec are present in the province as well, in that returns from chain outlets have increased over the period in question and that returns from non-traditional retail are higher than those from bookstores. Higher returns from these retail accounts are generally associated with more extensive inventory management systems, and more aggressive inventory management practices, in larger retailers.

EFFECTS OF MARKET COMPOSITION AND CHARACTERISTICS

The distinguishing characteristics of the book publishing and bookselling sectors in Quebec—in particular the accreditation system administered under *loi 51* and the distribution arrangements for new titles—have arguably contributed to a climate that strengthens the position of smaller retailers and helps to ensure a level of availability for French Canadian titles in North America’s largest French-language market.

However, we also see some of the patterns in Quebec that have emerged elsewhere in Canada without the benefit of *loi 51* or the *système d’office*. Imported titles hold a majority share of the market, and the channels to market are increasingly consolidated among a small number of players. This suggests that the competitive imperatives that encourage companies towards economies of scale, profitability, and greater market share remain powerful market factors, even in the presence of special provisions to support local retailers and domestic books.

NON-TRADITIONAL RETAIL CHANNELS

“Book sales are turning up in the oddest places these days...The point, publishers say, is to follow customers who might not otherwise visit bookstores into the places where they do shop, rather than waiting for customers to show up at bookstores or click on Amazon.com.”

— *New York Times*, November 2006

The dividing line between traditional and non-traditional book retail is often unclear, perhaps more so today than ever. Some accounts once considered non-traditional or even marginal have now become significant retail outlets for books.

For the purposes of this paper, we will define non-traditional accounts as anything other than a specialist bookstore, whether chain or independent. With close-to-flat sales and intense competition in traditional book retail, publishers have been increasing their efforts to open non-traditional channels—a pattern expected to intensify in the years ahead.

Figure 6 illustrates a broad categorization of non-traditional channels into mass market retail, warehouse clubs, and other non-traditional accounts.

CATEGORIES OF NON-TRADITIONAL RETAIL

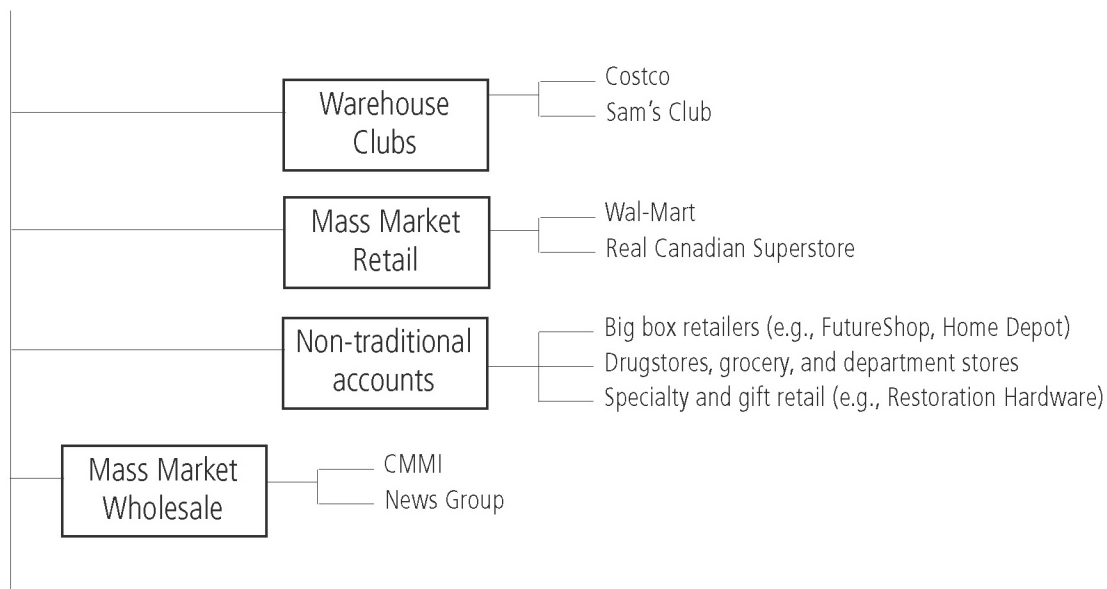


Figure 6. A categorization of non-traditional sales channels

WAREHOUSE CLUBS

US-based Costco Wholesale is Canada's leading warehouse chain and a major non-traditional account (second only to Indigo for many Canadian publishers). As of April 2007, Costco operates 71 stores throughout Canada, and is estimated to hold 10–15% of consumer book sales (and considerably more for some larger publishers).

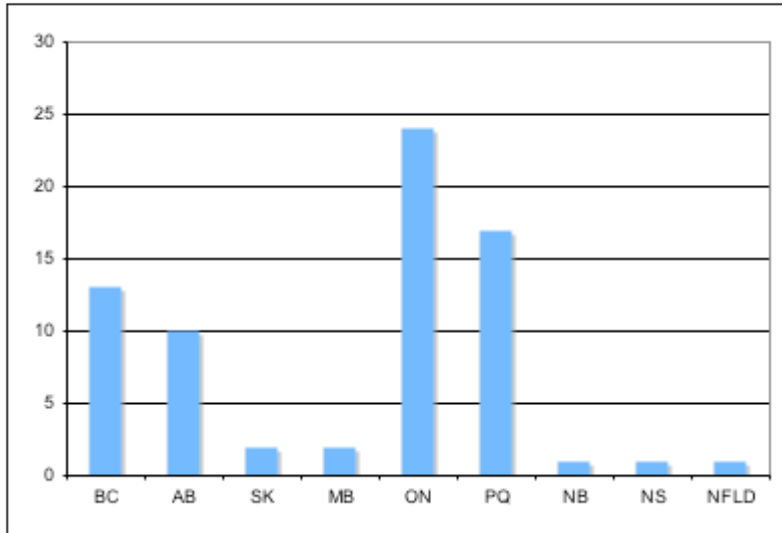


Figure 7. Distribution of Costco Wholesale outlets in Canada, May 2007

The warehouse model is based on low prices and high sales volume, and Costco generally limits its markup to 8–15% above cost (reportedly 12% on books, as compared to the 40%+ markup applied by traditional booksellers). This pricing practice means that all books on offer in Costco are effectively discounted by 30% or more. The warehouse chain supports these slim margins by negotiating maximum discounts with its vendors, and by managing its operations for greatest efficiency. Warehouse outlets are also distinguished by a membership policy whereby all shoppers pay an annual membership fee in return for shopping privileges at the warehouse chain.

Costco has a designated book buyer, based in the Ottawa area, who orders for stores across the country. Costco typically carries no more than 300–600 titles per location, orders in volume, and manages its inventory aggressively. Because of its volume, Costco can sell a lot of books in a short period of time. Individual titles have a short window, often four weeks or less, to demonstrate they can sell in the warehouse. If not, they are packed up and returned to the vendor publisher, and books that don't sell can be returned in large numbers. Needless to say, the prospect of such high-volume returns encourages close cooperation and realistic expectations for both vendors and Costco.

Even titles that do succeed are held in the warehouse channel for only two to three months. Stock rotation is part and parcel of this channel, and Costco has conditioned its shoppers to act on their book-buying impulses—the books may simply not be there on the next visit.

Costco emphasizes bestselling frontlist in its book selection, but has shown that it can sell an impressive range of books within its limited per-store selection, including literary fiction and

regional titles. Costco’s sophisticated inventory and buying systems allow it to tailor selections by store so that books with a particular niche or local appeal can be well matched to the outlets where they will have the best chance of success.

In addition to Costco Wholesale, Canada is also home to six Sam’s Club warehouse outlets, owned by US-based Wal-Mart and all located in Ontario. Sam’s Club operates on the same basis as Costco, featuring high-volume sales at substantial discounts and requiring annual memberships of its shoppers, and is the second-ranked warehouse retailer in North America (after Costco).

MASS MARKET RETAIL

We use the term “mass market retail” here to refer to those high-traffic, large-format retailers that carry a broad range of general merchandise. This channel is dominated by the world’s largest retailer, Wal-Mart, and exemplifies the value-based big-box retail experience.

Wal-Mart operates 283 stores and employs a staff of 70,000 in Canada (in addition to the Sam’s Club outlets as noted above). It is a channel for high-profile books that will move off the shelves quickly. The book category in a mass market outlet relies heavily on bestselling frontlist, especially books that can be priced aggressively such as commercial fiction and trade paperback. Children’s books also do very well in these stores.

As with Costco and other warehouse clubs, the typical mass market outlet stocks a relatively narrow range of titles (in the range of 500–600 per store), moves high volumes of books, and can return correspondingly high volumes of books that don’t sell. The overall effect is to concentrate a large number of sales among a small number of bestselling titles. In the US, where they are more established as a book channel, Wal-Mart and other mass market retailers can account for as much as 40% of the unit sales of a national bestseller.

OTHER LARGE-FORMAT RETAIL

Many of North America’s major retailers are specialized within a particular retail category, such as Home Depot (hardware and building supplies), Staples (office supplies), or Best Buy (consumer electronics), and many of these are making more space for books. These accounts may buy directly or be served by wholesaler. They tend to buy titles that fit within their product category and/or those that will be of interest to their key demographic targets.

Table 7. Leading US retailers active in Canada, ranked by total sales volume among US retailers

COMPANY	RANKING	OUTLETS IN CANADA
Home Depot	2	150
Sears	6	368
Safeway	7	221
Best Buy	13	48
Gap	18	94
Staples	23	240
Toys “R” Us	26	58

The grocery or supermarket category is another area of growing penetration for books, and a channel where discounted books can move in large numbers. Books are an attractive

product category for supermarket retailers. Even when priced with an aggressive discount, books still offer the supermarket a profit margin better than the single-digit margins made on many grocery items.

Grocery is still a developing category for many publishers in Canada. In the US, however, the channel has gained more and more market share in recent years. The #3 retailer in the US, and the nation's leading grocery chain, Kroger's, has expanded its book departments to carry up to 3,000 titles. Kroger's category manager for books, Lance Parsons, has said, "When you look at our business versus a bookstore, we have the opportunity to capture the same customers three times a week. Now publishers are beating down our doors."

SPECIALTY AND GIFT RETAIL

Specialty or gift retail accounts, whether chain or independent, tend to be smaller operators that are more focused by product and customer. Accordingly, book selections in these accounts tend to be tied to the product category. For example, architecture, design, or coffee table books in Restoration Hardware, or travel guides in Mountain Equipment Co-op.

Even with a limited selection of focused titles, these retailers can be valued accounts for publishers, especially those that publish in a niche that fits well with the retailer's primary product categories. They tend to buy directly through head office-based buyers, and often on a non-returnable basis—characteristics that make them accessible and attractive to publishers of all sizes.

MASS MARKET WHOLESALE

Many of Canada's mass market and non-traditional chain accounts, including Wal-Mart, are serviced by a mass market wholesaler. Canada's two major wholesalers of books and periodicals in this category—Canadian Mass Media Inc. (CMMI) and The News Group—provide buying, inventory management, category management, and merchandising services for major non-specialist retailers in the mass market, grocery, drug, and convenience sectors.

Publishers and distributors selling to CMMI or News Group accounts will work with buyers and category managers within these organizations, and, to a lesser extent, directly with the retailer in the case of very large buys or other major initiatives.

The advantage of this approach for the publisher is that the wholesaler provides a range of specialized merchandising services to the retail account that the publisher could not typically manage itself. The disadvantage is that the publisher largely operates at one remove from the account, through an indirect relationship that is mediated by the wholesaler.

There are also cases where larger firms (H.B. Fenn is a notable example) will establish a vendor of record relationship directly with major non-traditional accounts. Under this approach, the publisher or distributor acts as a de facto wholesaler and as an exclusive supplier of books for the account. Fenn has operated as the vendor of record for Zeller's stores in the past, and currently plays this role for other national chains like Home Depot and Canadian Tire. In such cases, any other publishers hoping to place books with the account must sell them in through the vendor of record.

