The Diffusion and Distribution of French-Language Books in Canada

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Table of Contents

Executive Summary **5**

1 Introduction **10**

PART I: **13**

PORTRAIT OF THE DIFFUSION AND DISTRIBUTION OF FRENCH-LANGUAGE BOOKS IN CANADA **13**

2 The Diffusion and Distribution of Books in the Supply Chain **14**

2.1 The distinction between diffusion and distribution 14

2.2 Characteristics of book distribution 16

3 Book Distribution and Bill 51 in Quebec **19**

3.1 The *système d'office* and prenotification 19

3.2 The principles of Bill 51 20

3.3 Effects of the *système d'office* and Bill 51 in Quebec 23

3.4 The impact of Bill 51 in other Canadian provinces 24

4 Activities Arising from Book Diffusion and Distribution **26**

4.1 Who are the diffusers and distributors? 26

4.2 The publishers distributed 28

4.3 Titles distributed 29

4.4 New titles released 32

4.5 Distribution of book resales and final sales 35

5 Main Partners of the Diffuser/Distributor **40**

5.1 Relationships with the publisher 40

5.1.1 Diffusion and distribution contracts 41

5.1.2 The diffuser/distributor's dealings with the publisher 45

5.2 Relationships with the retailer 47

5.2.1 An overview of the bookstore channel 47

5.2.2 The diffuser's dealings with the bookseller 48

5.2.3 The distributor's dealings with the bookseller 49

5.2.4 The distributor's dealings with mass-market channels 51

5.3 Revenue sharing between partners 52

6 Distributors' New Tools for Improving the Supply Chain **54**

PART II: **58**

SPECIFIC ISSUES AFFECTING THE DIFFUSION AND DISTRIBUTION OF FRENCH-LANGUAGE BOOKS IN CANADA **58**

7 Profitability as a Challenge 59
8 The Thorny Issue of Returns 64
9 Perspectives and Limits of New Technologies 67
10 Foreign Influence 71
11 Concentration and Integration in The Industry 74
12 Specific Issues Facing Small Publishers 78
13 Specific Issues of Book Distribution in French Canada 81
14 Conclusion: Distribution and Access to Titles by Canadian Authors 82
Glossary 86

Executive Summary

In its efforts to gain greater familiarity with each link in the book supply chain and clearly understand the issues confronting the book industry in a constantly changing environment, the Department of Canadian Heritage commissioned this study on the distribution of French-language books in Canada. We will deal with the principal realities and challenges facing trade publishing, aimed primarily at a general readership and released through the retail trade network.

The sector performs two distinct functions: diffusion and distribution. The diffusion of books consists of soliciting orders from bookstores and other retail outlets through a network of representatives acting on behalf of one or more publishers. Distribution covers the logistical tasks related to physically moving books and managing the related financial flows. Considering the complementary nature of these two functions, they are often combined within the same firm: we then speak of a diffuser/distributor.

The diffusion/distribution of books is clearly separate from the other sectors of the book trade, particularly with respect to its economic model. First, the number of book distributors remains limited, as barriers to entry are formidable: distributing books requires large investments and a critical mass that no new business can access. Book distribution requires a technical labour force and works mainly on an industrial model. The distributor has little control over what titles are shipped to it, how the titles are promoted, or even their price. It is not the owner of the product, but is merely an agent.

The diffusion and distribution of books in Quebec — more specifically the diffusion and distribution of new titles —are governed mainly by the *système d’office*. The principle of the *système d’office* means that on the basis of a prior agreement between the diffuser and the bookseller, the retailer automatically receives a given number of copies of each new title from a given publisher as it is released. Over the years, the *système d’office* has been complemented by the prenotification, which makes it possible to selectively alter the number of copies provided for in the *système d’office* form for a given title. Because of the growing number of new titles, the prenotification is gradually becoming more important than the *système d’office* form.

Since June 1981, the *Act respecting the development of Quebec firms in the book industry*, commonly called Bill 51, has allowed better development of Quebec’s book industry, better diffusion of Quebec literature and increased accessibility of books, particularly through the establishment of regulations governing industry practices. In addition to confirming the concept of bookstore accreditation and extending it to publishers and distributors, Bill 51 sets out certain principles that have radically changed the conditions for the development of the book supply chain in Quebec. In particular, Bill 51 stipulates that any books acquired on behalf of an institution must be purchased from accredited local bookstores. As a result, the bookstore became an essential factor in book purchases by public institutions, as direct sales by publishers, distributors or wholesalers were prohibited, leading to considerable expansion of bookstores throughout the province.

The BTLF (Banque de titres de langue française, the Bank of French-language titles) lists 52 active distributors in Canada, the vast majority Canadian-owned. In 2005-2006, the three largest distributors controlled 79.7% of all book sales by distributors, compared with 66.9% in 2002-2003, a significant increase in the level of concentration over the past few years. The BTLF lists 2,048 Canadian French-language publishers in its database, 1,915 of which are distributed, which represents 93.5% of the Canadian publishers listed. This reveals the effectiveness of the French-language book trade in Canada in making books from nearly all active publishers accessible in the market. The BTLF also lists 57,712 foreign publishers, some 2,200 of which are distributed in Canada. Similarly, it lists 95,644 Canadian French-language titles to date, 85,390 of which are distributed in Canada, which represents 89.3% of the titles listed. Once again, we see that a very high proportion of the published titles are available in the supply chain, a remarkable testament to the ability of French-Canadian distributors to provide access to a wide diversity of Canadian titles. The BTLF lists 1,073,942 titles from foreign publishers, 665,599 of which are distributed in Canada and 547,824 actually available. Lastly, we see 29,317 new titles released in Quebec and French-Canada in 2004-2005, an average of 564 titles per week. The great majority of these titles (88.7%) are placed on the *système d'office* form for less than 500 copies.

We note that not only did final books sales by distributors decrease 21.3% from 2001 to 2007, but also that distributors' share of total sales decreased 9.4% from 2001 to 2006, lost mostly to publishers and booksellers. We consider this loss by distributors to be significant, indicating a transformation in the distributor's traditional role within the supply chain.

This document explores a number of issues related to the diffusion and distribution of books within a continually changing sector:

– *Profitability challenge:* Despite an increase in distributors' average net profit margin in 2005-2006, 33% of distribution companies are still experiencing losses. Their great challenge is to increase their critical mass in order to take advantage of economies of scale to better cover their fixed costs and improve their performance, and thus reduce the cost per title.

– *Return rates:* The economics of the book market rests in particular on the principle that an unsold book may be returned within a given period. The breakdown of the unit costs of book distribution clearly shows the significance of book handling and shipping costs. There is considerable concern about the increase in the rate of returns, since the profitability of the whole distribution business depends on it. A recent study has shown that if only the return of copies shipped under the *système d'office* is considered, the return rate is equivalent to 49.78%. However, if we also consider copies sent for restocking during the year following the release of the book, the return rate through the *système d'office* and restocking is 30.62%. Moreover, the return on *système d'office* and restocking is different for Quebec titles (27.04%) and foreign titles (32.51%), showing the efficiency of diffusers and distributors in properly planning the positioning of Quebec and French-Canadian titles in the bookstore channel.

– *New technologies:* Technology has opened new possibilities for diffuser/distributors, more specifically in communications between the diffuser/distributor and the retailer. A new sales information system will soon make it possible to follow day-to-day changes in the sales of a title and see fluctuations in sales, etc., by title, collection, publisher or region. New technological developments also influence the sales medium; since online sales began, books have been one of the highest-selling products. New technologies are even changing the book as a product, now offering consumers access to content in alternative formats, and publishers the ability to sell content directly in electronic format to individuals and institutions without going through the traditional middlemen, the distributor and the bookstore. For distributors, there is cause for concern, especially given their relative decline in books sales. Distributors must redefine their place and their role within this new environment.

– *Foreign influence:* Over the years, the book distribution sector in Quebec and French Canada has shifted from predominantly foreign to predominantly Canadian-owned. However, foreign ownership does not represent the only risk from the book industry abroad affecting the French-language book trade in Canada. Indeed, the greatest changes experienced by Quebec distributors have been the result of transactions that occurred abroad — mainly in France — and involved the foreign publishers that they distribute in Canada. Even though foreign investment in the French-language book distribution sector in Canada may not specifically constitute an issue for the industry, we must not therefore assume that there is no danger of a transfer of important players in French Canada to foreign owners, which would then have a major impact on the sector. In effect, the concentration of many book industry firms into large groups could expose them to foreign acquisition in the event that such a group was sold as a whole. These groups are so large that it is possible that no Canadian purchaser would have the means of acquiring one.

- *Concentration and integration:* In 2005-2006, concentration among distributors increased significantly, thus improving the profitability outlook among certain firms. However, the benefits of concentration among distributors can at the same time conceal certain negative effects. Concentrating distribution within an overly limited number of distributors, and within large business groups, may reduce the diversity of supply and access to French-language books across Canada. Presumptively concentrating on financial interests and increasingly focusing on bestsellers considerably impedes the entry of new publishers, which bring new and often some of the most innovative authors into the book trade.

- *Issues specific to small publishers:* In an environment marked by concentration and a steady increase in the number of titles being released, small publishers are finding it increasingly difficult to find diffusion and distribution partners. Furthermore, those that do succeed in concluding diffusion/distribution agreements will have no assurance that they will be dealt with fairly and that their titles will receive all the attention they would like. Certain groups of small publishers have attempted to develop more affordable solutions that are better suited to their status and more likely to give them greater visibility, at times developing new diffusion and distribution management models.

- *Issues specific to book distribution in French Canada:* There are problems in the French-language book marketing system in Canada, particularly in its small capacity for making books available to Francophone communities spread out across the country. This issue deserves special attention from governments and should be dealt with by a specific strategy to meet this essential need for better access to a wide range of French-language titles for communities, since access to culture is essential for their development.

The study shows that the book distribution mechanisms in Quebec and French Canada promote exceptional access to a diversity of titles by Canadian authors — 93.5% of Canadian French-language publishers have access to a national distributor, and 89.3% of Canadian French-language titles are distributed across the country. This shows the great capacity of the book distribution system in French Canada to make a great majority of the titles by Canadian French-language authors available. In Quebec, the *Act respecting the development of Quebec firms in the book industry* (Bill 51) and use of the *système d'office* as a mechanism for releasing new titles have greatly encouraged diversity in the supply of titles by Quebec authors and access to books — specifically Quebec books — in communities across the country.

However, this fragile balance is threatened. Although essential, calling into question the marketing approaches that make use of the *système d'office* risks limiting the availability of titles with smaller print runs and titles from lesser-known publishers and authors.

Furthermore, even though it promises to greatly improve the efficiency and effectiveness of book diffusion, access to new technologies also risks accentuating the importance of a title's performance in bookstores, thereby limiting the presence of slower-moving titles; sales will become increasingly predictable using these sophisticated tools, solely on the basis of sales performance. Lastly, the concentration and particularly the integration that affect the book trade may change the conditions of book distribution to a drive for profitability at all costs.

1 Introduction

Not much is known about the realities of book distribution in Canada, and the specific issues facing book diffusers and distributors are rarely studied. We know little about book distributors. There have been several studies dealing with authors, publishers and the publishing sector, there is data on the retail trade through bookstores as well as the mass market, and there has also been an interest in reader's consumption practices. Yet, while the publisher is the main editorial link in the book industry, the fact remains that distributors are its main commercial link: they play the pivotal role between supply and demand, and between publisher and retailer (bookseller, etc.). Their economic importance within the book trade is unquestionable, and they bear primary responsibility for moving books. In a country the size of Canada, this is a formidable challenge.

Over the past few years, efforts have been made to make up for this lack of knowledge of the distribution of French-language books in Canada. In 2001, SODEC (*Société de développement des entreprises culturelles* — the Quebec cultural businesses development corporation) drew the first economic portrait of the book trade, and the diffusion and distribution sector in particular, through the publication of the work by Marc Ménard, *Les chiffres des mots*.[1] Since 2001, OCCQ (*Observatoire de la culture et des communications du Québec* — the Quebec culture and communications monitoring agency) began to gather data on new book sales in Quebec, which has gradually made it possible to describe trends in the movement of new books from one sector to another in the book trade. This data has been refined over the years (in particular, by more clearly distinguishing retail sales from textbook sales), and can now provide important lessons regarding the economic dynamics of the book trade. In 2004, it published an *État des lieux du livre et des bibliothèques*, which provided an in-depth study of the book trade, giving the first comparative analyses since the release of *Chiffres des mots*, particularly with respect to diffusion and distribution.[2] In 2006 and 2007, the OCCQ also carried out a specific investigation of exclusive distributors and diffusers of Quebec books.[3] Lastly,

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1 Marc Ménard, *Les chiffres des mots: portrait économique du livre au Québec* [Words in numbers: Economic portrait of the book trade in Quebec], SODEC, 2001.