ACCESS TO THE NON-TRADITIONAL CHANNEL

“In the US, the general public has grown increasingly less dependent on traditional bookstores for their reading materials, to the extent that non-book retailers now account for more than half of all books sold. A lot of those sales come from massive general retail outlets like Wal-Mart, Target, and Costco, but more and more they are also coming from specialized retail chains like Crate & Barrel, Crabtree & Evelyn, and Home Depot.

Here in Canada, there have been similar attempts to position books in non-book retail stores, but so far publishers have not made the same inroads as their American counterparts.”

— *Quill & Quire*, July 2006

The US market provides a fascinating window into the world of non-traditional book retail. Not only do non-traditional channels hold a major market share, but mass market, grocery and specialty retailers are also among the fastest growing retail channels for books. One US publisher, Simon & Schuster, recently reported that its sales to non-traditional accounts had grown by 50% from 2002 to 2006, and had surpassed total sales to independent bookstores.

Non-traditional sales occupy a much smaller share for many Canadian publishers at present, mostly in the range of 10–20%. Several factors contribute to the big difference in what this channel represents for American and Canadian publishers. In part it reflects a greater critical mass of retail channels in America. However, there are also a number of practical issues that determine the level of access that Canadian publishers have to non-traditional accounts. These include required investments in technology, fulfillment systems, inventory, and sales as well as buying procedures and vendor arrangements.

Each of these is a serious consideration of doing business in this channel for all publishers. In combination, however, they limit access to the channel for smaller Canadian firms. For instance, the natural advantages that smaller publishers may have in the market—such as niche or regional expertise—do not have much traction in the non-traditional channel. Buyers for large retail chains are mainly interested in books that will have a good chance of selling quickly and in large quantities (i.e., established bestsellers).

As observed earlier, the notable exception to this is Costco, where the buying process is open to smaller players and inventory systems are adaptable to local market demand. Within the broader non-traditional channel, smaller firms may also find specialty and gift retail markets more accessible, particularly in cases where the product focus of the retail account is closely aligned with the publisher’s list.

REQUIRED INVESTMENT

“The nontraditional booksellers are a mixed blessing for publishers... because they increase a dependence on Hollywood-style, fast-moving blockbuster hits. By stocking just a small selection, these outlets become a high-stakes bet for publishers, offering big rewards but demanding big print runs and heavy marketing.”

— *New York Times*, June 2003

Selling to non-traditional accounts of any kind will almost certainly involve incremental investment for the publisher. For the most part, the sales efforts of publishers and publishers’ representatives remain highly concentrated on traditional retail and other “key accounts” such as Costco or Amazon. Therefore, a sales effort directed to non-traditional retail will often require an additional investment in staff and other supporting expenses (for promotion, travel, etc.).

Trading with large non-traditional retailers may also require a significant investment in information technology systems for inventory handling and order processing. Large non-traditional accounts use varying systems for ordering, and will require their vendors to adopt their system of choice and otherwise be in compliance with vendor requirements.

Canadian Manda’s Ellen Warwick said recently in *Quill & Quire*, “Every account has very specific needs and has them laid out in a big 50-page document.” Another publishing executive interviewed during this study added, “[Large non-traditional accounts] don’t ask you how you like to do business, they tell you how you’re going to do business.”

At the extreme end, this “compliance” investment could also extend to additional distribution systems or facilities in order to serve major retail to the standards required for “just in time” inventory management or other vendor requirements. In all cases, these will represent significant advance costs for the publisher.

Finally, there is also the direct cost associated with placing large amounts of product into major non-traditional retail. There are two components to this: (1) the inventory investment required to fill a large order to a national non-traditional retailer, and (2) the marketing investment required to support such an order.

An order of any size from a mass market channel will be enough to prompt an additional print run or print run extension for many books, and, from the publisher’s point of view, a corresponding cash expense. These same accounts, however, tend to manage inventory very aggressively and will return a large percentage of the order if the book does not quickly establish itself as a strong seller. The exposure for the publisher, in the worst case, is that it will have paid the printing bill for the additional inventory, and received a large returns shipment in lieu of an invoice payment.

Co-op terms in this channel are comparable with those in specialist book channels, running roughly to 3–5% of the previous year’s sales. However, large-volume retailers will negotiate aggressively for co-op dollars to support placement and advertising, and the sales volume of

such accounts often means that the dollar value of this marketing support can be fairly significant.

MARKET EFFECTS OF NON-TRADITIONAL RETAIL

“Bookstore owners complain that grocery stores, like warehouse clubs, are killing bookstores and possibly the book business, too. By focusing almost exclusively on best sellers, grocers do not support the thousands of lesser authors whose books are carried at independent and chain bookstores, the critics say. Nor do supermarkets carry large selections of older books, or the backlist, which for most publishers is the most profitable portion of their business and which often supports their publishing of newer, less-known authors.”

— *New York Times*, April 2005

The non-traditional book retail channel affects the broader book retail market in a number of ways. In particular, the channel has an influence on price and value perceptions as well as a market-shaping influence on the selection available to consumers and concentration of sales within a relatively small sample of titles.

PRICING

Non-traditional outlets, particularly in the mass market and discount chain categories, tend to emphasize price and to compete on the basis of aggressive discount prices combined with high sell-through volumes.

As noted earlier, many industry observers speculate that this pricing practice undermines the value proposition—i.e., the perception of value in the mind of the consumer—of books, and positions books as a commodity product. Proponents argue that the high-volume sales associated with discount pricing are an indication of price sensitivity in the market, and that lower prices are a way to expand the audience and sell more books. Along this same line, some respondents to this study speculated that casual readers who are more exposed to books through non-traditional channels could develop into new customers for traditional bookstores as well.

In terms of business-to-business effects, this emphasis on discounted prices places a lot of pressure on vendor-publishers to extend deeper trade discounts to large non-traditional accounts. This, combined with the costs associated with serving these retailers—as discussed earlier in this chapter—can undermine the profitability of the non-traditional channel for publishers.

SELECTION

An emphasis on discounts and lower price points also influences the type of titles that are likely to be carried in large non-traditional chains. These accounts are less likely to carry more expensive hardcovers or literary titles, preferring instead commercial titles, trade paperback, or children’s titles with lower price points. These preferred price points are a major criterion for title selection in these channels.

Major non-traditional retailers often further filter selection by choosing only high-profile frontlist, or other titles that can be sold at high volumes. In practice, this often means that

this channel cannot be used effectively to introduce a title to market, but can play a role in selling large quantities of a book that has already established itself as an important frontlist title. As more than one publisher remarked during this study, “[Non-traditional chains] won’t make a book, but they’ll take a book.”

As noted previously, this emphasis on a small selection of high-profile titles—often deeply discounted—concentrates a high volume of sales among a small number of titles, and has an important market-shaping effect. Consumers have come to expect discounts to apply to key frontlist titles, and know to shop for these at mass market outlets. Bestseller sales, and the important contribution to profit they represent, are lost to specialist bookstores as a result. This places further pressure on the profitability of traditional book retail, and the independent bookstore in particular.

ONLINE BOOK RETAIL

THE ONLINE ENVIRONMENT

The Internet is now a significant presence in many spheres of Canadian life. We have gone beyond relying on it mostly for communications (email) and research (search and browse) to participate in a host of other activities, including social networking (e.g., Facebook and MySpace), banking, sharing photos, and shopping. Social and consumer behaviour is increasingly shifting online.

Canadians are among the most sophisticated Internet populations on the planet. Statistics Canada reports that two-thirds of adult Canadians surfed the Internet in 2005. In 2006, the United Nations' International Telecommunication Union counted more than 22,000,000 Canadians (68% of the population) as Internet users. With a population this tapped in to the Internet, it is understandable that companies' interest in the Internet as a marketing channel to Canadians is acute.

Even so, Canadian companies have been relatively cautious in their embrace of the Internet for sales and marketing. Online sales recorded a fifth consecutive year of double-digit growth in 2006, but only 15% of Canadian retail firms sold online in 2006 (up from 10% in 2005)⁴⁴.

Meanwhile, Canadians have been inundated online by major American and global brands, such as Google, Yahoo, and MSN, all of which draw a large volume of Canadian traffic. Traffic volume, however, does not necessarily indicate online sales volume, an area where Canadian online firms seem to hold the majority share. According to Statistics Canada, about 57% of the 49.4 million electronic orders for goods and services in 2005 were placed with a Canadian vendor. These orders represented 63% of the dollar value of online orders that year, or just under \$5 billion. In other words, for every \$100 spent by Canadians online during 2005, \$63 was spent with Canadian vendors. (It should be noted that these numbers include business-to-business as well as consumer sales⁴⁵.)

The emerging online marketplace has had an effect at both the consumer and supplier levels in Canada. For Canadian suppliers, it has meant investing in the technology to meet retailers' standards for order procurement, fulfillment, and distribution. For Canadian consumers, it has meant access to seemingly infinite shopping and purchase choices, which has turned us into value shoppers. We are more exacting in our research, price comparisons, and spending. The Internet offers a quick and easy way to research products, availability, and price in advance of purchase.

⁴⁴ Statistics Canada.

⁴⁵ Statistics Canada.

According to a recent report by J.C. Williams Group, *Multi-Channel Shopping—Canadian Style*, Canadian online shoppers spent an average of \$447 online in a six-month period in 2006, with 80% making two or more online purchases. The Internet is also making an important contribution to traditional (i.e., offline) sales: the J.C. Williams Group report found that more than 8 in 10 Canadian online shoppers researched online prior to buying in-store.

Of the report, one of its sponsors, Pat Bartlett, vice president of Canada Post's direct marketing division, said, "U.S. retailers who are considering expanding into Canada have an extraordinary opportunity to grab hold of a rapidly expanding market. The study clearly shows that Canadians are savvy consumers whose lifestyle behaviour demands multiple channels to shop and a breadth of brands to choose from."

Statistics Canada reports similar interest in online window shopping:

- An estimated 9.2 million adult Canadians used the Internet to do some window shopping for goods and services in 2005. They accounted for over one half (55%) of all Internet users.
- More than 6 out of every 10 of those online window shoppers actually wound up making a purchase not online but directly from a retailer.

Advertiser behaviour generally reflects consumer behaviour and media consumption, and advertisers are now clearly following consumers online. The International Advertising Bureau of Canada (IAB) noted that 2006 Canadian revenues from online advertising were more than 1 billion dollars, representing an 80% increase over the 2005 actuals of \$562 million. Of this \$1 billion, 21% (roughly \$208 million) came from the French Canadian online market, representing growth of 68% over 2005 actuals.

Canadian retailers dedicated to the online channel are, overall, faring well. Statistics Canada reports that in 2006, non-store retailers, such as those selling exclusively through e-commerce, mail order, or catalogues, posted revenue growth of 7.5%, in contrast to bricks-and-mortar stores' growth of 5.3%.

Canadian publishers and booksellers have long been experimenting in the online channel, with varying degrees of success. This chapter will explore the online channel as it relates to the Canadian book industry, outline what factors have influenced Canadian book businesses' initiatives and outcomes in this area, and explore current threats and opportunities.

HISTORY OF ONLINE BOOK RETAIL

In 1994, Jeff Bezos introduced Amazon, Inc. to the online retail trade in North America, effectively inventing a technology framework and process for consumer engagement that pioneered online bookselling. Amazon grew rapidly in the late-1990s, as did the online retail sector in general. In North America, several bookstores launched e-commerce sites:

- 1996: Libraire Renaud-Bray
- 1997: Barnes and Noble
- 1998: Chapters Online and later efollett.com, a partnership between Follett Higher Education Group and 450 campus bookstores
- 1999: Archambault

From 1998 to 2002, Chapters Online was the only major English-language retailer from which Canadians could buy Canadian editions of books in Canadian currency. However, in 2002, Amazon created Amazon.ca, thereby providing direct competition to Chapters Online (now merged with Indigo) because it offered Canadian-source titles in Canadian currency. Amazon.ca also offered discounts, and shipped faster than Amazon.com within Canada. For publishers, this meant another sales channel and an opportunity to repatriate some of the sales that would otherwise go to the US publishers supplying Amazon.com. For Canadian consumers, it meant increased access to Canadian-source titles and a greater choice of online retailers.