2 Marc Ménard and Benoît Allaire, "La distribution de livres au Québec" [Book distribution in Quebec], in *État des lieux du livre et des bibliothèques* [Status report on books and libraries], Observatoire de la culture et des communications du Québec, chapitre 7.

3 Benoît Allaire and Geneviève Bélanger, "Portrait des distributeurs et diffuseurs exclusifs de livres au Québec," *Statistiques en bref*, n° 25, December 2006, Observatoire de la culture et des communications du Québec; and Benoît Allaire, "Les distributeurs de livres au Québec: un chiffre d'affaires de 239 M$ en 2005-2006," *Statistiques en bref*, n° 38, June 2008, Observatoire de la culture et des communications du Québec, Institut de la statistique du Québec.

in 2007 the *Table de concertation interprofessionnelle du milieu du livre au Québec* published an impressive *Étude sur la mise en marché des nouveautés par le système de l'office au Québec*,[4] which thoroughly examined the economy resulting from the release of new titles in Quebec. This study refers to these publications throughout.

The Department of Canadian Heritage is interested in all sectors of the book trade, their special features and their interrelationships. It aims to explore and gain a clear picture of each of the links in the supply chain, both their operations and the results of their professional activities, and hopes to be in a position to contribute to the book industry's efforts to confront a constantly changing environment, which raises some important issues. In 2007 the Department funded a study on the retail book trade in Canada,[5] which shed new light on the health of the retail trade and resulting issues. In the same spirit of research and review, it commissioned this study on the distribution of French-language books in Canada, which has been carried out in parallel with a similar study on the English-language market. It is available in both official languages on the Canadian Heritage Web site at www.pch.gc.ca.

This study is the result of an in-depth analysis of quantitative and qualitative research conducted to date on the French-language book trade in Canada, specifically the book diffusion and distribution sector. It is also based on a large number of interviews conducted with diffusers and distributors, leaders of professional associations in the book trade, as well as book professionals, booksellers, publishers, etc.[6] In light of the fundamental differences between the distribution models for trade titles and textbooks, it concentrates on trade publishing intended for a general readership and released mainly through the retail trade network.

This study consists of two main parts. The first attempts to present a portrait of the diffusion and distribution of French-language books in Canada by explaining the main aspects of the diffuser's and distributor's work in the various markets based on the conditions governing their professional activities. We look at the impact of Bill 51 in Quebec on the work of book distribution, we describe the conditions under which diffusers and distributors work with their main partners in the book trade — publishers on the one hand and retailers on the other — and we present the main communication

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4 Michel Lasalle and Renée Gélinas, *Étude sur la mise en marché des nouveautés par le système de l'office au Québec* [Study on the release of new titles by the "office" system in Quebec], Table de concertation interprofessionnelle du milieu du livre [Interprofessional round table of the book industry in Quebec], 2007.

5 Turner-Riggs, *The Book Retail Sector in Canada*, Department of Canadian Heritage, 2007.

6 Considering the confidential nature of some of the information and data provided to us during these talks, we will not name those who contributed their time and experience to the research leading to this document. However, we hope that each one will feel personally thanked for their generous co-operation.

and data transmission tools used throughout the supply chain. In the second part we discuss the main issues that influence the distribution of French-language books in Canada or that in the medium or long term could alter the environment for book diffusers and distributors.

It is important to note that the study includes certain limits relating mainly to the data-gathering approaches used in the previous studies. Considering the scattered geographical distribution of the French-language market, no specific data is available on French-language markets outside Quebec (except with respect to the number of publishers and titles published). However, the vast majority of French-language publishers outside Quebec are diffused inside Quebec and are distributed by a Quebec distributor. For some data, particularly with respect to the latest study on the *système d'office*, titles from French-Canadian publishers outside Quebec are included in the titles under study; references to Quebec titles will therefore include all Canadian French-language titles.

PART I:

PORTRAIT OF THE DIFFUSION AND DISTRIBUTION OF FRENCH-LANGUAGE BOOKS IN CANADA

2 The Diffusion and Distribution of Books in the Supply Chain

The profession of book distributor is relatively new in Quebec and French Canada. Even in the 1960s, books were circulated by wholesale booksellers mainly in Montreal and Quebec City, which sold books both in their own stores and through other bookstores and institutions. The industry was emerging from a period when printers often became publishers, and booksellers were also publishers, importers, stationers and wholesalers. The few bookstores in the regions were therefore dependent on these businesses to obtain a stock of both Quebec and foreign books, which could lead to conflict, since they were also competitors. They were also often blamed for bypassing local bookstores by serving institutions directly, offering them substantial discounts, before supplying the bookstores. These wholesale bookstores were also in competition among themselves, which led to a race to the lowest price and confusion where the small bookstore usually became the victim. Under such conditions, it was difficult to develop a supply network in the regions.

The 1960s and 1970s brought profound changes to the book trade. Partly thanks to the winds of nationalism and patriotism blowing through both Quebec and the other Francophone communities across Canada, a large number of publishing houses that supported the promotion of local and national literary production were created. However, they were unhappy to find that their books were being sold at different prices depending on the supplier. Wholesale booksellers were gradually replaced by distributors; at that time there were more than 70, 60% of them Quebec-owned. Major French publishers created distribution structures, while new Quebec businesses attempted to win over Quebec and foreign publishers. At the same time appeared the concept of exclusive diffusion rights, which made wholesalers, the non-exclusive distributors, virtually disappear. The new link in the supply chain, the exclusive diffuser/distributor, thus began to expand into what it is today: one of the pillars of the book trade in Quebec and French Canada.

2.1 The distinction between diffusion and distribution

The concepts of book diffusion and distribution are often confused, even by professionals in the sector. This misunderstanding perhaps arises from the fact that the two complementary functions are often carried out by the same business or by associated businesses, or else it could result from the fact that the English term “book distributor” can mean either a book diffuser, a book distributor or a diffuser/ distributor, which might partially explain the confusion surrounding the use of the terms designating these concepts in French.[7]

The Québec Culture and Communications Activity Classification System (QCCACS) distinguishes three types of establishments whose main activities consist in circulating books between publishers and the various retail outlets: book diffusers, book distributors and book diffuser/ distributors.[8]

Diffusion involves taking orders from bookstores and other retail outlets through a network of representatives acting on behalf of one or several publishers. Book diffusion may include such things as prospecting clients, representing publishers, canvassing the media, promoting sales, publicity, determining discounts granted to customers, as well as ordering and determining suggested selling prices for imported books. Diffusion could be further divided into two areas of activity: promotion and marketing. Canadian books are most often promoted by the publisher, which attempts to build up public awareness of a publication (usually a new title). Book promotion activities may include review copies, the launch, author tours, publishing of advertisements or inserts, the inclusion of the title in the catalogue or Web site, the production of brochures, posters, bookmarks, etc. Diffusers obtain publishers' permission to act as their exclusive representatives for the marketing of their works in retail trade networks, bookstores, etc., through teams of representatives. For foreign titles, diffusers may take on more duties related to the promotion of titles.

Distribution includes all the logistical tasks related to the physical circulation of books and management of the related financial flows. Distributors initially receive the books, do the *système d'office* shipping, process orders, take responsibility for packaging and invoicing, manage and control inventory, warehousing, shipping, returns, credits, etc., for one or more publishers.

Considering the complementary nature of the two functions, they are often grouped within a single firm, referred to as a diffuser/distributor. With these two functions, there can be a variety of business models or cross-sectoral agreements governing the diffusion and distribution of books. As we will see below, certain exclusive diffusers do not do distribution, but rather develop agreements with distributors to manage movement of their books. However, certain distributors will not agree to separate diffusion and distribution and will insist on retaining responsibility for both functions. Except for a

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7 ADELF, *Vocabulaire de la diffusion et de la distribution du livre* [Vocabulary of book promotion and distribution], Office québécois de la langue française, 2005.

8 Québec Culture and Communications Activity Classification System (QCCACS), Observatoire de la culture et des communications du Québec, 2004, p. 48-49. [Available in English at: http://www.stat.gouv.qc.ca/observatoire/scaccq/principale_en.htm — Tr.]

few cases of self-distribution, only one firm, Socadis, limits its activities to distributing books and does not have a team of sale representatives for the book trade; it works with exclusive diffusers that may represent several publishers, or else it works directly with publishers that do their own diffusion. As we will also see, certain diffuser/distributors turn the distribution of their catalogue over to other distributors for a specific market, usually the mass-market channel or the academic market. Lastly, there is the category of publisher/diffuser/distributors, which are usually small publishers or educational publishers that do their own diffusion/distribution.

A diffuser/ distributor is distinguished from a wholesaler by the fact that it holds an exclusive right to represent a publisher’s titles to retailers. A wholesaler is a non-exclusive intermediary between a diffuser/distributor (or a publisher that carries out these functions itself) and certain categories of purchasers, whether institutional or themselves retailers. A wholesaler usually specializes in a specific market (libraries, mass market, etc.). It provides titles from several publishers and offers customers a single supplier for all their supplies. It can also provide its customers with related services, such as collection management and cataloguing, title searches and importing, etc. Under the regulations pursuant to the *Act respecting the development of Quebec firms in the book industry* (commonly called Bill 51) in Quebec, no wholesaler may serve institutions. Similarly, certain mass-market channels have attempted to force suppliers to deal with a single wholesaler for all of Quebec, as is often the practice in English Canada, but this strategy has been rejected by distributors. For these reasons in particular, wholesalers are virtually absent from the book trade in Quebec and French Canada, except for providing French-language books to English-language customers outside Quebec.

2.2 Characteristics of book distribution

The distribution of books is very different from the other sectors of the book trade, particularly with regard to the economic model that governs its activities. In order to better comprehend the realities specific to diffuser/ distributors, we would like to mention certain characteristic specific to book distribution.

- *Barriers to entry*: Not just anyone can become a distributor. The barriers to entry are imposing, mainly because of the costs related to warehousing titles and the growing technological requirements. Diffusion also requires a substantial team of representatives who must continually visit each part of the territory, which can be very expensive. Diffusion/distribution requires a critical mass not available to a new business. The situation is different for publishers and booksellers, which, even though they have to attain a level of activity sufficient to enjoy a certain degree of influence or gain access to governmental support, are able to build up their business gradually, and we are constantly seeing new entrants.

- *Limited number of players*: Given the barriers to entry, it is not surprising that the diffusion, and especially the distribution, sector includes few players, especially few new players. According to the *Annuaire de l'édition au Québec et au Canada français 2007-2008* [Directory of publishing in Quebec and French Canada 2007-2008], published by *Livre d'ici*, only four distributors have been established since 2000, including one specialized in comics books and two that do mainly self-distribution.

- *Technical expertise*: Unlike the other sectors in the book trade, book distribution requires a technical labour force, and its operations are mainly industrial. [TRANSLATION] "This is the only sector in the network where all operations can truly be quantified and predicted, an essential precondition for any effort to reduce inefficiencies."[9]

- *Little or no influence over supply*: Distributors, and even diffusers, generally have little say regarding the titles assigned to them. They reach many agreements with publishers according to their field of publication, catalogue and reputation, but they are unaware of their upcoming production, which can, however, have a substantial impact on the profitability of their activities. Unlike publishers, they have no influence over the titles they will have to represent, even if they can attempt to influence the production of their publisher partners, or even terminate agreements with publishers that no longer comply with their professional policies.

- *Little influence over how titles are promoted*: Generally, at least for Canadian titles, it is the publisher that is responsible for activities to publicize titles: the production and distribution of brochures, review copies, publicity, etc. The publisher thus attempts to directly influence the reader and encourage retailers to provide more space for its title in bookstores. However, the diffuser and the distributor are dependent on the publisher's level of investment in a title, and it is difficult for them to demand a publisher to ramp up its efforts.

- *Little or no influence over price*: Just as with editorial content and promotion efforts, the distributor has little influence over the price that will be set for the title — at least for Canadian titles — even though its revenue will generally depend on the fixed selling price.

[9] Marc Ménard and Benoît Allaire, "La distribution de livres au Québec," in *État des lieux du livre et des bibliothèques*, Observatoire de la culture et des communications du Québec, p. 141.

- *Ownership of the product*: Unlike the publisher or the bookstore, the distributor does not own its product, since it is only warehoused on the premises.
- Brand image: Unlike the publisher and the bookstore, the public has little or no familiarity with the diffuser/ distributor's brand image, which can influence only book-industry professionals.
- *Government support*: Diffusion/distribution is one of the few links in the supply chain that does not enjoy direct government (financial or legislative) support.