As of 2007, the online retail space has seen the rise and fall of several dot-com sites. Canadian retailers⁴⁶, large and small, have entered the online market to varying degrees of success. Independent book retailers have opted for their own e-commerce sites, such as McNally Robinson Booksellers. They have joined networked communities of like-minded retailers, such as Abebooks. Or they have signed on to services offered by data aggregators such as BookManager's WebStore, which allows booksellers to showcase their inventory and stock status on public-facing websites. Despite these advancements, Amazon remains the dominant player in online book retail in many world markets.

⁴⁶ The phenomenon applies to publishers as well. Canadian publishers are experimenting with online marketing and online sales direct to consumers. For Kids Can Press, whose US sales represent a third of the company's sales, direct sales have been part of the business model for several years.

ONLINE BOOK RETAIL TODAY

In 2005, Canadians ordered close to \$8 billion worth of goods and services over the Internet for personal or household consumption, according to data from the Statistics Canada's *Canadian Internet Use Survey*. Of the nearly 50 million orders Canadians placed online during that year, the second highest product category in terms of volume of purchases was books, magazines, and online newspapers. Second only to travel (36%), online purchases of books, magazines and online newspapers represented 35% of all online orders (17.5 million orders).

Indigo's online sales alone indicate growth in the online channel. In May 2006, Indigo Books & Music stated that its online channel, Chapters.indigo.ca, recorded revenues of \$79.5 million, an increase of 23% over the year prior. However, its strongest year to date was recorded in the following 2006–2007 fiscal year. In May 2007, the company reported a 9% increase in online sales, from \$79.5 million to \$86.7 million. This represents an increase from 5% of total revenue in 2002 to nearly 15% in 2007. Amazon does not report its Canadian sales publicly, but has recently stated that sales through Amazon.ca have doubled since 2002.

Indigo, Amazon, and AbeBooks—the Victoria, BC-based firm described in the Key Findings section of this study—have established themselves as the leading competitors in online book retail in Canada. AbeBooks reported worldwide sales of \$181 million for 2006, most of which would have consisted of used books sold outside of Canada.

Between Indigo and Amazon, there is some suggestion that Indigo now has the edge in terms of Canadian market share. *The National Post* recently reported that:

“Amazon's web sites have always generated more traffic than Indigo's, averaging about 25% higher in recent months. But much more crucial is a metric known as the 'conversion rate', which refers to how many browsers convert to buyers, resulting in a concrete sale. In online retailing, the average conversion rate is a paltry 3% and several sources said that Indigo's conversion rate is significantly above that of Amazon.

'It is my sense that [Indigo's web sales] are higher than [Canadian sales for Amazon.ca and Amazon.com],' said retailing analyst Brian Pow of Acumen Partners, who covers Indigo. 'It would be fair to make that conclusion. I think one of the big reasons relates to the fact that their presence is endorsed by traditional storefronts. Amazon is dependent on their brand awareness in general [to generate sales].'⁴⁷”

On balance, however, the online sales channel for books in Canada was arguably invigorated by the entry of Amazon. The visibility of Canadian titles—and Canadians' access to them—in online book retail rose significantly with the launch of Amazon.ca and its considerable selection of Canadian-sourced inventory. Faced with increased competition from Amazon.ca, Indigo increased the quality and marketing for its online program, Chapters.indigo.ca, to strengthen the profile and appeal of the site with Canadian consumers.

⁴⁷ Hollie Shaw in “Winning on the web,” *National Post*, June 26, 2007.

The online competition for book buyers quickly became about what each site could offer. Key considerations for consumers include:

- Price discounts
- Availability of goods
- Personalization of shopping experience
- Limited risk: physical locations for pick-up and returns offered by Indigo and length in business and customer service offered by Amazon

While Amazon and Indigo control a large percentage of the Canadian online book marketplace, opportunities remain open for smaller players and niche offerings. Most prominent of all is the opportunity for publishers, already engaged and invested in business-to-business transactions, to sell directly to consumers.

Publishers who want to take advantage of this opportunity face the challenge that most of their competitors will have longer histories and greater brand recognition (at least in the online channel). To succeed in selling direct-to-consumers online, publishers will need to develop distinct competitive advantages. These might include a strong editorial niche position, price discounting, convenience, depth of information, discovery aids (search tools and filters), personalization and quality of service, speed of fulfillment and/or fulfillment options (e.g., in-store pickup, exchange, or return), ease of use, and trust.

KEY PLAYERS IN ONLINE RETAIL

Online bookselling in Canada is as varied as the bricks-and-mortar retail sector:

- There are online retailers, without physical retail locations, operating proprietary e-commerce sites, such as Amazon.ca.
- There are bricks-and-mortar booksellers who operate e-commerce sites using off-the-shelf or custom-built e-commerce engines, for example, Indigo Books & Music.
- There are networked communities of bricks-and-mortar booksellers using platforms such as Amazon's Web Services and BookManager's WebStore, to name two.
- And there are publishers—from small independents to large multinationals—who are operating e-commerce sites to sell their books directly to consumers.

ONLINE RETAILERS: E-COMMERCE ONLY

Amazon.com, as the pioneer of online retail, remains a popular shopping destination for Canadians. According to the Alexa Traffic Rankings, a tool developed by Amazon.com, Amazon.com is ranked #20 in top destinations for Canadians versus Amazon.ca's #74. Amazon does not disclose Amazon.ca's online sales or the percentage of sales through Amazon.com that are shipped to Canadian addresses, so it is currently impossible to offer a solid estimate of Amazon.com and Amazon.ca's relative market share. Some industry analysts believe, however, that Amazon.com commands greater market share than Amazon.ca, and speculate that this is part of the reason Amazon does not report separate Canadian sales figures. According to its 2006 annual report, however, Amazon's North American net sales (year ending December 31) were \$5.8 billion, a year-over-year percentage growth of 25%.

In addition to Amazon.com and Amazon.ca, Amazon offers online retailers access to the Amazon database via Amazon Web Services, which allows third parties to create independent websites that access the Amazon platform and product database. For Amazon, the result is mini-Amazons operating at very little cost to the company, which capture online sales that might have gone elsewhere. For programmers, the Amazon product database can be harvested and represented on third-party websites in a customized way.

Hampstead House Books is an example of a Canadian-owned, family business using the Amazon platform to operate an e-commerce site. Hampstead House sells books by mail order catalogue across the country and specializes in publishers' remainders.

Amazon is not the only online retailer to create a proprietary system. However, it is the largest of the online-only retailers operating in Canada. Smaller players include online retailers such as Northwest Passages, which offers Canadian literature and title and author information on a custom, e-commerce platform, and Aaronbooks.com, self-labelled "Canada's Online Bookstore," representing more than 50,000 books online.

BRICKS-AND-MORTAR + E-COMMERCE (CUSTOM-BUILT OR INSTALLED)

The largest and most dominant player in this category is Indigo Books & Music. In addition to its retail outlets, Indigo continues to operate an online store, Chapters.indigo.ca, and e-commerce kiosks in its retail outlets.

Chapters.indigo.ca, which first launched as Chapters Online in 1998, was one of Canada's biggest online success stories. Prior to its launch in 1998, English Canadians did not have a Canadian-based, major online bookstore from which to buy. In Quebec, Librairie Renaud-Bray (1996) and Archambault (1999) were providing e-commerce to francophones and francophiles around the world. But in English-speaking Canada, the only major retailer was Amazon.com. As a US operation, Amazon.com shipped to Canadians but the pricing was in American dollars, the books were sourced from American distributors and wholesalers, and the delivery times were estimations that did not include border delays. In contrast, Chapters Online originally offered over 2 million Canadian-sourced titles.

Independent booksellers, including McNally Robinson and Munro's Books, are also competing for online sales via custom-built e-commerce systems. McNally Robinson Booksellers is an independent and family-owned chain of bookstores based in Winnipeg. The company's online site features Canadian—in particular, Prairie—writers and bestsellers lists, a searchable database, and a store locations list. Munro's Books of Victoria, BC, is an independent store stocking Canadian, American, and British books-in-print. The company's online site features award-winning titles, bestsellers, bargain books, events and reviews, as well as a searchable database. As noted previously, the two regional chains in Quebec, Renaud-Bray and Archambault, have been operating e-commerce sites since 1996 and 1999, respectively.

The development and maintenance of a custom-built e-commerce system presents a number of challenges for the retailer including:

- The continual update of existing product information and the addition of new product information can be time-consuming unless automated.
- Public-facing inventory and order placement needs to feed into a back-end system that handles fulfillment.
- Expansive product offerings require search and browse functionality for users.
- It is essential to have a good understanding of all aspects of search marketing so that product pages are well placed in search results.
- Custom e-commerce solutions can be expensive to build and require continual technology development.

BRICKS-AND-MORTAR + E-COMMERCE (NETWORKED PLATFORM)

As an alternative to building their own e-commerce platforms, some independent retailers have joined online marketplaces, such as eBay, or collaborative networks such as AbeBooks and BookManager.

Although eBay and AbeBooks offer interesting opportunities for individuals and small retailers to build e-commerce sites on existing platforms, BookManager appears to be the platform of choice for booksellers focusing on new books, as opposed to rare and used books.

TBM BookManager Ltd. was created in 1986 in Vancouver by Michael Neill, then co-owner of a family-run chain of bookstores. Today, BookManager is located in Kelowna, BC, and the BookManager system supports more than 400 retail bookstores, mail order firms, and small- and medium-sized publishers and distributors.

The BookManager system integrates ordering, receiving, returns, accounts payable, inventory control, customers, vendors, point-of-sale, invoicing, accounts receivable, and a host of other book industry-related tasks. It also offers users a template-based and customizable online WebStore. A user's entire active BookManager inventory can be automatically uploaded to the web daily. For BookManager users, WebStore is free and is integrated with their existing business operations, making it a hassle-free option for online retail.

Approximately 70 booksellers—representing all provinces—regularly update their BookManager websites, which appear on Bookmanager.com, with stock updates. Canadian consumers are able to reserve and order books from their independent bookseller of choice.

Of BookManager’s online sales option, one study respondent concluded that on the whole, it is well worth exercising: “Given the price—free—booksellers that aren’t operating a website would be silly not to use it. It leads to 5–10 inquiries per month that would not happen otherwise.”

Some prominent independents that have opted for this approach to online sales include:

- Black Bond Books (BC)
- Vancouver Kidsbooks (BC)
- Inside Story (NS)
- Collected Works (ON)
- Mabel’s Fables (ON)
- Bonder Bookstore Inc. (QC)
- Livres Babar Inc. (QC)
- Book & Brier Patch (SK)

A full list of BookManager WebStores is available on the BookManager website:

<http://bookmanager.com/tbm/?q=h.stores>

PUBLISHERS WITH E-COMMERCE

Publishers, whether they are large multinationals or small independents, are also faced with the opportunities and challenges of selling direct to consumers using online channels. For the most part, publishers are using custom, installed e-commerce systems tied to their back-end administrative and fulfillment operations.

Unlike independent booksellers, Canadian publishers and distributors have been driven by major retailers, such as Wal-Mart, Costco, Amazon, and Indigo, to make technology updates to how they store bibliographic data and metadata (e.g., covers, descriptions, and author bios) and how that data is exchanged with the major retailers.

Since publishers are already investing in these standardized means of electronic delivery to their retail partners, they have the means to also make that data available to Canadian consumers on their own websites. That said, as of summer 2007, only 30% of the 125 publishers listed in the Association of Canadian Publishers member directory have e-commerce-enabled sites.

BUYING PRACTICES AND TITLE AVAILABILITY

In Canada, the terms of trade and buying practices for online booksellers are largely modelled on those for bricks-and-mortar stores.

For bricks-and-mortar retailers with online sales, the buying process for the online channel is integrated into the general buying process. For small independents, stock is made available in-store and online, but there is little differentiation in the size of the order placed for a title appearing only in-store versus a title appearing in-store and online.

For those publishers and distributors selling into the major retailers, Amazon and Indigo, the process is as follows.

INDIGO

The bricks-and-mortar buying team at Indigo orders with the online channel in mind and the online team reviews the orders.

- Online stock requirements are taken into account by bricks-and-mortar category managers who place all orders for the chain in their subject category.
- Key titles for the online channel are identified by both bricks-and-mortar category managers and the online team.
- Category buyers and online team members ensure the appropriate levels of stock for strong online titles are held in the Indigo Distribution Centre (DC).

The main role of the online team is to act as online merchandisers. They are subject-matter experts who review key titles in their subject area to ensure product listings include key information such as cover, description and author biography; that editorial content is produced if necessary; and that stock is available and held in the DC. Stock held in the DC is an important factor in the online shopping experience because it is related to the reported delivery times on Chapters.indigo.ca. For customers, the decision to buy online is based on availability, price, and delivery time, and is influenced by associated editorial content, such as the cover image, descriptions, reader reviews and quotes, and other enhanced information.

AMAZON

The buying process is more simplified at Amazon.ca, in large part because it is an online-only retailer. Amazon fulfills customer orders in a number of ways, including through their US and international fulfillment centres, through fulfillment centres operated under co-sourcing arrangements (i.e., in cooperation with distribution partners), and through other third-party fulfillment arrangements. These multiple mechanisms for fulfillment ensure that customer orders are quickly shipped.

The system first checks to see if the title is in stock in an Amazon fulfillment centre. If a title is not available directly from Amazon, the order cascade (i.e., the automated process of selecting a fulfillment centre for an individual order) is determined by availability and historical turnaround times for each vendor.

These fulfillment mechanisms are visible to the consumer in a number of ways. Up-to-date inventory availability information is listed for each product, as well as delivery date estimates and options for expedited delivery. The shortest delivery date estimates are from Amazon fulfillment centres with delivery times from other centres increasing depending on how far down the cascade Amazon must go in order to fulfill the order. Amazon.ca has one buyer who focuses on ordering stock for the Amazon warehouse and fielding publisher requests⁴⁸.

Amazon.ca also has online editors who enhance the site content, in particular the main pages for each book category. Despite all titles being listed on the site, the online team is generally most interested in titles forecast to sell 50 copies or more in the first eight weeks of publication. These titles, or those that have already established a strong sales history, are more likely to be stocked in an Amazon fulfillment centre. Books available in an Amazon centre will generally ship more quickly than those found at centres further down the shipping cascade. This is a significant distinction as better availability translates into faster shipping times, and, it is believed, better sales.

Although both Amazon.ca and Chapters.indigo.ca have buyers and editors concentrating on online editorial content, it does not mean they are selectively listing titles; all available titles are listed in the databases. What the online teams are doing is concentrating on getting those titles in front of consumers—similar to front-table placement at the store level. Co-op funds are used to support this process by securing front-page placement or main-page category placement for specified titles, inclusion in specialty pages or online boutiques, inclusion in email marketing campaigns, and the creation of editorial content supplied by the publisher or by the retailer's online team.

The only variation in the buying process and terms of trade between Amazon.ca and Chapters.indigo.ca is how the two retailers approach co-op advertising. Amazon.ca, with a single buyer, sets an expectation for co-op spending and offers guidelines and suggestions for the types of placement that may work best, but the publisher is responsible for deciding on how the co-op funds will be spent. Chapters.indigo.ca has a greater focus on editorial content and often approaches publishers with a co-op request. In both cases, the publisher is responsible for the amount of funds spent and how they are allocated. However, Indigo's approach is influenced by an active group of online merchandisers and editors.

Co-op advertising and publishers' abilities to provide enhanced content significantly improve a title's performance. According to BookNet Canada, titles with a cover image and descriptive content can outsell a title without by a margin of 8:1.

⁴⁸ These requests could be for inclusion in feature promotions such as title inclusion in upcoming email newsletters, seasonal promotions, the creation of special pages, or the addition of non-standard content for book pages (e.g., special promotions, contests, or audio or video links).

ISSUES AND EMERGING TRENDS

PRICING TRANSPARENCY

Online marketing and sales result in transparencies to both consumers and retailers, who can easily compare price, delivery times, and stock availability. Consumers and retailers can shop around for the best (cheapest, fastest) supplier.

However, the immediate benefit of lower prices for consumers gives rise to the prospect of a longer-term negative effect for publishers. Deep price discounts at retail tend to create pressure for additional trade discounts from publishers, which further constrain the profit margins and profitability of publishing firms.

As noted elsewhere in this paper, discounted pricing in the online channel:

- exerts pricing pressure on all retail channels;
- lowers the perceived value of products among customers, especially regarding bestsellers and new releases;
- results in narrower margins for suppliers, which restricts their ability to invest in product development or marketing.

THE IMPACTS OF TECHNOLOGY ON ESTABLISHED PUBLISHING MODELS

Decades of technical innovation have made the retail sector, in particular the online channel, what it is today. The various advances in business-to-business technology and business-to-consumer technology have amplified the problems of discounted pricing and supply-chain management, but they have also improved certain business processes. Online book purchases, for example, involve advanced logistics systems for order shipping and tracking, and are enabled by sophisticated product databases and rich product information in the form of various levels of standardized bibliographic data. These advancements support basic bricks-and-mortar business operations as well as those involved in online sales.

Advances in technology will continue to affect business at all levels. The emerging areas of interest for traditional publishing firms are in digital rights management, e-books and electronic publishing, and web-based marketing opportunities. Within online retail, further advances are likely to come in the form of more powerful search and filtering technologies, and improvements in the marketing strategies used to reach niche audiences.

With market challenges also come market opportunities. For instance, visionaries such as Chris Anderson, author of *The Long Tail*, view the Internet as a mass market with millions of niches. Anderson argues that the opportunity for online retailers and publishers is to stop focusing only on the bestsellers. He indicates that there are far more niche goods than hits, and the cost of reaching those niches is falling dramatically due to a combination of improvements in distribution, technology, and broadband accessibility.

The opportunity for Canadian publishers and retailers then is continued investment in the research and development of supply-chain management and technology and the more aggressive use of the Internet as an online marketing and sales channel. The challenge to

Canadian success in this channel is the dominance of US global retailers who bring to the channel decades of expertise and greater financial resources. Without Canadian investment in the online channel, the majority market share held by Canadian vendors may very well dwindle, likely limiting Canadian access to Canadian-authored and published materials.

A CONCLUDING NOTE ON THE ONLINE SALES CHANNEL

Many of the patterns and principles of the bricks-and-mortar world apply to the online sales channel as well. Location is important, as expressed in the role played by major online brands (which operate in practice as online “addresses”). So is selection, in terms of available titles, the way in which they are featured, and the shipping times at which they can be conveyed to customers.

Online booksellers have played an important part in entrenching price discounts on new books—a consumer expectation that now extends to bricks-and-mortar book shopping as well. With widespread discounting and a vast selection of listed titles, online booksellers represent a serious competitive challenge to all book retailers. At the same time, the online sales channel brings real benefits to consumers, in the form of more price and selection options, and to publishers, for whom it represents a way to efficiently connect with readers (either directly or through an intermediary, such as Amazon).

This study has shown that the Internet accounts for only a small percentage of consumer book sales at present. These are early days in the history of online bookselling, however, and it remains to be seen how this channel will develop. But this much is clear: social and consumer behaviour has shifted online to the point that the Internet has now emerged as both a mass medium in its own right and as a legitimate platform for the sales and marketing of books. As the channel develops, it will have a major bearing on consumer awareness of books, the selection of titles available, and the ways in which book retailers in all channels compete for business.

As such, online bookselling is both a constructive and a disruptive force. It provides new choice and valued services to consumers, and it is a new sales channel for publishers; yet it breaks down conventional boundaries related to territory, trading information, and roles within the supply chain.

CONCLUSION

This study highlights and provides context to the important shifts taking place in Canada's book retail sector. We have identified these as:

- a concentration of market share among large retailers;
- the emergence of non-traditional and online sales channels;
- the impact of exchange rates on Canadian list prices and book imports;
- and the growth of the supply of new, used, and remaindered books relative to consumer demand.

What is also clear is that the new bookselling environment is part of a larger pattern of economics and trade, technological change, and evolving consumer preferences and media habits. For instance, independent booksellers, which have long played an important role in supporting Canadian books and literary culture, now hold a smaller piece of the market than larger competitors such as the country's major national chain. These same shifts from smaller to larger retailers have occurred in most product categories and in many national markets around the world. They are driven by competition—by a battle for market share, margin, and economies of scale—and are supported by technological change and integrated supply chains.

Looking ahead, mass market retailers and the online channel represent major change agents for book retail. Traditional roles are blurring among authors, publishers, and retailers, as are the lines between national territories and sales channels. These, too, are common phenomena throughout our economy and around the world. Canada's book retail sector, in other words, consistently reflects the larger societal and market trends of which it has always been a part.

As retailers, publishers, and consumers, we continue to debate the place of books in our society as well as the best way to encourage a healthy cultural ecosystem that produces great books and makes them widely available. As consumers, we value choice, competitive and transparent pricing, and convenience.

These debates, and the tensions they suggest, sit at the intersection of the practical imperatives of the marketplace and the particular context of the cultural industries, including the book trade. Canada's book retail sector faces many challenges today, but many opportunities, too. By being alert to these, and through a better understanding of the structure and issues that drive the book business, we will be better equipped to respond to both.

Appendices:

The Book Retail Sectors in Australia, France, and Scotland

Appendix 1:
The Book Retail Sector in Australia

AUSTRALIA

As in many major world markets, the book trade in Australia is highly consolidated. Seven large publishers hold a combined majority share of the Australian market. Six of these—Pearson, Random House, HarperCollins, Hachette Livre, Scholastic, and Pan Macmillan—are multinational firms that have established substantial publishing and distribution operations in Australia. A seventh—Allen & Unwin—is the largest Australian owned-publisher, and a standout (by revenue) among a growing field of independent publishing houses in the country. Nielson BookScan’s sales data for Australia indicates that the top ten publishers hold a combined 70% share of the market¹.

The bookselling sector is similarly concentrated with the country’s three major bookstore chains, accounting for 56% of retail sales.

MARKET SIZE AND COMPOSITION

With a population approaching 21 million people, Australia boasts nearly 250 established publishing houses, 1,600 retail outlets for books, and unit sales of 80 million new books per year. In its most recent statistical survey in 2003–2004, the Australian Bureau of Statistics valued the domestic market at AUS\$1.4 billion (approximately CDN\$1.3 billion at 2004 exchange rates).

The breakdown of domestic sales by category of book is illustrated in Figure 1 below.