3 Book Distribution and Bill 51 in Quebec

It may be difficult to grasp all the subtleties of the relationships between the various sectors in the book trade in Quebec without a good understanding of the principles underlying the *Act respecting the development of Quebec firms in the book industry*, which governs certain business practices in the book industry.

3.1 The *système d'office* and prenotification

In the 1970s, the book industry in Quebec adopted a practice already common in France as its principal method of marketing books, particularly new titles: the so-called *système d'office*. The principle of the *système d'office* is that under a prearranged agreement between the diffuser and the bookseller, the retailer automatically receives a certain number of copies of every new title from a given publisher on its release. These shipments are made with right of return.

This system was established to grant publishers better visibility in order to quickly release their new titles into the retail trade network, and to provide retailers — whether in major cities or in remote regions — with access to new titles as soon as they are released. Thus, the *système d'office* has promoted greater variety of choice for consumers and better access to books across the province. It allows more efficient diffusion of new titles and reduces work, and therefore costs. The *système d'office* is very different from the preferred practice in English Canada and in most other countries: the *standing order*, which is based on orders from catalogues of upcoming titles.

Système d'office shipping also involves a number of commitments that bind each party. Thus, it is agreed that shipping costs for titles shipped through the *système d'office* will be charged to the distributor, but the costs of returns will be the responsibility of the bookseller or retailer. Thus, it is to each one's advantage to accurately estimate the number of copies likely to be sold in order to reduce shipping and return costs. Similarly, the bookseller undertakes to stock the copies received under the *système d'office* for at least 120 days before taking advantage of the right of return; the distributor for its part undertakes to comply with the terms and conditions set out on the *système d'office* order forms.

The prenotification, a second essential tool of the *système d'office*, was introduced in the late 1970s. Prenotification is a mechanism that makes it possible to alter the order for a given title in the *système d'office* order form. When meeting with the customer, the diffuser's representative provides information on the list of upcoming new titles and the quantities of books the customer should receive in accordance with the *système d'office* order form. These quantities can then be increased or decreased by mutual agreement. This revised quantity is called the prenotification. Originally, the increase in the number of copies of a title through the prenotification had the status of a firm order, without right of return. However, with time, the prenotification has merged with the *système d'office* and is delivered at the same time and under the same conditions as the *système d'office,* with right of return.

In the past few years, mainly because of the growing number of new titles, calls for bookstores to handle an excessive number of titles and copies, and the need and desire of booksellers to serve their clientele by better targeting their needs, the prenotification has taken on greater importance than the *système d'office*. Booksellers would like to choose the titles to be sent to them despite the return right under the *système d'office*. However, although the prenotification makes it possible in theory to improve bookstores' collections to better suit their own clientele, the fact remains that it requires considerable effort on the part of the diffusers, since every title has to be discussed and reviewed individually, which increases the costs of marketing books. Moreover, there is no evidence that the prenotification has reduced the return rate. Similarly, although it does somewhat reduce the risk associated with marketing titles by lesser-known authors, at the same time it limits the possibility that a title may find a market that the bookseller did not initially anticipate, which may limit the diversity of supply.

3.2 The principles of Bill 51

In late 1979, the Government of Quebec passed a bill to improve the development of Quebec's book industry, improve the diffusion of Quebec literature and increase book accessibility by establishing commercial practices in the sector. The new legal provisions took effect in June 1981 under the *Act respecting the development of Quebec firms in the book industry*, commonly called Bill 51, which is widely believed to have revolutionized the book trade and allowed it to expand throughout Quebec.

First, Bill 51 confirmed the concept of bookstore accreditation and extended it to publishing and distribution companies. Accreditation is an official recognition granted by the government, certifying that a business meets a certain number of conditions in terms of supply and quality of services, and granting it the right to certain advantages arising from its status as an accredited business.

In the book trade in Quebec, the conditions and advantages of bookstore accreditation specifically impose the principal commercial practices in the sector. First of all, to receive accreditation, a bookstore must meet certain requirements related to its ownership structure, its place of business and the services offered. In particular, it must have the following characteristics:

- Have its head office or principal place of business in Quebec; be incorporated under either the Statutes of Canada or the Statutes of Quebec;
- Demonstrate that it is controlled or owned by Canadian citizens domiciled in Quebec;
- Have sold to private individuals, during the fiscal year preceding the application, the lesser of $100,000 worth of books or one third of its overall book sales;
- Have sold books for not less than $300,000 or not less than 50% of its total sales figure, whichever is less, in the case of a bookstore in a municipality with a population of over 10,000, and not less than $150,000 for a bookstore in a municipality with a population of 10,000 or less;
- Receive standing orders from 25 accredited publishers and display the titles for at least four months;
- Operate an establishment that is easily accessible to private individuals from the street or a mall; keep this establishment open all year round; and
- Own adequate bibliographical material, as defined by the *Regulation respecting the accreditation of bookstores*.

In addition to setting out the conditions governing the quality of the service offered to individuals and institutions, the Regulation stipulates that the accredited bookstore must:

- In the case of books for which it has exclusive distribution rights, receive its supplies from an exclusive accredited distributor; and
- Keep an inventory of at least 6,000 different book titles, including at least 2,000 different titles of books published in Quebec and 4,000 different titles of books published elsewhere.

In return, an accredited bookstore, in addition to being eligible for financial assistance from the government, is entitled to take advantage of the provisions set out in the *Regulation respecting the acquisition of books by certain persons from accredited bookstores*. One particular clause of the Regulation is of vital importance to bookstores and has a major impact on the work of distributors:

- Any acquisition of books on behalf of an institution must be made in the accredited bookstores in the region where the institution is located.

Not only has this clause governing institutional purchases radically changed book-purchasing practices in Quebec, it has also dictated the main business practices of diffusers and distributors. Thus, diffusers — except for textbook publisher/diffusers, since textbooks are not subject to this clause of the Regulation — may not sell books directly to a public institution, such as a school, library or other government-funded institution. All purchases for these institutions must be made from accredited local bookstores. This therefore explains why wholesalers regularly serving institutional markets have never become established in Quebec.

Two clauses in Bill 51's regulations determine business practices in the supply chain with respect to the discounts each intermediary is to grant to its commercial partners. On the one hand, Schedule B of the *Regulation respecting the accreditation of Quebec distributors and the method of calculating sales prices* stipulates that the distributor must grant an accredited bookstore a discount of at least 30% on dictionaries, encyclopedias, law texts, medical texts, books providing an introduction to a science or technology, including the humanities and social sciences, and whose format and presentation are such that the books constitute instructional material, and 40% on any other books, except for textbooks not covered by the Act. On the other hand, the *Regulation respecting the acquisition of books by certain persons from accredited bookstores* stipulates that the sales price of a Canadian book must be billed using the publisher's list price or net price; the sales price of a foreign book under exclusive distribution rights in Canada must be billed in Canadian currency using the list price or the Canadian net price set by the exclusive distributor.

Not only have these two clauses set out the discount rates between middlemen, retailers and purchasers, but their general intent has encouraged an environment where negotiated discounts remain moderate, even, as we will see below, in the mass-market channel, which does not, however, seem to respond to any outside regulation. Despite certain practices making any mass-market discount negotiable, Quebec has not seen the same inflation as has occurred in the other provinces. Thus, Bill 51 and its Regulations have constituted and still constitute a mechanism to stabilize the book trade in Quebec and even in other parts of French Canada, and have sheltered distributors from a headlong race to excessive discounts.

Lastly, the *Regulation respecting the accreditation of Quebec distributors* also sets out the rules for setting tabulated statements (*tabelles*), which are used to calculate the price of foreign books for which no Canadian price has been set by the publisher. A tabulated statement is "the factor by which the list price or net price of a book in its country of origin is multiplied to establish the maximum price of the book in Canadian currency." Distributors, whether accredited or not, must comply with these tabulated statements when calculating the Canadian price of foreign books.

3.3 Effects of the *système d'office* and Bill 51 in Quebec

The *système d'office* has greatly facilitated the work of diffusers and booksellers making it possible to better serve bookstores far from major centres, which, without *système d'office* shipments, would have had difficulty gaining access to a variety of titles. The *système d'office* has had a considerable impact on diversity of supply. It has also resulted in significant time and cost savings for all sectors involved.

The most remarkable effect of the introduction of Bill 51 has been to encourage bookstores to open throughout Quebec and to remain open. The clauses stipulating that all institutions must obtain their books from local bookstores gave these bookstores better access to their own markets and gave them the conditions and ability to increase diversity of supply for individual consumers.

Table 1. Growth in the number of accredited bookstores and revenue of accredited bookstores in Quebec, 1983-2000,

	1983	1986	1989	1992	1996	1998	2000
Number of bookstores	168	172	189	211	210	218	211
Total revenue ($K)	123,125	151,089	219,861	262,639	342,539	449,362	484,315

Source: Marc Ménard and Benoît Allaire, "Les librairies agréées au Quebec" [Accredited bookstores in Quebec], in *État des lieux du livre et des bibliothèques*, Observatoire de la culture et des communications du Québec, p. 149.

Largely thanks to Bill 51, the number of accredited bookstores in Quebec increased from 168 in 1983 to 211 in 2000. The picture is not all positive for bookstores, since according to data from the Quebec Ministère de la Culture, des Communications et de la Condition féminine [Department of Cultural Affairs, Communications and the Status of Women], the number of accredited bookstores today is 208.

Furthermore, the steady growth in the total revenue of accredited bookstores, with their average annual growth rate of 8.4%, reveals the parallel growth of diffuser/distributor activity, considering the expanded territory and requirements imposed on the whole book trade by the introduction of the Act. We should also keep in mind that Bill 51 has encouraged Quebec ownership of businesses in each sector of the book trade: publishers, booksellers and distributors. In the 1970s, only one of the four largest distribution companies was Quebec-owned.[10]

However, the *système d'office* has also had negative effects. Over the years, it has produced an avalanche of new titles in bookstores, where it has become a struggle to open all the deliveries and find room for the copies on already crowded shelves. A steadily increasing number of titles with ever-shorter print runs are choking the market, and diffusers and booksellers are no longer able to do their work properly. Today, it is widely recognized that it is time for a review of how the *système d'office* works and that it must adapt to the industry's new realities.

It is not surprising to see that the *système d'office*, together with the increased number of new releases, has resulted in a considerable increase in the return rate, which, between 2001 and 2003, was around 25% for total distributor sales, but around 27.5% for bookstore sales.[11] In part two of this study, we will examine the issue of returns in greater depth.

3.4 The impact of Bill 51 in other Canadian provinces

Since it was introduced in Quebec, use of the *système d'office* has spread throughout the entire French-language book market in the other provinces. This measure has been beneficial for the bookstores and other retailers concerned, since efforts at book diffusion in these areas were very limited, or non-existent, and a supply agreement based on a *système d'office* order form guaranteed them fair and continuous access to new titles.

The introduction of Bill 51 in Quebec has also had an impact on Francophone communities across Canada. Although French-language publishers and booksellers in New Brunswick and Ontario are not directly targeted by the Act, the rules it imposes on the book trade have in any case made an impact on their professional activities. Publishers or booksellers know, for example, that they may not sell their books directly to Quebec institutions, which must buy from accredited bookstores in Quebec. However, what is frustrating is that booksellers in New Brunswick do not enjoy the same protection for their own territory: they see Quebec publishers and distributors selling directly to institutions in their province with no concern for the survival of local bookstores. They are thus victims of the lack of reciprocity between provinces in the cultural sector. A recent study has demonstrated that only 36.5% of purchases by the

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10 Michel Lasalle and Renée Gélinas, *Étude sur la mise en marché des nouveautés par le système de l'office au Québec*, Table de concertation interprofessionnelle du milieu du livre, 2007.

11 Observatoire de la culture et des communications du Québec, Institut de la statistique du Québec.

New Brunswick public library system were made from New Brunswick bookstores. Whereas in Quebec, where the Act obliges institutions to buy books at the list price, Quebec distributors and bookstores negotiate with institutions in other provinces and grant them discounts that local bookstores cannot compete with.

It should come as no surprise that this has led book trade stakeholders in some provinces to attempt to counteract the effects being felt as a consequence of Quebec's Bill 51. New Brunswick is currently working on releasing its book policy. It remains to be seen whether this policy will include measures to protect the local market for bookstores in the province. A committee was also established recently to develop memorandums of understanding in Ontario's French-language book trade and possibly to propose a book policy for Francophone Ontario.

4 Activities Arising from Book Diffusion and Distribution

4.1 Who are the diffusers and distributors?

It is difficult to come up with an accurate number of diffusers and distributors serving Quebec and French Canada, since figures vary by source, and several businesses whose main activity is not book diffusion or distribution are included.

The *Annuaire de l'édition au Québec et au Canada français 2007-2008* lists 49 Canadian businesses as diffusers and distributors. It shows some ten businesses that do self-distribution, six school distributors (which usually do self-distribution), three that diffuse or distribute only foreign publishers, and three bookstores that represent foreign publishers in Canada. The monthly survey of new book sales carried out by the *Observatoire de la culture et des communications du Québec* is based on the activities of 36 distribution companies; the *Observatoire* distinguishes businesses whose main professional activity is distribution from those for which distribution is only a side activity. The same is true for the *État des lieux du livre et des bibliothèques*, which finds that these 36 businesses accounted for more than 99% of sales by diffusers and distributors in 2002.

Another relevant measure of the number of businesses for which diffusion or distribution is a significant activity, excluding the academic sector, is membership in ADELF (Association des diffuseurs exclusifs de langue française [association of exclusive French-language diffusers]), which has 23 members, seven of which are diffusers only, and one, Socadis, a distributor only. ADELF members account for 95% of French-language distribution activities in Canada.

Lastly, the BTLF (Banque de titres de langue française [the French-language titles bank]), which constitutes the most complete source of information, covering all book production and marketing activities in French Canada (obviously excluding Library and Archives Canada and Bibliothèque et Archives nationales du Québec), lists 52 active French-language distributors in Canada. This number includes distributors in both the trade and educational sectors.

This means there are few distributors, and it is rare for new players to enter the sector. Indeed, their number has decreased in recent years with the merger of two major distributors, ADP and Québec-Livres, and the recent closing of Distribution Univers.

The book distribution sector is also highly concentrated. The following table shows the level of concentration in the book distribution sector from 2002-2003 to 2005-2006, based on the share of sales by the largest distributors in their sales to the retail network, i.e., excluding sales that do not go through them.

Table 2. Largest distributors’ share of book sales by distributors, Quebec, 2002-2003, 2004-2005 and 2005-2006,

	2002-2003	**2004-2005**	**2005-2006**
3 largest distributors	66.9%	66.4%	79.7%
5 largest distributors	86.2%	84.1%	90.2%
10 largest distributors	96.3%	94.5%	97.1%

Source: Observatoire de la culture et des communications du Québec, Institut de la statistique du Québec, 2008.

The extent of concentration among book distributors can be seen in 2005-2006, where the three largest distributors controlled 79.7% of the market, and the five largest 90.2%. This leaves only 9.8% of the market for the smallest distributors, which are relatively high in number. We see a significant increase in concentration between 2004-2005 and 2005-2006, mainly explained by the merger of Québec-Livres and ADP following the acquisition of Sogides (which owns ADP) by Quebecor (which owns Québec-Livres) in 2005. Moreover, it comes as no surprise that concentration is even greater in the big-box stores, considering the considerable resources that book distribution demands in this market segment, with a significant number of distributors joining other larger distributors to cover it.

Comparing the rates for 2005-2006 with those for 1998-1999,[12] we find that concentration has increased radically in seven years, since it was then 49% for the three largest distributors for the whole network, 63% for the five largest distributors and 73% for the ten largest distributors, an increase in the market share of the three largest distributors of more than 30 percentage points.

Whereas in the 1960s about 40% of book distributors were foreign-owned, today foreign ownership is marginal. Only two large distributors, Socadis and Diffusion du livre Mirabel, are foreign-owned. Their market share is perhaps less, if we consider that these two companies are among the five largest French-language distributors in Canada. Lastly, it should be noted that all of Canada’s French-language diffusers and distributors are located in Quebec.

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[12] Marc Ménard and Benoît Allaire, “La distribution de livres au Québec,” in *État des lieux du livre et des bibliothèques*, Observatoire de la culture et des communications du Québec, p. 142.

4.2 The publishers distributed

The most recently published figure for the number of publishers distributed in Quebec and French Canada dates from 2003 and is taken from the *Observatoire de la culture et des communications du Québec*.[13]

Table 3. Number of Publishers Distributed by Quebec Distributors, 2002-2003

	Number	%
Number of publishers distributed	**2,553**	**100.0**
Number of Quebec publishers distributed	724	28.4
Number of Canadian publishers distributed	42	1.6
Number of foreign publishers distributed	1,787	70.0

Source: *Enquête mensuelle sur la vente de livres neufs* [Monthly survey of sales of new books], Observatoire de la culture et des communications du Québec, Institut de la statistique du Québec, 2003.

We see the relative magnitude of the number of foreign publishers distributed in Quebec (1,787 publishers, representing 70% of publishers distributed). However, as we see below while discussing activities related to the marketing of new titles, these figures must be balanced by the fact that a large number of these publishers, even though they are distributed in Canada, have limited activities here; therefore, 70% foreign publishers does not necessarily represent a 70% share of the Quebec and French-Canadian market.

While the figure of 724 Quebec publishers distributed might be surprising, it is important to consider that, of these, several publishers are inactive or have even ceased publishing activities, but their titles are still being distributed on the retail market.

The data from the *Annuaire de l'édition au Québec et au Canada français 2007-2008* is perhaps less scientific than what is published by the *Observatoire de la culture et des communications du Québec*, but nevertheless it provides us with information about publishers distributed in Quebec and French Canada. We learn, for example, that 577 domestic publishers and 1,744 foreign publishers are distributed there.[14]

The BTLF lists 2,048 Canadian French-language publishers in its database, 1,915[15] of which are distributed, representing 93.5% of the Canadian publishers listed. This data

13 *Ibid.*, p. 134.

14 The publishers distributed by Socadis were not included in this calculation in order to avoid double counting publishers registered with a distributor for sales in bookstores and with Socadis for mass-market sales, and those that are registered with both their promoter and Socadis.

15 The difference between the 1,915 Canadian French-language publishers listed by the BTLF and the 724 Quebec publishers listed by the OCCQ (Table 3) could be explained by the fact that, for title

shows the effectiveness of the French-language book trade in Canada in making books from nearly all active publishers accessible in the market. The BTLF lists 57,712 foreign publishers, about 2,200[16] of which are distributed in Canada.

4.3 Titles distributed

The large number of titles distributed by French-Canadian distributors shows the scale of the inventory warehousing and management requirements. By definition, this number continues to increase from year to year, first because the annual production of titles is increasing, and second because the number of titles in the catalogues also grows as publishing houses mature.

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searches, the BTLF lists several very small publishers (at times self-publishers), as well as specialized publishers and institutions, which are not listed by the OCCQ. The BTLF also lists publishers that have ceased operations and even some whose titles are no longer available.

16 There are 1,847 foreign publishers currently listed, but action is being taken with a distributor that would add between 300 and 400 new publishers.

Table 4. Number of titles distributed by Quebec distributors, by book language and origin, 2002-2003

	French			English			Total	
	Number	% by Language	% by Origin	Number	% by Language	% by Origin	Number	% by Origin
Quebec titles	55,611	98.1	19.1	1,057	1.9	3.1	56,668	17.4
Canadian titles	971	22.2	0.3	3,401	77.8	9.9	4,372	1.3
Foreign titles	234,205	88.7	80.5	29,825	11.3	87.0	264,030	81.2
Total	290,787	89.5	100.0	34,283	10.5	100.0	325,070	100.0

Source: *Enquête mensuelle sur la vente de livres neufs*, Observatoire de la culture et des communications du Québec, Institut de la statistique du Québec, 2003.

Table 4 shows the number of titles distributed (available through distributors) by language and book origin. We still see a large number of foreign titles, which represent 81.2% of the total number of titles distributed here. For the first time, Canadian French-language titles from outside Quebec are differentiated. They total 971, representing 1.72% of Canadian French-language titles. The vast majority of these titles are from the same distributor, Prologue. It is also interesting to note that in 2002-2003, 3,401 Canadian English-language titles were distributed by Quebec French-language distributors. However, this number appears to have decreased since then, due to the difficulty of working extensively with a retail sector largely concentrated in a single bookstore chain in English Canada.

The BTLF lists 95,644 Canadian French-language titles to date (which, however, includes a number of titles that are out of print), 85,390 of which are distributed across Canada,[17] which represents 89.3% of the titles listed. Once again, we see that a very large proportion of published titles are actually available in the supply chain, which remarkably demonstrates the ability of French-Canadian distributors to provide access to a wide diversity of Canadian titles. The BTLF lists 1,073,942 titles from foreign publishers, 665,599 of which are distributed in Canada and 547,824 are actually available. This large proportion of foreign titles distributed in Canada contrasts with the low proportion of foreign publishers distributed (57,712 foreign publishers listed against 2,200 distributed).

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17 If we exclude titles that are out of print and not distributed, the number of Canadian titles actually available from French-Canadian distributors is 59,696.

The following table shows the number of copies (rather than titles) distributed by Quebec distributors in 2002-2003, with the language and source of the titles differentiated. It gives a slightly more accurate idea of the scope of the work required from distributors for domestic and foreign titles.

Table 5. Number of copies distributed by Quebec distributors, by book language and origin, 2002-2003

	French			English			Total	
	Number	% by Language	% by Origin	Number	% by Language	% by Origin	Number	% by Origin
Quebec titles	10,482,402	95.7	43.6	470,449	4.3	17.1	10,952,851	40.8
Canadian titles	778,244	40.9	3.2	1,123,657	59.1	40.9	1,901,901	7.1
Foreign titles	12,807,862	91.7	53.2	1,156,132	8.3	42.0	13,963,994	52.1
Total	24,068,507	89.7	100.0	2,750,238	10.3	100.0	26,818,745	100.0

Source: Enquête mensuelle sur la vente de livres neufs, Observatoire de la culture et des communications du Québec, Institut de la statistique du Québec, 2003.

The breakdown of distributor activities by the number of copies distributed rather than number of titles gives a somewhat different picture of the effort required for the distribution of domestic and foreign titles. Indeed, the foreign titles that previously represented 81.2% of the titles available represent only 52.1% of the copies distributed, with Quebec titles representing 40.8% of the copies distributed. Canadian French-language titles outside Quebec rise from 1.72% of titles available to 6.9% of Canadian French-language copies distributed.

Table 6. Average number of copies by title distributed by Quebec distributors, by book language and origin, 2002-2003

	French	English	All Titles
Quebec titles	188.5	445.0	193.3
Canadian titles	801.0	330.0	435.0
Foreign titles	54.7	38.8	52.9
All titles	82.8	80.2	82.5

Source: *Observatoire de la culture et des communications du Québec.*

Moreover, this picture reveals that for Quebec French-language titles in 2002-2003, the average number of copies distributed per title was 188.5, while it was only 54.7 for foreign titles. Surprisingly, the average number of copies of Canadian French-language titles distributed is 801. To clearly understand this situation, the relevant titles included in these 971 Canadian French-language titles should be verified. Lastly, it is surprising to note that among Quebec titles, the average number of copies distributed per title is definitely higher for English-language titles. However, this finding is subject to the fact that, given the marketing methods in English Canada that provide for massive placement in bookstore chains, it is possible that this high ratio does not really represent a high number of copies sold.

4.4 New titles released

A large number of the copies distributed relate to restocking — orders submitted by the retailer without right of return — and require less effort from distributors than do new titles. An analysis of activities surrounding the marketing of new titles will provide a better idea of the amount of work performed by distributors. In this regard, an extensive study on the marketing of new titles was recently commissioned by the *Table de concertation interprofessionnelle du milieu du livre*, and a comprehensive report was released in November 2007.[18] The data used in the study is based on marketing activities for new titles by 10 Quebec distributors, whose activities represent some 90% of the Quebec market, bookstore and mass-marketing sales combined. The study dealt with titles placed on the *système d'office* between February 1, 2004, and January 31, 2005, and monitoring of these titles continued over an additional year in order to take returns and restocking for each of the titles concerned into account. Data on Quebec titles includes Canadian French-language titles.

Table 7. Number of new titles, distribution of net sales of new titles by channel and average number of sold copies per title, 2004-2005

	Number of Titles — New Titles	Copies Sold, Bookstore channel	Copies Sold, Mass-Market Channel	Copies Sold, All Channels	Average Number of Copies Sold per Title
Quebec titles	3,873	2,990,325	1,613,338	4,603,663	1,189
Foreign titles	25,444	3,718,149	1,276,533	4,994,682	196
TOTAL	29,317	6,708,474	2,889,871	9,598,345	327

Source: *Étude sur la mise en marché des nouveautés par le système de l'office au Québec*, Table de concertation interprofessionnelle du milieu du livre, 2007.