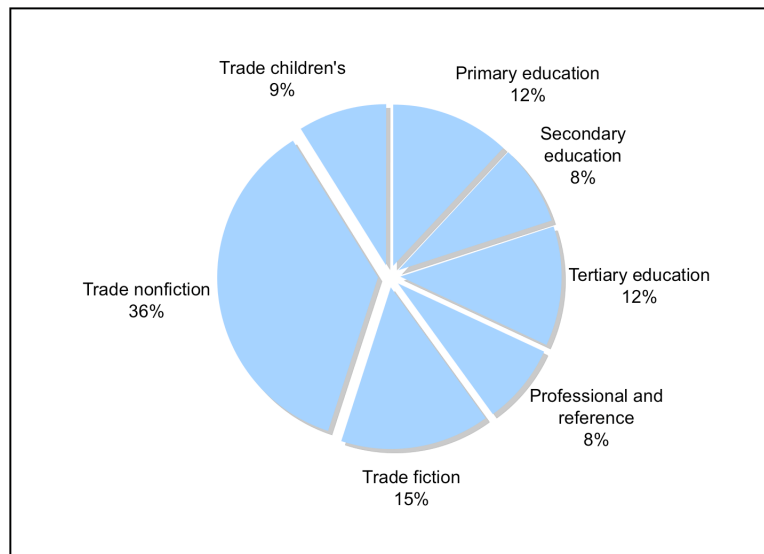


Figure 1. Australian book sales by category, 2003–2004.
Source: Australian Bureau of Statistics

¹ Of the 234 book publishers included in a 2003–2004 industry survey by the Australian Bureau of Statistics, 36 employed 20 people or more while the other 198 employed 19 or less. The 36 larger firms, which include foreign-owned publishers operating in Australia, accounted for 90% of book sales that year.

Interestingly, trade nonfiction has emerged as a more important trade category in recent years, with the share of market for nonfiction titles rising as fiction sales in Australia have fallen appreciably since 2001.

There were 8,602 new titles published in Australia during 2003–2004, including 4,610 educational and 3,724 trade titles, with an estimated 120,000 Australian titles in print as of 2006.

PUBLIC POLICY AND BOOK IMPORTS

The Australian supply chain is highly integrated with those of the United Kingdom and United States—a condition that is arguably reinforced by the dominant presence of foreign-owned publishing multinationals in Australia. Overall, titles originated in Australia hold a 60% market share, with a 40% share for imported books.

Table 1. 2003–2004 book sales in Australia, by origin of title and major publishing category

ORIGIN OF TITLE	EDUCATION BOOKS (AUS\$ MILLION)	GENERAL BOOKS (AUS\$ MILLION)	TOTAL (AUS\$ MILLION)
<i>Australian titles</i>			
Originated in Australia	333.3	447.4	780.6
Acquired from overseas under separate rights agreement	10.1	21.2	
Total	343.3	468.5	811.9
<i>Imported titles</i>			
Total	186.2	355.1	541.3
Total	529.3	823.9	1,353.2

Source: Australian Bureau of Statistics

There are two important qualifying notes that could be added to the above table:

1. Included within this 60% share for domestic titles are books published both by Australian-owned and foreign-owned firms.
2. Also included are titles co-published with a foreign publisher and/or titles acquired under license from overseas and then adapted to some degree for the Australian market.

These are likely to be important factors in the nature of Australian title production given (1) the majority market share held by foreign-owned publishers in Australia, and (2) the participation of such firms in Australian educational publishing. However, there are no available statistics to further break down Australian-originated titles along these lines.

The close ties between major players in the domestic market and the international supply chain—further encouraged by favourable exchange rates between the Australian dollar and the British pound or US dollar—have also given rise to a practice of offshore sourcing for Australian bookstores.

The Australian government's major public policy intervention in the book trade has been in the form of restrictions against this practice of "parallel importation"². The current era of Australian policy in this arena began in 1991, when the government amended Australia's copyright legislation to introduce the so-called "30 day" and "7/90 day" rules. These rules specify responsibilities for Australian copyright holders with respect to the availability of titles in the domestic market, and service standards for filling orders from bookstores.

Under these guidelines, Australian publishers holding territorial rights to new overseas titles must publish these works in Australia within 30 days of their foreign publication. Should the publisher fail to do so, its territorial rights are forfeit and its trade accounts are free to source the book from a foreign supplier.

Similarly, the 7/90-day rule applies to previously published foreign works and requires the Australian rights holder to (a) respond within seven days to a written order for a foreign title, and (b) to ensure the order can be filled within 90 days. Should the rights holder fail to do so, the party placing the order is free to source the book from overseas.

Policy in this area remains under intense scrutiny. Opponents argue that such restrictions prevent the efficient operation of the market by limiting choice for Australian consumers and by keeping consumer prices artificially high. Proponents argue that constraints against parallel importation are an invaluable protection for Australian-owned publishers and Australian authors against the integrated supply chain and the considerable economies of scale of the larger multinational publishers and distributors.

In practice, parallel importation restrictions allow Australian publishers to protect their territorial monopoly position with respect to frontlist or backlist titles to which they hold the rights. These restrictions also allow Australian publishers to export finished books or to sell foreign rights to originated titles without undue risk that they will then be competing at home against imported editions of their own books.

The Australian Bureau of Statistics notes that, while publishers' average selling price per book fluctuates over time, imported titles are priced higher than Australian titles.

² Parallel importation occurs when one party imports non-pirated goods into the domestic market, but outside of the authority of the Australian copyright owner. This is essentially the Australian equivalent of the Canadian phenomenon of "buying around," where Canadian bookstores may source a book from a US publisher or distributor, either because the order cannot be efficiently filled in Canada or because the order is available at better terms from a US supplier.

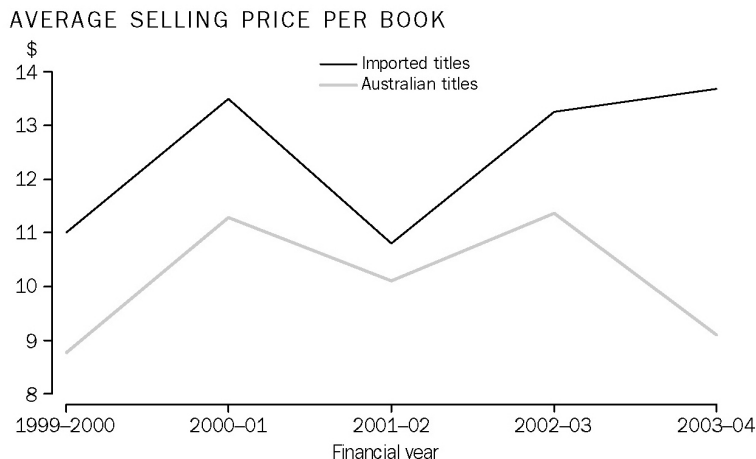


Figure 2. Average selling prices for Australian and imported titles.
Source: Australian Bureau of Statistics

Aside from currency and freight effects, the difference in prices between imported and Australian titles appears to arise, at least in part, from the relatively high proportion of Australian titles that are published as paperback editions. Australian rights holders of foreign frontlist titles appear to have a bias to paperback editions of foreign titles that may be more often published as hardcover editions overseas. Of the 3,724 new trade titles published in Australia in 2003–2004, 3,133 (84%) were published in paperback. Whatever other factors weigh into these decisions, an Australian paperback edition appears to give the Australian rights holder a built-in price advantage against a foreign hardcover edition.

The Australian government acted to remove the parallel importation restrictions in 2000, but the decision was blocked by the Australian Senate of the day and the 30 and 7/90 rules remain in place. The prospect remains, however, that the government may take further steps to weaken or remove these restrictions.

SALES CHANNELS

The Australian Bureau of Statistics counts 1,572 businesses engaged in book sales at the retail level. Of these businesses, 561 are specialist bookstores (both chain and independent), 991 are newsagents (engaged in newspaper, magazine, and stationary sales), and 19 are department stores or other retail chains.

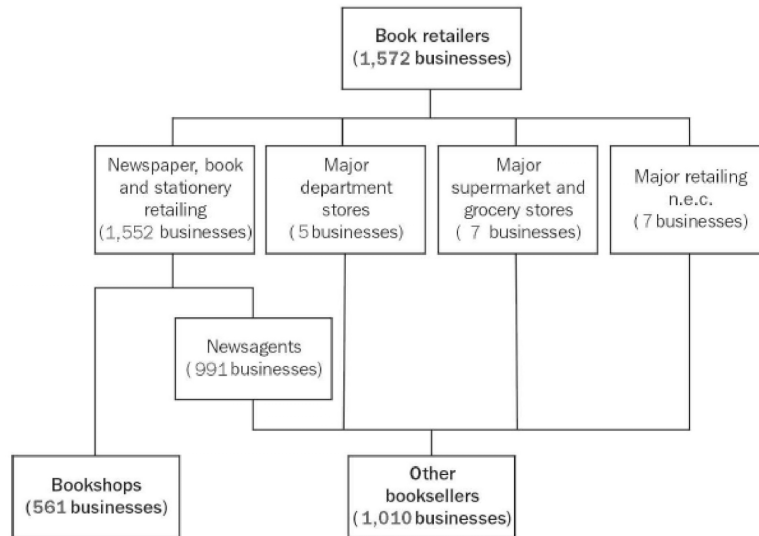


Figure 3. Overview of business category in Australian book retail.
Source: Australian Bureau of Statistics

Seventy-eight percent of Australian book sales (by dollar value) are made by the country's 561 specialist bookstores. In the most recent statistical surveys, unit sales have become increasingly concentrated in specialist bookstores, with some indication of increased price competition in this key channel.

The average retail price of books varies notably by retailer type. In the 2003–2004 ABS survey, the average book price was AUS\$21 in bookshops, AUS\$16 in the newsagent channel, and AUS\$13 in the more price-competitive mass market and department store sector³.

Neilsen BookScan provides the following additional breakdown of market share within key trade channels. Please note that while large in number, newsagents account for a relatively small percentage of total unit sales for books—roughly 6% in 2003–2004.

³ At 2003 exchange rates, these values translate into CDN\$19.32, CDN\$14.72, and CDN\$11.96 respectively.

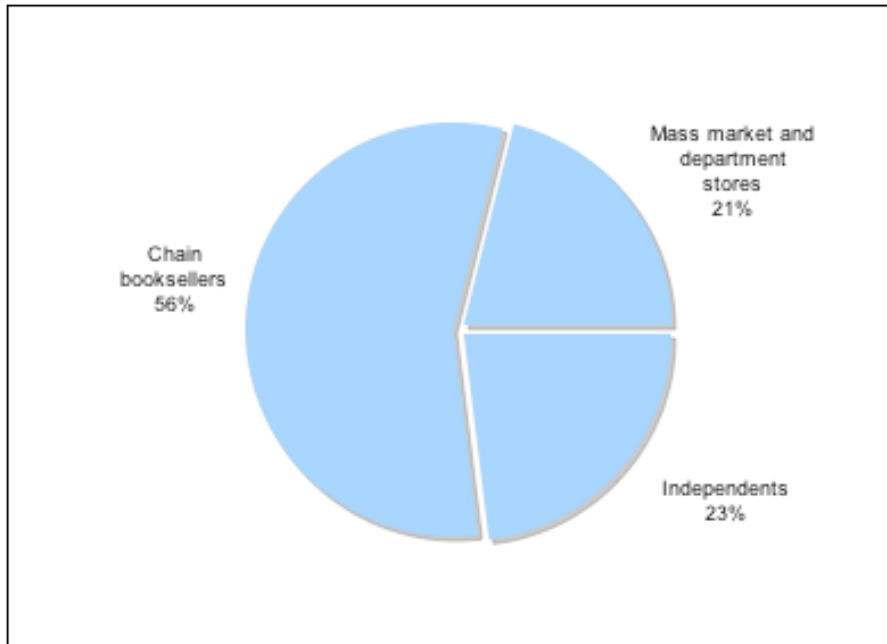


Figure 4. Market share of Australian booksellers by revenue, 2006.
Source: Nielsen BookScan

By virtue of their significant market share, mass market and department stores are included in the BookScan figures. These outlets include the Australian-owned Big W chain (a division of Woolworth’s Limited), Kmart Australia, and Target Australia. On a related note, Australian trade magazine *Bookseller and Publisher* observes, “Unlike in the United Kingdom, Australian supermarkets have not yet entered book retailing in a big way.”