[18] Michel Lasalle and Renée Gélinas, *Étude sur la mise en marché des nouveautés par le système de l'office au Québec*, Table de concertation interprofessionnelle du milieu du livre, 2007.

We can first see from Table 7 that the number of new titles released annually in Quebec is very impressive. Each week, an average of 564 new titles are shipped to bookstores and mass-market channels in Quebec. These titles represented some 10% of the titles available in the market in 2002-2003 (See Table 4 above).

The number of new Quebec titles is 3,873, which amounts to 13.21% of the 29,317 new titles. It is interesting to note that the proportion of new titles from foreign sources compared to Quebec titles is therefore greater than the proportion noted in 2002-2003 for the titles distributed, 86.8% compared with 81.2%. However, the average number of copies sold presents a very different situation between all titles in distribution in 2002-2003 and new titles in 2004-2005. Thus, the average number of copies distributed for Quebec titles in 2002-2003 was 193.3, whereas the average number of copies sold for new Quebec titles in 2004-2005 was 1,189. This marked difference demonstrates the degree to which revenue in the sector depends largely on the sale of new titles. We can also infer that processing new titles represents much of the work done by distributors. Moreover, when we compare the average number of copies sold for Quebec and foreign titles, we find that six times more copies of Quebec titles are sold, which reveals the effectiveness of Canadian distributors in making Canadian French-language titles available.

However, the level of risk and performance varies greatly by category of book released, meaning that the distributor’s levels of risk and effort to manage movement of these titles are not the same. We know that, logically, categories of books that sell a larger average number of copies will require less handling on the part of the distributor, since it is less demanding to process a stack of 20 copies of the same title than one copy each of 20 different titles, and that the return rate on better-selling titles is usually lower.

Table 8. Average number of copies sold by category, new titles, 2004-2005

	Quebec Titles	Foreign Titles	All Titles Combined
Fiction	883	269	344
Fine arts	512	61	76
Humanities and social sciences	872	104	210
Encyclopedias and dictionaries	742	702	704
Scientific and technical texts	2,115	58	402
Youth literature	1,286	200	367
How-to books	1,726	170	371
Miscellaneous	1,072	134	266
Total	1,189	196	327

Source: *Étude sur la mise en marché des nouveautés par le système de l'office au Québec*, Table de concertation interprofessionnelle du milieu du livre, 2007.

Table 8 shows the average number of copies sold by book category. Without yet considering the number of copies placed on the *système d'office* and the return rate by category (which will be discussed below), we can already note that certain categories — and guess that certain sub-categories or certain genres — require more effort than others on the part of distributors. We note for example that in all categories, foreign titles are much less successful than Quebec titles. Yet we recall that the number of foreign titles is much greater than the number of Quebec titles, and they require the same effort from the diffuser/distributor: data entry, presentations to retailers, shipping to retailers, stock management, etc.

This concentration of the diffuser/distributor's effort on a large number of titles that sell the least is even more striking when we observe the number of copies sold by sales bracket.

Table 9. Average number of copies placed on the *système d'office* by sales bracket, Quebec and foreign titles combined, 2004-2005

Number of Copies Placed on *Système d'office*	Number of Titles	Return Rate on *Système d'office* – Bookstore channel (% of no. of Copies)	Return Rate on *Système d'office* and Restocking — Bookstore channel (% of no. of Copies)	Average Number of Copies Sold by Title
1 to 500	22,471	64.28%	41.95%	97
501 to 1,000	1,624	49.94%	32.47%	688
1,001 to 2,000	811	41.09%	25.91%	1,311
2,001 to 5,000	341	31.94%	18.41%	2,829
5,001 and more	87	21.96%	11.64%	11,951

Total titles	25,334	49.49%	30.84%	251

Source: *Étude sur la mise en marché des nouveautés par le système de l'office au Québec*, Table de concertation interprofessionnelle du milieu du livre, 2007.

Analysis of the data presented reveals the extent to which a very small number of titles pay for the activities required to manage most of the other titles; only 87 titles have sold more than 5,000 copies, their return rate is lower than for any other category, and the average number of copies sold was 11,951 (four times more than the average for the 2,001-to-5,000 copies bracket, and 123 times more than the average for the 1-to-500 copies bracket).

At the other extreme are the 22,471 titles placed on the *système d'office* at less than 500 copies (they represent 88.7% of all titles); their return rate is higher than for any other category, and the average number of copies sold was only 97. This imbalance among brackets reveals the difficulties faced by diffuser/distributors, which have to deal with an increased number of titles with reduced print runs.

The study also shows that 52% of Quebec titles have been placed on the *système d'office* at less than 500 copies, while the ratio is 94% for foreign titles. Similarly, of the 22,471 titles placed on the *système d'office* at less than 500 copies, 20,724 or 92.2% are foreign titles. We may consider that several are circulated only for institutional or specialized purchaser networks.

4.5 Distribution of book resales and final sales

Since 2001, the *Observatoire de la culture et des communications du Québec* has been gathering monthly data on final book sales by each category of book trade professionals: publishers, booksellers, school co-operatives, distributors, etc. Over the years, methods have become more refined and today they provide a fair and accurate portrait of the distribution of final books sales in each sales channel in Quebec.

Table 10. Final sales of books, by retail outlet category, Quebec, 2001-2007

	2001		2002		2003		2004		2005		2006		2007		Change 01/07
	$K	%	$K	%	$K	%	$K	%	$K	%	$K	%	$K	%	%
Distributors	28,412	4.6	32,034	4.9	36,955	5.6	25,030	3.8	26,901	3.7	29,803	3.9	22,369	2.7	–21.3
Publishers	108,209	17.6	111,662	17.3	110,819	16.8	127,728	19.2	154,885	21.2	151,418	19.8	174,352	20.9	61.1
Bookstores and co-ops	377,740	61.3	409,792	63.3	418,445	63.4	431,371	64.9	446,801	61.1	469,167	61.2	518,646	62.1	37.3
Mass-market channels	101,867	16.5	93,682	14.5	94,063	14.2	80,910	12.2	102,367	14.0	115,938	15.1	119,767	14.3	17.6
Total sales	**616,229**	**100**	**647,170**	**100**	**660,282**	**100**	**665,039**	**100**	**730,954**	**100**	**766,327**	**100**	**835,135**	**100**	**35.5**

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

The analysis by the *Observatoire de la culture et des communications du Québec* distinguishes between a final sale and one intended for resale. Thus, the sale of a book by a distributor to a bookseller does not represent a final sale, since it is the bookseller that will make the final sale to the customer. However, the sale of a book by a distributor to an institution appears in the final sale category.

Thus, it is not surprising to note first that final sales make up only a small part of a distributor’s revenue, since supplying retailers is the major part of the distributor’s work. In Quebec, except for textbooks, public institutions (schools, libraries, etc.) are not permitted to obtain their inventory directly from the distributor, which seriously limits its final sales. We note nevertheless that, from 2001 to 2007, the net value of distributors’ final sales decreased 21.3%, while it increased 61.1% for publishers. This situation can be partly explained by direct sales by publishers in certain sectors, through the Internet or by direct promotion, and by the increase in textbook sales,[19] which represent final sales for publishers.

Book sales in mass-market channels (big-box stores, warehouse clubs, discount stores, pharmacies, specialized boutiques, etc.) have grown considerably since the early 1990s. Mass-market channels and bookstore channels, the two main resale networks for distributors, sometimes compete aggressively to maintain or expand their sales of books, particularly bestsellers, a niche that allows bookstores to achieve relative profitability.

It was long feared that the mass-market channels, particularly the discount stores (Price Club-Costco, Maxi, Wal-Mart), would capture a growing part of the book market and

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19 Benoît Allaire and Claude Fortier, Observatoire de la culture et des communications du Québec, “Hausse de 9% des ventes de livres en 2007,” *Statistiques en bref*, n° 39, June 08, p. 5.

replace bookstores, particularly the independents. However, their share appears to be stabilizing, since their share of the final sales market increased only 17.6% from 2001 to 2007, whereas the bookstores' share (including school co-operatives) increased 37.3%. In fact, we note that publishers and bookstores are the two categories that have benefited from the increase in final sales over the seven years studied.

However, if we wish to measure the range of distributor activities and quantify the role of distribution in the Quebec book market, we should also measure the distributors' share of the book resale market, which means measuring the proportion of the books that pass through the distributor to reach their final retail outlet.

Table 11. Value of retail network sales and final sales, by category of retail outlet, Quebec, 2001-2006

	2001		2002		2003		2004		2005		2006		Change 01/06
	$K	%	$K	%	$K	%	$K	%	$K	%	$K	%	%
Retail network sales	479,607	77.8	503,474	77.8	512,508	77.6	512,281	77.0	549,168	75.1	585,106	76.4	22.0
Value of sales by distributors	303,015	63.2	313,176	62.2	313,603	61.2	282,007	55.0	327,143	59.6	346,633	59.2	14.4
Value of sales by Quebec publishers and foreign suppliers	176,592	36.8	190,298	37.8	198,906	38.8	230,275	45.0	222,025	40.4	238,473	40.8	35.0
Final sales by distributors	28,412	4.6	32,034	4.9	36,955	5.6	25,030	3.8	26,901	3.7	29,803	3.9	4.9
Final sales by publishers	108,209	17.6	111,662	17.3	110,819	16.8	127,728	19.2	154,885	21.2	151,418	19.8	39.9
Total sales	616,229	100	647,170	100	660,282	100	665,039	100	730,954	100	766,327	100	24.4

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

Even though distributors' sales to the retail (i.e., resale) network increased by 14.4% from 2001 to 2006, this growth is markedly slower than that experienced by Quebec publishers and foreign suppliers (35.0%) or the retail network as a whole (22.0%). Combined with the reduction in the distributors' share of final sales, this data reveals a decrease in the economic weight and strategic role of the distributor in Quebec's book supply chain.[20]

[20] Benoît Allaire and Geneviève Bélanger, Observatoire de la culture et des communications du Québec, "Portrait des distributeurs et diffuseurs exclusifs de livres au Québec," *Statistiques en bref*, n° 25, December 2006, p. 5.

Table 12. Value of book sales through Quebec distributors, 2001-2006

	2001	2002	2003	2004	2005	2006	Change 01/06
	$K	**$K**	**$K**	**$K**	**$K**	**$K**	**%**
Value of distributor sales to retail network	303,015	313,176	313,603	282,007	327,143	343,633	13.4
Final sales by distributors	28,412	32,034	36,955	25,030	26,901	29,803	4.9
Total distributor sales	331,427	345,210	350,558	307,037	354,044	373,436	12.7
Total sales	616,229	647,170	660,282	665,039	730,954	766,327	24.36
Distributor sales as share of total sales (%)	53.78	53.34	53.09	46.17	48.44	48.73	–9.4

Source: Benoît Allaire, "Les distributeurs de livres au Québec : un chiffre d'affaires de 239 M$ en 2005-2006" [Book distributors in Quebec: $239M in sales in 2005-2006], Observatoire de la culture et des communications du Québec, Institut de la statistique du Québec, *Statistiques en bref*, n⁰ 38, June 08.

Although distributors' share of total book sales in Quebec remained relatively stable from 2001 to 2003, at around 53%, it fell to 46.17% in 2004, 48.44% in 2005 and 48.73% in 2006, which represents a decrease of 9.4% between 2001 and 2006. [TRANSLATION] "These six years are not a very long period, but long enough to allow us to affirm that this downturn for distributors […] is probably not a hiccup. It would appear that the distributor's traditional role in the supply chain has entered a transformation phase."[21]

Since the diffuser/distributor plays a major role in the marketing of new titles, and the results from the different categories of book retailers greatly influence its efforts and activities, a closer look should be taken at the net sales of new titles in both principal sales channels: bookstores and mass-market channels.

[21] Benoît Allaire, Observatoire de la culture et des communications du Québec, "Les distributeurs de livres au Québec: un chiffre d'affaires de 239 M$ en 2005-2006," *Statistiques en bref*, nᵒ 38, June 08, p. 5.

Table 13. Distribution of net sales of new titles by channel, 2004-2005

	Quebec Titles				Foreign Titles				All Titles Combined			
	Copies	**%**	**$**	**%**	**Copies**	**%**	**$**	**%**	**Copies**	**%**	**$**	**%**
Bookstore channel	2,990,325	65.0	55,080,745	63.3	3,718,149	74.4	84,762,019	75.6	6,708,474	69.9	139,842,765	70.2
Mass-market channels	1,613,338	35.0	31,996,604	36.7	1,276,533	25.6	27,351,299	24.4	2,889,871	30.1	59,347,902	29.8
Both	4,603,663	100	87,077,349	100	4,994,682	100	112,113,318	100	9,598,345	100	199,190,667	100

Source: *Étude sur la mise en marché des nouveautés par le système de l'office au Québec*, Table de concertation interprofessionnelle du milieu du livre, 2007.

Table 13 reveals that for new titles, retail sales in the bookstore channel represent 70.2% of total sales, all titles combined, and those of the mass-market channels represent 29.8%. The difference between the two networks is greater for the new foreign titles category, where sales in the bookstore channel amount to 75.6% of total sales of new foreign titles (compared with 63.3% for new Quebec titles), which implies that only 24.4% of sales of new foreign titles take place in the mass-market channels, compared to 36.7% for new Quebec titles. However, from another point of view, sales of new foreign titles represent 46.1% of total sales of new titles in mass-market channels, against 53.9% for new Quebec titles. The gap between the two categories of new titles is thus less pronounced.

We have no data on final sales of new titles by publishers or by distributors. However, looking at only final sales for the bookstore channel and the mass-market channels for 2005 from Table 10, we can conclude that 81.4% of these sales were in bookstores and 18.6% in the mass-market channels. We therefore note, comparing this data with that relating to net sales of new titles by network, that a higher proportion of new titles than total titles are sold in mass-market channels.

5 Main Partners of the Diffuser/Distributor

The concept of book trade implies a chain of successive transactions conducted by a network of professionals in sometimes-complex interrelationships between suppliers and customers that permit the movement of a book from author to reader. The book trade operates under a set of rules governed both by legislation and by practices that have become established with the passage of time.

Diffusion/distribution is an essential segment of the book trade and an important link in the supply chain, since it is the interface between production and retail sales, between the publisher and the diversity of retail outlets, including bookstores. The diffuser/distributor ensures that the product reaches its market.

This section will attempt to outline how diffuser and distributor serve as an interface between publisher and retailer. We will concentrate on the bookstores and mass-market channels.

5.1 Relationships with the publisher

According to economist Marc Ménard, [TRANSLATION] “It is the publisher that plays the central role in the book trade; it links the various functions making up this path, functions that are, as is always the case for an industry subject to an editorial logic, relatively disjointed.”[22] Like Ménard, we must recognize that it is the publisher that chooses what titles to publish, “chooses” to a certain extent how to market the titles and therefore decides to work with a diffuser and a distributor, or with a diffuser/distributor, even though it is the latter that is able to dictate most of the terms of their contractual agreement. We often see publishers changing distributor, but we more rarely see the inverse.

With the exception of academic publishers, few publishers decide to take care of the diffusion and distribution of their books themselves. To do so effectively and efficiently, they must work with diffusers and distributors that have the necessary resources to effectively circulate the books, and the critical mass needed to ensure that the investments required for the diffusion and distribution of books are cost effective.

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22 Marc Ménard, *Éléments pour une économie des industries culturelles* [Elements for an economy of the cultural industries], SODEC, 2004, pp. 111-12.

Diffusers and distributors therefore put together catalogues of publishers that they attempt to market as widely as possible, while minimizing the risks associated with this activity. The largest diffusers (or diffuser/distributors) may have a stable of some 150 publishers (sometimes more than 250). A publisher seeking a diffuser/distributor therefore tries to join with a partner whose critical mass gives it the resources needed to effectively support its titles. On the other hand, certain publishers will want to be a given diffuser's only, or at least largest, publisher in their niche, so that the team of representatives will give their titles clear priority. It is well known that certain diffusers present all their publisher's release programs to booksellers, while others make partial presentations or highlight their top titles. No publisher wants to be a small fish in a big pond.

5.1.1 Diffusion and distribution contracts

There are several models of contracts between publishers, diffusers and distributors, and one can imagine that several variants are possible in the clauses of a given type of contract.

As we have seen, in Quebec and French Canada, diffusion/distribution contracts are by far the most common; they make it possible to concentrate all book-marketing efforts in a single partner and avoid fragmenting the related efforts and responsibilities. Many, if not most, distributors will refuse any agreement with a publisher that wishes to separate the diffusion and distribution functions, or even limit the exclusive rights of the diffuser/distributor to certain markets.

However, diffusion contracts (not including distribution) are becoming less marginal and are sought by a growing number of Quebec and French-Canadian publishers. Many French publishers are diffused in Canada by the three major French diffusers (Hachette, Flammarion and Gallimard), which have established distribution agreements with Socadis. This type of diffusion agreement involves only presenting titles to retailers and sometimes promoting them to the public, but the diffuser does not carry inventories of books for sale.

Among Canadian distributors (excluding foreign-owned diffusers and distributors), it was Prologue that first showed some flexibility with respect to distribution agreements with publishers, which would themselves do their own diffusion or assign it to a separate diffuser. In the early 1990s, Prologue in particular signed a distribution agreement with Leméac, which did its own diffusion with that of the French publisher Acte Sud, with which it began a new partnership. At about the same time, Prologue also signed a distribution agreement with French-language publishers outside Quebec, under the aegis of RÉCF (Regroupement des éditeurs canadiens-français) [French-Canadian publishers group], which at the same time decided to hire its own commercial representative for

Quebec. With this strategy, the French-Canadian publishers hoped to stand out amidst the sea of other Quebec titles and avoid becoming “a small fish in a big pond.” This door opened by Prologue, and these innovative formulas developed by Leméac and the RÉCF, generated a great deal of interest among other Quebec publishers that wanted to separate their diffusion from distribution. Over the following years, certain publishers left their diffuser/distributors to join a distributor open to allowing them to do their own diffusion or delegate it to a separate diffuser. Thus, the French-language book trade in Canada was able to gradually turn to a model more like the preferred practice in the book trade in English Canada and even in France, which consists of treating book diffusion and distribution separately.

The concept of exclusive rights is an essential part of the agreement between a publisher and a diffuser/distributor; this is precisely what clearly distinguishes an exclusive diffuser from a wholesaler. The exclusive diffuser is therefore the only one allowed to serve retailers on behalf of the publisher. The exclusive character of the agreement usually covers the publisher’s entire catalogue, but it may be limited to certain genres (general publishing versus textbooks, for example).

The exclusive rights in the diffuser’s mandate are also defined in terms of a territory. Usually a French or even a Quebec publisher grants a diffuser exclusive rights for all of Canada, whereas other Quebec publishers — more specifically those that might have other diffusion agreements in Canada — will limit a Quebec diffuser’s exclusive territory to Quebec and the Ottawa region. This will also be true for French-language publishers in other provinces, which are often in a better position to serve their own region than are their Quebec diffusers and distributors.

Exclusive rights may also be granted according to a defined sales network. Of course, most diffusion/distribution agreements cover both bookstores and the mass-market channels. However, the more suitable the publisher’s catalogue is for mass-market sales, the more it will be tempted to limit its diffuser’s exclusive rights to niches that it will find difficult to serve for itself. A number of publishers, for example, include in their diffusion/distribution contract a clause reserving sales through Costco to themselves, since this requires less marketing effort, as they concern only a few carefully selected titles and can take on considerable importance. Certain contracts will include an appendix with a long list of markets and customers reserved for the publisher. A number of diffuser/distributors reject this kind of exception out of hand, at the risk of losing some of their publishers. In their desire to serve certain mass-market channel customers themselves, publishers set themselves up as competing with their main diffusion/distribution partners and sometimes do not hesitate to negotiate higher retailer discounts, figuring that they are “saving” by bypassing the middleman. However, these practices jeopardize the relative stability of discounts granted to mass-market channels and may lead to the excessive discounts that characterize those demanded elsewhere by the big-box stores.

Lastly, certain diffuser/ distributors allow publishers to make final sales themselves (by mail, clubs, shows, etc.), provided they do not encroach on the networks for which they have exclusive rights, and the selling prices are not lower than the retail cost as indicated to the diffuser for resale. Other diffusers consider that any promotion for the purpose of making a direct sale will have a positive impact on both the publisher and the retail trade networks, and so they do not discourage direct sales by publishers. These clauses regarding direct sales are becoming increasingly relevant and important as online book sales grow.

The contract between the publisher and the diffuser/ distributor obviously sets out the responsibilities of the diffuser/distributor towards its publisher partner. It usually describes the diffusion activities to be carried out by the diffuser both in bookstores (number and frequency of representative visits, presentation of new titles, distribution of the publisher's promotional material, restocking of new titles, information on the publisher's promotion activities, etc.) and, if appropriate, in the mass-market channel (regular visits to retail outlets, stocking, restocking, shelving and returns of titles on consignment, distribution of the publisher's diffusion material, selection of titles to be displayed, etc.). The contract will also specify the partner's responsibilities with respect to book distribution: receiving books, warehousing, managing orders, shipping books (*système d'office*, shelving and restocking), invoicing, managing returns, collections (the distributor is responsible for bad debts), inventory management, etc.

A clause then specifies what discounts will be granted to the diffuser/distributor, in other words the share of the sales revenue that will be granted to the publisher.[23] In general, the discount granted to the diffuser/ distributor will be 54% to 60%, a percentage of which (40% for bookstores and 30% for the mass-market channels) represents the retailer's share. This percentage remains relatively firm for the bookstore, but varies in mass-market channels, depending on the negotiating power of each party. However, the discount granted to the diffuser/distributor will generally be the same, whether the sale is made in bookstores or mass-market channels. Of the percentage that comes to the diffuser/distributor, about 10% is associated with diffusion and 5% to 10% with distribution. The diffuser is usually remunerated according to the net sales of the books.

Yet, the remuneration provided in a distribution-only contract relates to flows, in that it is calculated based on the movement of each copy. Thus, the distributor receives 7% (or

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[23] Depending on the formula used, the percentage granted to the promoter-distributor will be deducted from the publisher's sales revenue or billed to the publisher as distribution expenses. These two practices will be reported differently in the publisher's financial statements, even if the calculations are based on the same approach.

thereabouts, depending on the agreement) of the value of retail sales invoiced during the month; depending on the agreement, the distributor may add up to 7% of returns, valued at the retail price. In this case, a copy that is shipped under the *système d’office,* returned and then sent back as restocking yields a cumulative discount of 21% (three times 7%) for the distributor. This practice is explained by the fact that the distributor does not participate in the *système d’office* strategy, which is rather the diffuser’s role. Since its revenue depends on choices made by another business, it is normal for it not to have to share the risks associated with the *système d’office,* but instead be remunerated based on its copy movement management activities. A percentage for returns can be negotiated based on the publisher’s sales volume.

Contrary to the practice usually seen in English Canada, the discount is not calculated on net sales revenue, but on the retail price instead.

The contract usually sets out the arrangements for payment by the diffuser/distributor to the publisher. The distributor generally allows 90 days following the production of a sales report to pay the publisher, but this may sometimes be as long as 120 days. Returns recorded during the same period will be deducted from the total amount entered on the sales report. Moreover, since the distributor pays the publisher for books in the *système d’office* that may be returned during the months following the sales report, the distributor reserves the right to apply a holdback on a portion of the payments due to the publisher. This is not a general practice, but is used mainly when a publisher experiences a decrease in production, which could make it difficult to deduct returns from the next sales reports, which might end up being negative.

Lastly, since mass-market channel shipments may have a consignment status, there may be separate payment arrangements, depending on the sales networks. We learned of an agreement where bookstore sales were paid three months after the sales report, whereas mass-market sales were paid 30 days following payment to the distributor by the retailer.

The following clause of the agreement between the publisher and the distributor concerns the management of unsold copies and book warehousing. First, it is important to recall that the distributor never owns the inventory. “The publisher is the sole owner of inventory delivered to the distributor on consignment.” Therefore, the distributor is usually free of any responsibility for publications sent to the distributor “for any damage, loss, disappearance, total or partial destruction, pursuant to a theft, fire or any other cause even if these damages, losses, disappearances or destructions were due to a partial carelessness or error on the part of an employee or administrator of the distributor….” Once a year, the distributor will take inventory of copies in stock. A differential margin of 1% of the value of net sales for the year will be tolerated between the theoretical number of copies and the number listed.

The term of the distribution contracts may vary from two to ten years. Agreements are often renewable for an equal term by tacit renewal unless terminated at least three months before expiration.

An agreement between a publisher and a distributor may include a list of services that may or may not be formally included in the contract. These complementary services might include:

- Warehousing of all or part of the publisher’s inventory in return for payment of warehousing expenses;
- Representation of the publisher and presentation of its titles at book fairs and other trade shows, with sharing of costs;
- Sharing of costs of bookstore placements (displays, tables, windows, cubes, etc.);
- Shared-cost publicity, participation in admail campaigns;
- Press service, mainly for foreign publishers, on a fee-for-service basis; etc.

Lastly, where the distributor is also a publisher or is affiliated with a publishing house, the publisher could demand that a non-competition clause (covering the publisher’s niche, certain collections or certain titles) be included in the agreement.