The independent bookstores’ 23% market share has climbed modestly in recent years, fuelled in part by emergence of Leading Edge, an innovative buying group for independent retailers in Australia. Leading Edge counts nearly 200 independent bookstores among its membership, and acts as a buying and promotional support group for independent businesses in a number of retail sectors.

There are three major bookselling chains in Australia. Angus & Robertson is the country’s leading book retailer. Owned by an Australian-based private equity firm, Pacific Equity Partners (PEP), the Angus & Robertson chain is currently in the midst of a major expansion that will add 45 stores this year for a forecast total of 215 outlets by the end of 2007.

The second-ranked bookselling chain, Dymocks, operates 84 outlets in Australia, New Zealand, and Hong Kong (70 outlets in Australia). The chain uses a franchise model, where some of its stores are corporately owned and others are operated by local franchisees.

US-based Borders is Australia’s third major chain bookseller, with 20 large-format stores in metropolitan areas throughout the country. Australia does not restrict foreign ownership of bookstores, and Borders is the latest high-profile operator to enter the marketplace. UK-based WH Smith has previously had a prominent position in the Australian market through its ownership of the Angus and Robertson chain. When WH Smith opted to wind up

operations in Australia in 2004, ownership of the chain was repatriated with the sale to Pacific Equity Partners.

Borders has been expanding its presence in Australia and New Zealand since 2002, and, by all accounts, these stores have performed well with 2006–2007 revenues estimated at AUS\$195 million (approximately CDN\$178 million). However, in March 2007 Borders' head office announced that the company would reorganize its operations and as part of this process is now planning to divest most of its international operations. As was the case with WH Smith before it, this latest move from Borders appears to be a response to challenges, and a corresponding refocusing of corporate attention and resources, in its home market.

In May 2007, Pacific Equity Group emerged as a leading contender to acquire Borders' Australian outlets, and has reportedly expressed its intention to continue to build the Borders brand in Australia independent of PEP's Angus & Robertson chain. It remains unclear at the time of this writing if PEP will complete the acquisition, and, if so, whether it will acquire all Borders outlets, or if it will continue to operate all current outlets following any such acquisition⁴.

These latest developments illustrate one of the principal challenges associated with the entry and exit of a major market player such as Borders, which is that it introduces a significant element of uncertainty to the retail market. There is little publicly available data that can be used to describe these effects, but anecdotal reports clearly indicate the following:

- Borders has been very aggressive in entering the Australian market and expanding its position there.
- Many of its outlets have been opened in close proximity to existing chain and independent bookstores in major metropolitan centres. Borders has emphasized larger-format stores, each of which typically stocks between 80,000 and 100,000 titles. The net effect of these store openings was to dramatically increase the retail square footage and inventory investment in these local markets, leading to strong opening inventory sales for publishers and distributors in Australia.
- A number of these neighbouring stores have since closed in the face of increased competition from large, well-promoted Borders outlets. Others were compelled to compete more aggressively by offering more choice and incentives for customers or otherwise distinguishing themselves in the marketplace.
- If some or all of these Borders outlets are now closed following Borders' withdrawal from the market, this could have further disruptive effects on these local markets and all overall sales patterns within the market.

⁴ Other potential buyers include the Australian management group for Borders as well as the Australian chain Dymocks.

- During its initial entry to the market, Borders was heavily stocked with imported titles, likely reflecting inventory decisions and supply chain connections to its US operations. However, as the chain became more established in Australia, it reportedly changed its stock mix to include more Australian titles in order to better reflect local market conditions and preferences and so to capture more sales.
- The uncertainty around Borders' Australian outlets is now a disruptive element in the market, leading to uncertain/unpredictable ordering patterns and making it more difficult for suppliers and competitors in the book trade to make effective production and marketing plans.

The case of Borders in Australia suggests the arrival of a major foreign chain retailer in a national market has the following effects:

1. Vulnerable competitors will be forced to close or move outlets that are in proximity to a well-capitalized new entrant.
2. Other competing bookstores will respond by strengthening product or service offerings, and/or through other strategic responses to increased competition (e.g., expansion of products or services offered, increasing specialization).
3. The foreign retailer may rely on imported titles and inventory plans in its early phases of operations, but may adapt to local titles and conditions over time, particularly if, as is the case in Australia, there is demonstrable demand for domestic titles.
4. Publishers will have a prospect for increased sales to a major new retailer, to the extent that these new outlets require substantial opening inventories to begin operations and to the extent that the new entrant results in a net increase in retail square footage in the market.
5. Consumers may have an opportunity to benefit from increased choice, service options, and price competition, to the extent that (a) the new entrant provides these and/or (b) competing retailers introduce new products or services in response to increased competition.
6. Unless senior management at the foreign retailer is committed to the national market for the long term, there is a possibility of market disruption if the retailer is forced to reduce its market presence or withdraw altogether.

Appendix 2:
The Book Retail Sector in France

FRANCE

The cultural industries, perhaps writing and publishing in particular, have a special place in France. The country's sectors of cultural production and distribution have long been closely associated at both a political and social level with French identity, language, history, and philosophy—in short, with the protection and promotion of French culture itself.

As a result, France has been a vigorous proponent of cultural protections on the world stage. This has been especially true over the last twenty years, a period during which France's cultural policies have been under scrutiny both within Europe, in the context of EU policy and regulatory measures, and internationally, in the form of General Agreement on Tariffs and Trade and World Trade Organization deliberations.

France was arguably the first nation to introduce the idea of “cultural exception” into these international trade negotiations, and more specifically, to challenge the idea that trade liberalization should be applied to cultural goods and services. While it remains under pressure from the increasing globalization and integration of world economies, the concept of cultural exception has since been accepted by both the European Union and the World Trade Organization, and, as such, continues to have a material effect on France's cultural industries today.

PUBLIC POLICY AND THE LANG LAW

In France, the national government takes a lead role in supporting the arts, with federal budgets for cultural programs having doubled since the early 1980s. The spectrum of cultural activity targeted by national programs has broadened as well to include not only the fine and performing arts, but also popular music, literature, and other categories of cultural expression.

The national government's broad policy orientation toward cultural protection is reflected in France's book retail sector particularly through the *Loi Lang*, a provision that places strict limits on price discounting of new titles. Established in 1981, and named for the French cultural minister of the day, Lang specifies a maximum discount of 5% for books. Such fixed price policies aim to reinforce the cultural significance of books by resisting their commoditization, and to support a diverse community of publishers and booksellers. In practice, such policies allow publishers some relief from downward pressure on book prices—list prices in France, for example, are often notably higher than in other markets, such as Canada—and provide smaller retail players with some protection from the more aggressive discounting practices of larger competitors.

Lang is often credited with supporting a strong national book trade in France, particularly in the face of significant consolidation and expansion among market-leading publishers and booksellers. However, independent French booksellers encounter the same challenges as do their counterparts in many other world markets. The future health of the sector is anything but certain, and, in spite of the Lang provisions, the share of market held by independent booksellers in France is not markedly different from that of smaller book retailers in many other markets.

Benoit Bougerol, president of the *Syndicat de la Librairie Francaise* (the French booksellers association), recently noted, “Large independent bookshops are being bought up, and small ones can barely make ends meet. Only medium-sized outlets are keeping their heads above water for the moment. . . .Independent booksellers are suffering from a stagnant book market and margins; rising supermarket and e-commerce sales; and higher rents, salaries, and transport costs.⁵”

MARKET SIZE AND COMPOSITION

Total book sales in France amounted to €3.2 billion in 2003 (roughly CDN\$5.21 billion at 2003 exchange rates), accounting for 48% of all cultural product sales⁶. In terms of units sold, books account for two of every three purchases of cultural products in France⁷.

As *Bookseller* magazine reported in 2005, book sales are distinguished from other cultural products in France in two other important ways:

“Although demand in all cultural product sectors is increasingly concentrated on bestsellers, the trend is less apparent for books. The top 20 book titles made up only 2% of sales, compared to 20% for the top 20 DVDs ... Booksellers [also] maintained a stronger high street presence than other [music or other media retail specialists]. Supermarkets accounted for 23% of book sales in 2004, while they represented 42% for leisure software, 50% for music and 54% for video products.⁸”

Domestic book sales in France grew by 18.47% from 1999–2003. The French national statistics bureau, INSEE, notes that as sales values have continued to climb modestly over the end of this survey period, actual unit sales dipped slightly (by less than one percent) from 2002 to 2003.

Table 1. Consumer spending on books, 1999–2003 (€ million)

	1999	2000	2001	2002	2003
Book sales	2,685.8	2,817.2	3,073.1	3,149.6	3,181.1
% change	-	+4.9	+9.1	+2.5	+1.0

Source: INSEE

⁵ Barbara Casassus in “France’s indies face collapse,” *Bookseller*, November 17, 2006

⁶ Institut National de la Statistique et des Études Économiques (INSEE)

⁷ Gfk Market Research

⁸ Barbara Casassus in “Books lead sales in France,” *Bookseller*, February 18, 2005

With unit sales falling marginally, growth has come in part from natural inflationary effects in the marketplace. Table 2 illustrates price movement in the book category, compared against national rates of inflation.

Table 2. Changes in book prices and overall price inflation, France, 1999–2003

	1999	2000	2001	2002	2003
Changes in book prices	+0.8	0.0	+1.8	+1.0	+1.5
Changes in overall consumer prices	+0.4	+1.5	+1.6	+1.9	+2.0

Source: INSEE

As these values indicate, book prices moved inconsistently in relation to overall inflation. In spite of the price protection afforded by the Lang Law, increasing pressure for book retailers to compete on price—effectively increasing downward pressure on list prices for books—created more of a gap between growth in book prices and overall price inflation, particularly in 2002 and 2003.

Growth in overall sales volumes during this period appears to have been driven largely by strength in children’s titles and *bandes dessinées* (comics). As Figure 1 illustrates, literature remains the leading category for book sales in France followed closely by sciences (including social sciences).

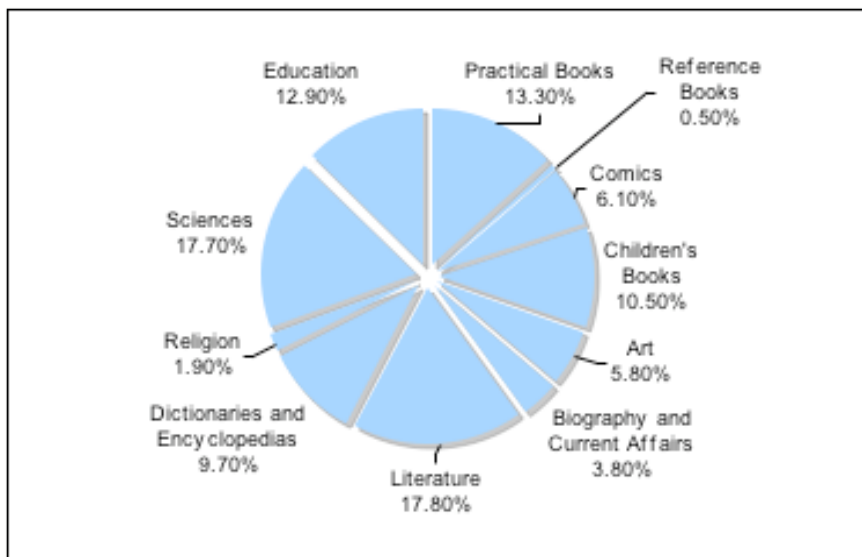


Figure 1. French book sales by category, 2003.

Source: Syndicat National de l’Édition

The Syndicat National de l’Édition (SNE), the association of book publishers in France, identifies the major growth categories from 2002 to 2003, reporting a year-over-year increase of 15.6% for children’s books and 6.1% for biography and current affairs.