5.1.2 The diffuser/distributor’s dealings with the publisher

When delegating the diffusion and distribution of its titles to an outside partner, a publisher must ensure that it has all the tools needed to properly support them in the retail trade networks. It must also anticipate opportunities to analyse the strategies to be used in their marketing, measure results and coordinate its promotion efforts with the diffusion efforts of its partners. The diffuser must ensure that it has all the information needed to present the publisher’s titles to its customers in bookstore channels and, when appropriate, measure their suitability for the mass-market channel, essentially to properly measure the real potential of the titles for the various categories of retailers and propose marketing appropriate for the titles.

The publisher has no direct contact with the bookseller; therefore, it must rely on its diffuser’s team of commercial representatives to represent it in the retail trade. Regular meetings are planned, generally two or four times a year, between the team of representatives and the publisher, so it can present its upcoming titles and discuss each one’s significance and special features, identify target readers, suggest sales pitches, etc. The publisher will also prepare marketing material for representatives to use in preparing for meetings with booksellers.

These meetings provide a rare opportunity for representatives to ask the publisher questions, pass on comments, discuss the appropriateness and aesthetics of the cover, and influence the selling price. It is very much in the publisher's interest to listen to them about these issues. Representatives are the only ones who receive comments from booksellers, which in turn receive them from the public, and their contributions can prove very rewarding for a publisher able to listen to them and benefit from their views of the market. The future of the *système d'office* strategy depends on honest and transparent reporting from each partner involved.

The next section discusses how the diffuser/distributor works with the bookstores and mass-market channels. For the publisher, the sales cycle is managed by the diffuser/distributor. The two partners will stay in constant contact to ensure that the book is delivered in time to be included in the *système d'office* shipment on the planned date; they must ensure that there are sufficient copies available in stock to restock retailers if necessary; the publisher will continue to inform the diffuser of its promotion efforts, awards received by the author for the book, author's tours, etc., so that the bookseller is in a position to respond to any potential increase in demand.

The professional relationship between diffuser and publisher must not be limited to planning of title placements under the *système d'office* or in the form of a *mise en place*.[24] It is essential that they work together to regularly analyse results and the appropriateness of their placement strategies in order to learn from the early experience gained from the marketing of each title.

As a first stage in this analysis, the diffuser/distributor provides the publisher with a detailed monthly report of all title movements. These reports show all activity recorded for each of the publisher's titles, both new and backlist: quantities received, shipments under the *système d'office* or *mise en place*, returns, restocking, review copies and other services, beginning and ending inventories, number of copies sold in bookstores, in mass-market channels, remaining balance, etc. This report will provide the total accounts receivable for the month.

Beyond the monthly monitoring of title movements, it is important to regularly conduct a more thorough analysis, at least once or twice a year, in order to consider the changes to recommend to booksellers in the *système d'office* order form, prepare progress reports on the results of diffusion investments, and better guide each one's efforts in marketing the titles. To do this, the diffuser/distributor could provide the publisher with a package

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24 [No English equivalent. According to ADELF, *Vocabulaire de la diffusion et de la distribution du livre*, Office québécois de la langue française, 2005, [Translation] "An approach to marketing books that applies to certain promotions and in which diffusers generally grant complete or partial return rights to their customers. Notes — 1. A *mise en place* can be used, for example, when literary prizes are awarded, at Mother's Day or at Christmas." — Tr.]

of increasingly sophisticated reports itemizing, for example, sales by the 20 best customers, or by a specific customer, sales in a targeted region, in shopping mall bookstores, concentrating on a specific title or a collection, etc., in order to be in a position to make informed decisions about upcoming titles, or even to put a title that still appears to have market potential back into the *système d'office*.

It is crucial that the diffuser process all available information on the behaviour of a title and carry out a detailed analysis of sales and returns. Over time, the diffuser must build up its knowledge of related experiences. In this respect, it must deal with a certain contradiction: while the value of a book depends on its unique character that distinguishes it from all the others, the diffuser must try to predict its market appeal by comparing it with similar products. The diffuser can control risk by analysing the results for similar products and thus determine the diffusion approach.

5.2 Relationships with the retailer

The retail book trade has changed tremendously over the past decade. In the 1990s, sales networks were usually limited to bookstores, a few major chains, certain pharmacies, tobacco shops and other specialized businesses. With the arrival and expansion of various categories of big-box establishments, the variety of retail outlets has increased considerably, to the point that there are now questions about the role of bookstores, particularly independent bookstores, in the selling of books.

Even though it appears that the market share of the mass-market channels has stabilized over the past few years, the fact remains that mass-market channels are now part of the retail book trade sector, and the diffuser/distributor has to maintain relationships with an increasingly complex and varied network of retailers.

5.2.1 An overview of the bookstore channel

The bookstore channel has grown over the past few decades, particularly under Bill 51 in Quebec. There are French-language bookstores in provinces that have a Francophone population large enough to support local bookstores or book kiosks, and education systems that encourage the purchase of French-language books. According to the *Annuaire de l'édition au Québec et au Canada français 2007-2008*, there are 26 French-language bookstores or retail outlets outside Quebec: two in Alberta, one in Saskatchewan, two in Manitoba, six in New Brunswick and 15 in Ontario. We also know that two new French-language bookstores have just opened in Ontario, and one in New Brunswick. Considering Canada's size, the delivery of services to these bookstores poses a real challenge to diffusers and distributors, which are all located in Quebec.

The *Annuaire* shows that Quebec has 292 bookstores, which are divided into independent bookstores, bookstore chains (or multiple-location bookstores) and school co-operatives (mainly serving colleges and universities). Of these 292 bookstores, 208 are accredited by the Government of Quebec. As defined in the *Observatoire de la culture et des communications du Québec*, a bookstore chain comprises four or more locations under the same ownership. The two main chains are Librairies Renaud Bray, which now has 24 locations, and Librairies Archambault, with 15 locations. Then there is the chain made up of Chapters, Indigo and Coles, which has 10 locations in Quebec. School co-operatives belong to an association of more than 60 co-operatives operating more than 100 retail outlets.

5.2.2 The diffuser's dealings with the bookseller

Diffusers on average serve a network of between 400 and 500 bookstores and retail outlets dedicated mainly to the sale of books in Quebec and French Canada; some have nearly 1,000. Obviously, not all these bookstores have *système d'office* order forms, which indicates that the diffuser has to make a serious effort to serve these retailers.

For bookstores that do have one, each diffuser works with the retailer to draw up a *système d'office* order form of new titles by subject. A *système d'office* order form includes several hundred categories, depending on the genre and sales potential of each title, with a predetermined number of copies to be delivered. Great care must be taken in preparing the order forms, since poor planning can result in missed sales for the retailer and the publisher, or alternatively an excessive number of unsold copies and thus a high return rate. A *système d'office* order form may be completed for each publisher distributed, in accordance with its collections and the reputation of its authors.

A diffuser's representatives are usually divided into work teams by genre and the region to be covered. Representatives each have a portfolio that they present to customers in their territories. In major centres, a large diffuser may have teams composed of three to five representatives covering a similar number of areas of publication: adult titles, youth titles, scientific and technical titles, etc. Thus, a bookseller may be visited by five representatives of the same diffuser, depending on the types of titles carried by the store. In the regions — or with smaller diffusers — one representative may be responsible for more than one portfolio, or even all titles distributed.

Depending on the size of the bookstores, the number of titles to appear and the territory to be covered, representatives may visit each of their customers four to twelve times a year, sometimes even up to once a week, depending on the catalogue and customers' needs. When meeting with booksellers, the representative presents each upcoming title using the marketing material developed with the publisher. In theory, every upcoming title should be discussed, but in practice, the focus may be on the most promising titles, allowing others to be entered automatically in the *système d'office* order form. For each title, the representative and the bookseller will consider the number of copies entered in the *système d'office* order form and decide whether this number should be increased through a prenotification or reduced. Recall that a prenotification is a [TRANSLATION] "one-time modification of a *système d'office* form in which the quantities delivered are different from those set out in the boxes of a *système d'office* order form. [Thus,] a prenotification modifies the quantities delivered but does not alter the quantities set out in the boxes of the *système d'office* order form."[25]

The representative will also use the visit to the bookstore to verify the inventory of titles already in the bookstore, both new and background titles. The bookseller might be encouraged to restock a title when its stock is too low; this new order from the bookseller then takes the form of a restocking, usually without a right of return. This restocking will also take the form of a *mise en place* or promotion, this time with a right of return. The representative will also take the opportunity to present the promotion material provided by the publisher and inform the bookseller of any events that may influence a title's sales.

Lastly, the representative's mandate may also include certain institutions not subject to Bill 51, particularly university libraries or research centres.

5.2.3 The distributor's dealings with the bookseller

As we have seen, distribution includes the logistical tasks involving the physical movement of books and the management of related financial flows. The distributor first receives books from the publisher as well as orders (*système d'office*, prenotifications and restocking) received by representatives during their meetings with booksellers.

Throughout the book supply management chain, the distributor must put in place an extremely sophisticated computer processing system that permits constant tracking of each copy of every title. This system is activated when a new title is received from the publisher. Title data is entered into the distributor's computer system, the number of copies delivered is recorded, and the book will even be weighed in order to better to plan for delivery.

The distributor then prepares the title for placement in the *système d'office*. Considering the growing number of new titles, a few years ago distributors changed from one *système d'office* form every two weeks to one *système d'office* form a week. The weekly *système d'office* form includes new titles from all publishers distributed. A shipment is

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[25] ADELF, *Vocabulaire de la diffusion et de la distribution du livre,* Office québécois de la langue française, 2005.

prepared for each of the 300 to 500 bookstores affected by the *système d'office*. Not all bookstores necessarily receive all titles on the *système d'office*, depending on their clientele, and certainly not the same number of copies of each title. This therefore requires very special attention, even though it is now supported by specialized technology. Invoices are prepared, and carriers are informed of the weights of packages to be sent and are given the task of delivering the packages quickly to their recipients.

In addition to the *système d'office* shipments, the distributor must fill orders submitted in the form of restocking. The logistical organization will be different from the *système d'office*, since with restocking, any titles in stock may be involved. Each distributor has developed its own system to compile the copies ordered by individual retailers. Each package is usually routed from one section of the distributor's warehouse to another, and specialized staff assigned to each section puts in the titles appearing on the invoice. The system informs staff when all of the section's titles have been placed in the package, which then continues on to the next section of the warehouse. When all the titles have been collected for a single customer, they are weighed to ensure that the weight of the package is equal to the total weight of the titles and the number of copies set out in the order, thereby validating the contents. The information is then forwarded, again by computer, to the carrier, which picks up the package. Obviously, not all distributors' management systems have the same level of sophistication, but their quality and level of accuracy provide an advantage to distributors facing strong competition.

Managing returns is another extremely demanding operation for the distributor, since titles received must be returned to all sections of the distributor's warehouse. Teams are therefore kept busy opening packages, ensuring that the package contents match the slip, checking the condition of the copies and planning how to arrange them in the appropriate warehouse section for each title.

One very important aspect of the distributor's work is managing the financial flows associated with the movement of the titles. An invoice for a *système d'office* shipment will contain titles from several publishers, and the same is true for the return slips. The distributor must divide each document among all the publishers, deduct returns from shipments to retailers (as credit notes), deduct the same returns from accounts payable to publishers, etc. These operations are obviously carried out using computerized management systems, but the fact remains that they are complex and highly specialized.

The importance of warehousing infrastructures and computer systems to the logistical and financial management of a book distribution firm is not difficult to understand. The dimensions of the barriers to entry are also easy to understand, considering the massive investments required, as is how the profitability of a distribution business depends on economies of scale and reaching a critical mass.

5.2.4 The distributor's dealings with mass-market channels

The marketing of books through mass-market channels is very different from the bookstore channel. Mass-market channels include retail outlets where books are not the main product sold. They are broken down into several categories of customers, including warehouse clubs or stores (such as Costco), mass-market retail stores (Wal-Mart), retail big-box stores (Home Depot, Bureau en Gros), as well as a broad range of specialized stores, pharmacies, stationery and tobacco shops, gift boutiques, etc. In sectors other than books, and sometimes in the book trade in English Canada, these markets are supplied by wholesalers. However, as we have seen, in the French-language book trade, this segment has been taken over by distributors, and often represents an important part of their activities.