SALES CHANNELS

French trade magazine *Libre Service Actualities* (LSA) provides a breakdown of French book sales across major trade channels:

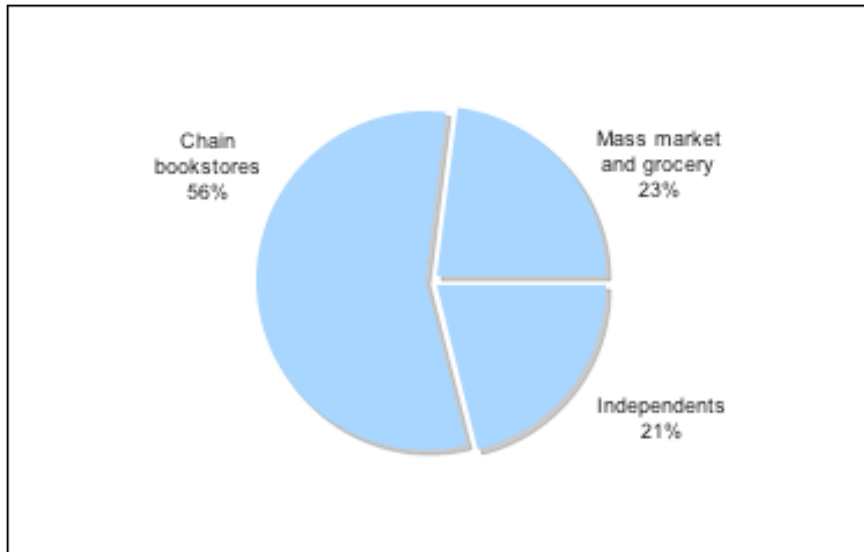


Figure 2. French book sales by channel, 2004. Source: LSA

As in many markets, chain retailers hold the dominant position in French book sales. France's chain bookstores accounted for more than half of the country's book market in 2004, and two retailers—Fnac and Hachette—dominate this category.

Independent bookstores are under pressure from the market presence, technology investments, and expansionary programs of the chain stores. Due in part to the price protection afforded by Lang, however, they remain an important channel in the French market with 21% of total sales.

Mass market and grocery retailers accounted for 23% of total book sales in 2004, much of which was driven by France's large "hypermarket" retailers, such as Carrefour⁹, Géant, and worldwide player Wal-Mart.

The French hypermarket is analogous to the mass market or warehouse retailer in North America. Hypermarkets are combination supermarkets and department stores. They carry a vast range of products, focus on a high-volume, low-margin sales model, and feature facilities as large as 210,000 square feet. Most are located in suburban or out-of-town areas.

Despite representing a significant portion of the 23% market share held by the mass market and grocery channel, French hypermarkets hold a much lower share of the national book market than they do of other cultural product categories such as music or video (where their overall market share was closer to 37% in 2004). This is largely due to the intense price competition in the hypermarket channel, and the extent to which aggressive discounting of

⁹ France's Carrefour chain is the world's second-ranked hypermarket retailer, after Wal-Mart.

bestselling frontlist titles is prevented by Lang. Even so, the mass market/hypermarket channel tends to emphasize bestselling frontlist, reflecting the concentration of sales among a relatively small number of titles that often characterizes this sales channel in other national markets.

Online and book club sales, while not explicitly referenced in Figure 2, also play an important part, notably Amazon’s national site, Amazon.fr, and Bertelsmann’s France-Loisirs book club.

MARKET CONCENTRATION

As noted earlier, the French book market is highly concentrated with major cultural product chains, such as Fnac and Hachette, holding a majority market share.

Fnac¹⁰ has been a leading cultural products retailer in France for more than fifty years, and currently holds more than 50% of the total French market for books, music, and video products. The chain was acquired by Pinault Printemps Redoute (PPR¹¹) in 1994, and has been expanding its operations throughout France and internationally in recent years. Fnac claims to offer every book published in France (nearly 500,000 titles).

In addition to its market-leading e-commerce site¹², Fnac operated 69 outlets throughout France in 2004, as well as 24 Éveil & Jeux stores (a specialist retailer for children’s books, toys, and games). Roughly one-third of these stores are located in Paris and its suburbs. Fnac has expressed a clear intention to increase its retail outlets in the years to come, and to compete for more market share through expanded customer service and online sales programs.

Hachette, in the form of Hachette Distribution Services (HDS), is France’s second-ranked book retailer. Hachette is a vertically integrated competitor whose operations include book publishing (Hachette Livre), magazine publishing (Hachette Filipacchi Presse), and radio and television broadcasting (Lagardère Active). These divisions, along with HDS, compose the Lagardère Media group, a major operating unit of the French conglomerate Lagardère.

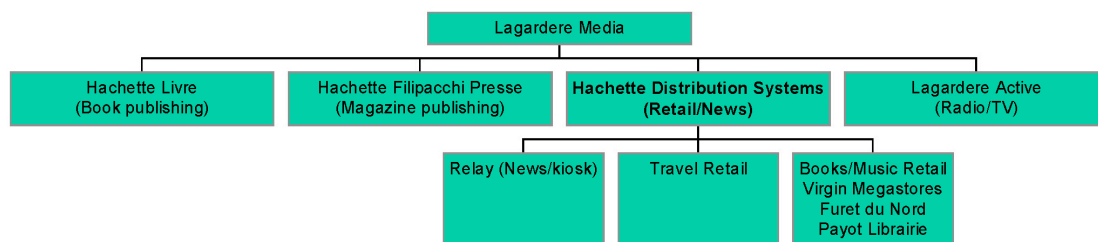


Figure 3. Lagardère Media Group, including HDS retail outlets. Source: Mintel

¹⁰ Originally *Fédération Nationale d'Achats pour Cadres*

¹¹ PPR is a French multinational holding company specializing in retail shops and luxury brands.

¹² comScore ranked the Groupe PPR website #1 by French retail market share in 2006.

By 2004, HDS Relay and other travel retail outlets numbered more than 1,000 stores worldwide. HDS acquired the Virgin Megastore chain in 2001 and operates Virgin outlets in France as well as Virgin-branded travel outlets in Canada, the United States, Asia, and Australia. After converting its smaller Extrapole chain to the Virgin banner, HDS's network of Virgin outlets in France had expanded to 33 multimedia "megastores" by 2004. In addition, HDS operates the Furet du Nord outlets as a regional chain concentrated largely in eastern France.

Many of France's leading retailers of cultural goods have expanded in recent years. In some cases, notably Virgin Megastores, the product mix within the chains is also shifting in favour of books in response to declining music CD sales. In combination, these expansion programs place additional pressure on France's independent bookstore sector as these smaller retailers will increasingly be seen as acquisition targets by larger operators and/or priced out of the market as larger retailers take more of the prime retail positions throughout the country.

As the following table illustrates, the French market is highly consolidated at the retail level, with the top ten cultural goods retailers accounting for more than 90% of sales in 2003.

Table 3. Share of market for top ten cultural retailers in France, 2003.

COMPANY	SHARE (%)
Fnac	54.0
Hachette Distribution Services	8.6
France-Loisirs	7.1
Amazon	5.9
Espace Culturel	4.5
Cdiscount.com	3.6
Les Libraires Privat	2.5
Gibert Joseph/Univers du livre	2.5
Troc de l'Ile	2.1
Starter	1.6
Total	92.4

Source: Mintel

While it is a highly consolidated cultural market, France is also a strong national market for cultural goods, with domestic retailers holding the vast majority of the market share.

French policy and practice does allow foreign ownership in cultural goods retail, however, and foreign competitors play an important role. These include American-based Amazon, which launched its Amazon.fr site in 2000 (and operates an in-country fulfillment operation)¹³, and Germany's Bertelsmann. The Bertelsmann Direct Group operates France-Loisirs, a brand that combines a 206-outlet retail chain with a 4.1-million-member book club¹⁴. Amazon and France-Loisirs held a combined 13% share of the French market in 2003.

¹³ Amazon's sales in France were estimated at €326 million (CDN\$508 million) in 2003.

¹⁴ 2004 figures

France-Loisirs/Bertelsmann Direct Group has significantly expanded its market penetration in France in recent years. By 2004, more than 15% of all French households were members of the France-Loisirs club and its revenues had climbed to €340 million (CDN\$530 million). The club also acquired another book club—GLM—during that year as well as Privat, then one of the largest independent bookselling chains in France (with 32 outlets in 2004). France-Loisirs/Bertelsmann Direct completed a further acquisition in 2006 with the purchase of the French bookstore chain Alsatia and its network of 23 bookstores throughout France (the transaction was approved by the French government in March 2006).

SUMMARY

These developments indicate that the French market exhibits many of the same overall trends that we see in book retail in other world markets. The market is highly concentrated; major competitors are adding market share through active acquisitions programs; and both online and non-traditional channels are gaining market share.

However, if the French market has these things in common with other national markets in Europe and elsewhere, it also distinguishes itself through the *Loi Lang*. The price protections provided by the law do not preclude the major trends sketched above. However, they appear to have the dual effect of (1) strengthening the competitive position of independent booksellers by limiting price competition from value-pricing channels (such as the supermarkets), and (2) minimizing the commoditization of books that is often associated with aggressive price discounts in mass retail channels.

Appendix 3:
The Book Retail Sector in Scotland

SCOTLAND

The book retail sector in Scotland is highly integrated with the broader book trade of the United Kingdom, to the point where it is in some ways difficult to reference one without the other. This chapter accordingly explores Scottish bookselling in the context of the UK market¹⁵.

In general usage, the terms United Kingdom, Great Britain, and England are often interchangeable. Technically speaking, however, the state in question—the United Kingdom (UK)—is a constitutional monarchy composed of four constituent countries: England, Scotland, Wales, and Northern Ireland.

Each of these are generally thought of as possessing distinct nationalities, and to one degree or another, the inhabitants of each country may view themselves as English, Irish, Welsh, Scottish, or British (or some combination of these).

Scotland was granted devolution, or devolved government, in 1998, and under this system the Scottish Parliament administers legislative and tax authority in some specified areas (including education, health, and culture) and the British government retains “reserved power” in a number of areas of broader national or international concern.

With a traditional base in heavy industry, Scotland today has a highly developed open economy that is closely integrated with the rest of the United Kingdom, Europe, and the wider world.

THE UK BOOK MARKET: SIZE AND COMPOSITION

Total consumer spending on books in the UK reached £2.36 billion in 2005 (CDN\$5.19 billion at 2005 exchange rates), on unit sales of 306,000,000¹⁶. This represents a 20% increase in dollar value and 10% increase in unit sales from 2001 to 2005. Average prices increased by only 1% during this period, considerably below the rate of inflation in the UK of roughly 2% per year.

Table 1. UK market by share of publishers' invoiced sales by sector, 2006

	VALUE	UNITS
Consumer	68%	87%
Academic/professional	22%	7%
School/English language teaching	10%	6%

Source: UK Publishers Association

¹⁵ Scotland represents an interesting point of comparison with the Canadian market in that it operates in close proximity to England. Scotland shares considerable political, economic, and cultural ties with its larger neighbour, including a shared language and an integrated book supply chain.

¹⁶ The Booksellers Association

The distribution of total UK publisher sales illustrated in Table 1 has remained fairly constant in recent years, as has the distribution of sales by category illustrated below.

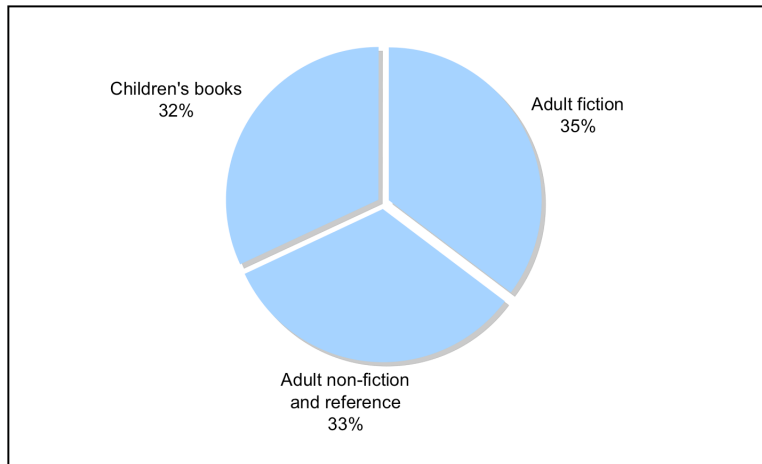


Figure 1. UK book sales by category, 2006.
Source: UK Book Publishing Statistics Yearbook 2006

The UK's publishing sector exhibits the same concentration of market share that is apparent in many world markets. The four largest publishers—Hachette, Bertelsmann, Pearson, and the News Corporation—account for more than 50% of total consumer sales. These large players have been building market share in recent years, partly by acquiring smaller firms.

SALES CHANNELS

Market conditions have been difficult for both publishers and retailers in the UK in recent years. The British market shares many of the characteristics of other world markets—including consolidation and concentration of market share and heightened competition—but the UK market has also been shaken by dramatic gains in market share for massively discounted sales channels.

Online retail—Amazon in particular—and the country's supermarket chains (synonymous with “superstores” or “hypermarkets” in other markets) have seen huge gains in sales in recent years, but this has come largely on the strength of deep discounting on bestselling frontlist titles (discounts of 50% or more from list are commonplace). This deep discounting practice is echoing throughout the British industry today and is affecting everything from terms of trade between publishers and retailers to the stock selection available to consumers in the nation's “high street” (i.e., specialist booksellers) bookshops.

Alan Giles, an executive with book and music retailer HMV, was recently quoted in the *Publisher's Lunch* newsletter as saying, “The stockholding bookshop is being squeezed by two forces: the expansion of online book sales beyond the 10% market share that we initially thought would be a natural ceiling, and the unstoppable growth of supermarkets such as Tesco. The discounting pressure from the likes of Tesco has produced massive deflation [in book prices].”

Speaking at a London retail conference earlier this year, Gerry Johnson, managing director of British bookselling chain Waterstones, said, “We have witnessed the Internet drive down demand for large bookstores. We wouldn’t contemplate opening a 15,000 to 20,000 sq ft store, because even if the market will support it now, it won’t in the future.”

The UK Publishers Association’s 2007 market profile provides a concise history of how British bookselling has been transformed over the past 20 years.

“One major national chain, W.H. Smith, dates back to the nineteenth century, but generally book retailing was a business for local chains and private independents. This situation was supported, in part, by the Net Book Agreement (NBA) – a trade arrangement that meant that the publisher fixed the retail price of most books. This discouraged dynamic retail competition. Since the 1990s, and following the collapse of the NBA, the book wholesaling and retailing markets have become increasingly competitive, with the chains, such as Waterstones, W.H. Smiths and Borders taking market share from the independents, but latterly also losing some business, especially in the top bestsellers, to the supermarkets.

At the same time the e-retailers, notably Amazon, have also grown rapidly, and the book clubs and the remainder and bargain bookshops have lost share in the face of aggressive discounting in the mainstream bookselling market. There has also been consolidation in the wholesale and library supply sectors.”

Retail market share (by sales volume) breaks down as illustrated in the following tables.

Table 2. UK market share by sales channel, 2004–2006

	2004	2005	2006
Bookstores	57.2%	56.1%	55.9%
Internet	8.7%	10.9%	12.2%
Supermarkets	5.5%	7.4%	7.8%
Other	28.6%	25.6%	24.1%

Source: BML

Table 3. Changes in UK market share by sales channel, 2001–2005

CHANNEL	% CHANGE 2001–2005
Chain bookstores	+18%
Independent bookstores	-16%
Supermarkets	+90%
Internet	+183%

Source: BML

There are four national chains in the UK: WH Smith, Waterstones, Borders, and Ottakars. WH Smith is held within the UK, Waterstones and Ottakars are owned by UK multimedia retailer HMV, and Borders is based in the US¹⁷.

Table 4. Market share and number of UK outlets for UK bookselling chains, 2005

	STORES	MARKET SHARE
WH Smith	669	15.4%
Waterstones	200	14.5%
Ottakars	141	7.9%
Borders	72	3.5%

Source: UK Booksellers Association; Times Online

Another four national chains dominate the supermarket channel in the UK—Tesco, Asda, Sainsbury’s, and Morrisons—each of which operate large-format superstores of 40,000 square feet or more. These chains held a combined 74.3% of the UK grocery market as of 2005¹⁸, and reportedly command discounts of up to 60–65% from vendor-publishers on the strength of high volume sales for a relatively narrow selection of books.

Along with the aggressive discounting practices noted above—deep discounts on list price and “3-for-2” incentive offers—-independent booksellers face additional challenges. These include increased marketing spending by larger chain competitors, and shrinking margins as the high-volume bestseller trade is increasingly concentrated outside of independent bookstores and as operating costs, notably commercial rents, continue to increase.

THE SITUATION IN SCOTLAND

As chain bookstores have acquired a larger share of the Scottish market, more attention, both within the book trade and the book-buying public, has been drawn to the selection of books available within these stores, and to the availability of Scottish titles in particular. The question of title availability is in some respects difficult to run to ground as Scottish sales data are not broken out separately from the overall UK market. As a result, there is little in the way of publicly available statistics that describe this aspect of the Scottish market. Much of debate and opinion the surrounds the question of title availability seems to be based on the direct experiences and observations of publishers working in Scotland, and by their representative industry groups.

The British trade magazine *Bookseller* noted in 2003 that the range of titles available in UK bookselling chain has been shrinking in favour of greater shelf space for bestsellers. At the same time, increased marketing spending and aggressive price discounting have created an environment where smaller retailers—often, Scottish-owned firms—have difficulty competing with larger national chains. Similarly, Scottish publishers report increased “gatekeeping” effects (i.e., less access to key trade channels for their books) as buying and marketing decision-making has increasingly shifted out of the country to the home offices of the larger UK chains.

¹⁷ In early 2007, Borders announced its intention to sell its international outlets, including its large-format stores and Books Etc chain in the UK.

¹⁸ TNS Superpanel

The twin issues of market concentration and availability of Scottish titles have been raised widely by the country's arts groups and trade associations. A recent report by the Scottish Arts Council noted:

“The competition for retail space for books produced in Scotland is fierce: the strength of the global English-language publishing industry, where a significant period of consolidation has resulted in the dominance of a few large global players, poses a significant challenge to small- and medium-sized publishers¹⁹.”

Contributing to this trend is the decline in the number of Scottish-owned-and-operated book retailers and library wholesalers in recent years as firms have gone out of business or have been acquired. For example, there are no longer any locally owned regional chains operating in Scotland. The last of these, James Thin Booksellers, fell into receivership in 2002 and its 12 stores were subsequently acquired and rebranded by the English chain Blackwell's (and subsequently by Ottakars). The end result has been a loss of local control in the bookselling sector, as small or mid-sized Scottish firms have been purchased by larger UK chains—with a corresponding transfer of decision-making outside of Scotland.

This problem was exacerbated by HMV's acquisition of the Ottakars chain in 2006. While not Scottish-owned, Ottakars operated in Scotland with a decentralized buying and management model that allowed store staff to make stock selection and promotion decisions at the store level. Following HMV's acquisition of Ottakars, and its subsequent operational integration with the Waterstones chain (also owned by HMV), buying and marketing decisions shifted from Ottakar outlets in Scotland to Ottakar/Waterstones' head office in England.

The Scottish Publishers Association said of the merger at the time:

“We believe that this merger, by offering no alternative to the Waterstones [centralized] model of stock holding and promotional activity, would severely damage the ability of Scottish publishers to offer a range of relevant material to customer here, and would limit the opportunity for promotion of new Scottish writers which would have a detrimental effect on their career opportunities.”

Scottish publisher Hugh Andrew, of Birlinn Limited, added his views on centralized decision-making in the context of the Ottakars debate:

“Centralized chains ignore granularity in the market. It is too small-scale to worry about in a centralized decision-making model. The obvious example of this is WH Smith: its takeover of John Menzies promptly reversed Menzies very pro-Scottish policy and effectively eliminated Scottish cultural interest from its stores. WH Smith claims 20% of the UK consumer market for books, yet its market share for Birlinn Ltd is 1.75% in Scotland. This experience is common in varying degrees to all Scottish publishers.”

¹⁹ Review of publishing. Scottish Arts Council, 2004

The availability of Scottish books in Scottish bookshops has become a local political issue with Scottish parliamentarians lobbying major chains to increase their holdings of Scottish titles. As the leading Scottish daily *The Scotsman* reported in 2006, “[Members of Scottish Parliament] today hit out at [WH Smith’s] centralized buying policy which they say means decisions are taken at headquarters in Swindon on what books are sold in Scotland. And the Scottish Executive was urged to draw up a code of conduct for booksellers to protect Scottish interests.”²⁰

WH Smith, with its 20% share of the Scottish consumer market and centralized buying process at head office in England, has been a particular target for this criticism. The chain has taken steps to feature Scottish titles more prominently in its Scottish stores as a result, but its performance in buying Scottish titles remains a matter of debate. One parliamentary member argued at the time that WH Smith’s centralized buying process has “a detrimental effect on Scottish writers, the Scottish publishing industry, and the Scottish book-buying public. Smaller Scottish authors and small Scottish publishing houses are not getting their goods on the shelves, which means our writers are not getting a fair crack of the whip and it’s undermining Scottish culture, never mind the Scottish economy.”

As the country’s bookshops have passed out of Scottish hands, local industry groups have taken additional steps to help ensure wider availability of Scottish titles. The November 2005 launch of the Scottish Publishers Association’s online retail platform, BooksfromScotland.com, has been a major initiative in this regard. The BFS.com site introduces itself as follows:

“Small to medium publishers face problems in getting their books sold and displayed adequately in the chains and other major bookshops...BFS.com was set up to address some of these issues but aims also to boost export sales for publishers and provide a one-stop shop and information site for Scottish-interest titles...[T]he site will emphasize this dual role: functioning as a showcase of Scottish books and writers and as a straightforward online bookshop.”

²⁰ Ian Swanson in “WH Smith under fire for failing to stock more Scottish writers,” *The Scotsman*, November 6, 2006

SUMMARY

The situation in Scotland is an acute, local example of what are worldwide trends toward consolidation and market concentration in book retail. Given the current retail environment in Scotland, BooksfromScotland.com is likely only one of a number of such initiatives that Scottish publishers will pursue to try to open new sales channels for their books.

In summary, the following observations can be made of the recent history of Scottish book retail:

- Increased competition and limited overall market growth are fuelling acquisitions activity. Barring any restrictions in the form of cultural policy or antitrust/competition bureau rulings, larger competitors will naturally acquire smaller firms in order to gain market share, operating efficiencies, and economies of scale.
- Acquisitions activity can disrupt local or decentralized management processes—whether the acquired firm is locally owned or not—with the overall effect of moving management decision-making out of the local area.
- Larger firms are generally disposed to centralized decision-making. In book retail, this approach has the greatest effect at two key contact points between author, publisher, and reader. First, the selection decision (i.e., the buying or inventory decisions that determine which books are on offer at retail, and in what quantities). Second, the promotional decision—that is, the programs and policies that determine which titles benefit from additional promotions, including featured in-store placement.
- Centralized decision-making in larger retailers is naturally biased to stock selections and marketing programs that can be efficiently applied in all outlets across the chain. This reduces the viability of lower-volume titles within such systems—including local interest and cultural titles—and discourages central buyers or marketers from emphasizing these relatively lower-volume titles in their programs.