Mass-market channels should perhaps sometimes be called the mass-market distribution network, since marketing often takes place there without the diffuser's involvement. A large number of mass-market retail outlets do not choose the titles to be displayed. Representatives have total responsibility for stocking, restocking, shelving and returns. They certainly engage in a certain "diffusion" of the titles, but they do not have marketing materials to prepare and no one to win over. If a certain amount of promotional materials come with the titles on display, the representatives themselves arrange and distribute the posters, brochures, inserts, etc. Titles are placed on consignment, and the consignee only has to record the sales on the representative's visit. On the other hand, in warehouse clubs or in mass-market retail stores, titles are selected by the customer with a great deal of attention, considering the very limited number of titles on display and the specialized nature of their clientele.

Mass-market channel representatives visit every retail outlet one to four times a month, depending on the customer's needs. They usually live in the region they serve and sometimes work part time. They visit their retail outlets regularly to ensure that titles are always available, that the display is in good order, and that a competitor has not moved their titles and decreased their visibility.

Considering the complexities of mass marketing and the network of more than 1,500 retail outlets to be served, there are very few distributors involved in mass-market channels. In fact, a number of diffusers and distributors prefer to subcontract mass-market sales to another distributor.

Similarly, few titles are chosen for diffusion in this network. Titles are selected very narrowly; they must be targeted at the mass market and have the potential to generate a level of sales sufficient to remain on display. Mass-market channels seek titles with sales guaranteed in advance. Average stocking is very limited (200 to 300 titles for Costco), and titles can be turned over very quickly.

Processing orders for the big-box store network is especially demanding for the distributor, which has to assume responsibility for a number of formalities regarding packing and labelling of the various books for each of the major mass-market channel customers (discount, mass market, big-box, etc.). This results in book processing costs much higher than for the bookstore channel. Similarly, since books are placed on consignment, they may be returned at any time; in addition, since title turnover is very high, mass-market channels have a return rate much higher than the bookstore channel.

For these reasons, the distributor will generally grant only a 30% discount to mass-market retailers. However, this discount rate is sometimes higher, although the French-language market is not facing the same trend to higher discounts as seen in the English-language market, due in part to the collegial culture promoted by Bill 51. Nevertheless, such stability is fragile. It does seem that publishers reserve certain mass-market customers for themselves and take advantage of the fact that they are able to sell their books without intermediaries to increase the discounts granted to retailers. This practice could destroy a tradition of moderate discounts instituted as a result of the persistence of certain distributors and at the cost of lengthy negotiations.

5.3 Revenue sharing between partners

The following table proposes a model for calculating the revenue share for each partner. This model is obviously expected to fluctuate depending on a number of variables, such as the network in which the book is sold (bookstore or mass-market channel), the print run and production conditions.

Table 14. Distribution of sales revenue from a book, as a percentage of retail price

	Bookstore Sales	Big-Box Store Sales
Retailer	40%	30%
Diffuser/Distributor	17%	27%
Publisher	11%	11%
Printing	22%	22%
Royalties	10%	10%
TOTAL	100%	100%

We immediately see that royalties and printer’s and publisher’s revenue generally remain the same, regardless of which book sales network is used. However, as we have just seen, the publisher may look for different ways to recover the diffuser/distributor’s share by dealing directly with certain retailers in the big-box store network, even if this increases the retailer’s share of the revenue. Under these conditions, the publisher is to some extent competing with its own partner in the diffusion and distribution of its titles. It also may seek to recover the retailer’s share by developing direct-sales strategies, either by postal promotion, exhibitions or online sales. However, in the Quebec and French-Canadian market, direct Internet sales by publishers remain relatively limited for the time being.

This table also reveals the publishers’ precarious situation regarding a possible escalation of discounts both in bookstores (Bill 51 sets a minimal discount of 40% for bookstores, which does not place a cap on discounts) and in mass-market channels. With its 11% share of book sales revenue, it is difficult for a publisher to cover all expenses related to book publishing and managing the business.

6 Distributors' New Tools for Improving the Supply Chain

The book diffusion and distribution network is currently undergoing major changes that are expected to completely revolutionize communications among all the partners in the book supply chain.

As we have seen, some distribution companies have already adopted state-of-the-art technology that greatly facilitates stock management and the movement of books in and out of warehouses. Distributors have adopted complex high-performance computer systems that allow them to process huge streams of book diffusion and distribution information. These changes have been made necessary by the steady increase in the number of titles in circulation.

Tools as simple as a laptop with an Internet connection now let representatives meeting with retailers place orders in real time and send them to the distributor's central management system.

One area where technological development has been active is the exchange between retailers and distributors regarding books orders and returns. For this, ADELF has developed Needa (*Norme d'échanges électroniques de documents informatiques* [electronic document transfer standard]),[26] which has been adopted by distributors as a language of exchange with booksellers. Needa was developed and introduced to make exchanges more efficient and to reduce the costs related to communications and bookseller and distributor operations. Like EDI (Electronic Data Interchange) Needa allows secure and effective exchange of documents; however, it stands out for its simplicity and low cost — documents are submitted online, at no expense to the bookseller — and because it is well adapted to the French-language book trade.

Thanks to Needa, a single standardized document is used for all order transactions from the bookseller to the distributor and the processing of the order by the distributor. The bookseller sends its electronic order to the distributor, which sends back a confirmation, also electronically. The initial order from the bookseller is forwarded to all sectors of the distribution centre during the process of preparing the packages, and is used for the invoice to be sent by the distributor to the bookseller. The same electronic file is used by the bookseller, which receives the packages to send an acknowledgment to the

[26] Information regarding Needa is taken from documents produced by ADELF, which we took as our starting point.

distributor. Through this integrated process, data is input only once, which reduces the chance of error. These orders were previously sent by telephone or fax and had to be entered manually, which caused frequent errors. The current standard covers title ordering and delivery activities, and also allows processing of returns and claims. Needa has already accelerated order processing and generated savings for all its users. It is estimated that more than 50% of orders currently go through ADELF's electronic system.

Distributors also work with the BTLF (French-language title bank) to supplement the information available in the Memento database. Over the past few years, the BTLF has built up a database that today contains more than one million French-language titles, nearly 100,000 of them Canadian. It has recently been paired with its counterpart in France, Électre, to offer a common product, Memento, now covering publications from all Francophone countries. Memento is available by subscription to all players in the book trade (bookstores, libraries, etc.) as a tool for finding available titles in order to obtain standardized bibliographic data and title availability information.

At the time the BTLF was set up, all information (bibliographic and commercial) was provided by distributors, which regularly (usually on a weekly basis) provided BTLF with an up-to-date file of all titles included in their catalogues. It was then realized that the publisher was perhaps the one best equipped to submit bibliographic information and the distributor best equipped to submit commercial information. Thus, distributors now provide data on title price and availability. This change has significantly improved the quality of the information available in the database and considerably reduced system maintenance requirements.

The operation of the BTLF and the delivery of data on titles available through Memento have made considerable progress over the past few years. Since the network is relatively new, it appears that improvements are still needed for certain title searching and information delivery tools, particularly with respect to the availability status of titles. It appears that, despite certain pressure from the largest customers, most distributors and booksellers do not want hard numbers on title availability to be accessible through Memento. Too much detailed information on available inventories, for example, would allow a retailer to take possession of all available copies of a fast-moving title, thereby ensuring a monopoly over customer supply. Moreover, it seems that distributors do not interpret title availability categories the same way,[27] which causes major confusion in the supply chain. Discussions have begun between BTLF and ADELF to correct this situation.

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[27] In particular, the principal codes indicating that a title is temporarily or for the time being not available: missing, in reprint, upcoming, out of print, unavailable.

The next revolution anticipated in the book diffusion and distribution sector is the development of a Sales Information System (SIS). Such a system already exists in certain countries, including Great Britain and Australia, and it has already been introduced in English Canada. The main difference between the system in English Canada and French Canada resides is that the agency responsible for the project on the English-language side, BookNet Canada, is not responsible for developing and managing the database. The Canadian system is connected to the database available from Bowker in the United States, which has accelerated its introduction into Canada, even though it appears that certain adjustments are still necessary with regard to the quality of bibliographic data and prices (sometimes shown in US dollars).

The Sales Information System will make it possible to collect data on every book sold directly from retail cash registers. A publisher, diffuser or distributor will be able to know in real time the exact number of copies of a title sold or in circulation.

This SIS will first of all make it possible to collect and distribute information for sharing by all subscribers. It will give access, for example, to a portrait of the overall market, data on bestsellers, obviously, but also historic data on sales by genre, network, retailer category, month, etc. Along with this shared information, every subscriber — whether publisher, diffuser or distributor–will have access to personal information in order to compare its results against the industry or its competitors in terms of specific common criteria, in order to determine its level of performance, possible changes, etc. Publisher and diffuser will be able to follow fluctuations in the sales of each title, and even be able to measure day by day the impact of a promotion event, *mise en place*, advertising campaign, author's tour, window display, etc.

The publisher will have reliable and accurate data on the quantities of a title on display shelves and the number of copies that still may be returned by booksellers, which will make it possible to make a better-informed decision regarding possible reprints. The diffuser/distributor will know where and when restocking should be suggested to a retailer that has sold all copies of a title. In fact, if the book trade has long wondered about how to obtain better supply information, the Sales Information System now presents a way to provide better information on demand.

Although there are already lessons to be learned from the system's introduction into the English-Canadian sector, the fact remains that implementing the SIS is an imposing challenge. A system like this cannot function unless retailers agree to provide the data that will make up its raw material. It appears that recruiting efforts among retailers have been able to rally enough partners to the project to cover 63% of the market so far. The ones remaining are the most skeptical; they have particular concerns about the confidentiality of the information transmitted and remain apprehensive about their competition taking advantage of information that until now has been kept well protected to capture a larger share of the market. However, it is crucial for as many retailers as possible to take part if we are to be able to analyse the entire market, in both bookstores and mass-market channels. A critical mass is needed to convince potential users of the usefulness of the service offered. As well, one challenge of convincing potential users is directly related to the costs of subscribing to the service, which have not yet been determined.

Lastly, the professional development required for introducing such a complex system must not be underestimated. Data providers and subscribers (publishers, diffusers, distributors) must also be provided with readily available support so they can fully benefit from this cornucopia of information now available to them.

PART II:

SPECIFIC ISSUES AFFECTING THE DIFFUSION AND DISTRIBUTION OF FRENCH-LANGUAGE BOOKS IN CANADA

7 Profitability as a Challenge

To state that business profitability is an important issue for book distributors may seem trite or obvious. Yet, as we have seen, the profitability or even the very survival of the distribution sector in the book trade involves a balancing act requiring a sufficient critical mass to cover substantial unavoidable expenses, particularly in terms of warehousing capacities and the development and maintenance of computerized management tools. It is recognized that “Distribution and fulfillment remains a major cost component throughout the book trade.”[28] These requirements explain the limited number of distributors and the high barriers to entry to the profession.

There is scant data on the financial performance of French-language book distributors. It is often believed that, considering the large financial flows that pass through the distributors, they experience gross revenue far higher than that of other book professionals. Yet, the available data shows a certain precariousness among distributors.

Marc Ménard first revealed in 2001 that distributors’ performance for 1998-1999 showed a gross average profit margin of 22.5% and a net average profit margin of 2.4%, which remains low when compared with small American distributors, which recorded a gross margin profit of 33.3% and net of 3.6% for the same period.[29] Four years later, in 2002-2003, the gross profit margin of distributors (businesses whose main activity is the diffusion and distribution of books) increased to 24.6%, but the net profit margin fell to 1.5%.[30] [TRANSLATION] “At this level, it can even be described as inadequate. However, only three out of 23 businesses report a loss. Thus, distribution seems to be characterized by very narrow margins, but virtually assured profitability.”[31]

A similar portrait emerged from the data published by the OCCQ for 2005-2006. It shows a relatively stable gross profit margin, 24.8%, but a continuation of the decline in net profit margin, which was then 1.4%.[32] We also see an alarming drop in the number of businesses reporting a profit: in the group studied, 16 recorded a profit, and 8 reported a loss (compared to 3 in 2002-2003).

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28 Turner-Riggs, *The Book Retail Sector in Canada*, Department of Canadian Heritage, 2007, p. 42.

29 Marc Ménard, *Les chiffres des mots: portrait économique du livre au Québec*, SODEC, 2001, p. 183.

30 Marc Ménard and Benoît Allaire, “La distribution de livres au Québec,” in *État des lieux du livre et des bibliothèques*, Observatoire de la culture et des communications du Québec, p. 144.

31 Ibid.

32 Observatoire de la culture et des communications du Québec, “Portrait des distributeurs et diffuseurs exclusifs de livres au Québec,” *Statistiques en bref*, n° 25, December 2006.

The most recent data available on book distributors’ financial performance is for 2005-2006. It shows a strong increase in distributors’ gross profit margins (increasing from 24.8% to 29.0%) as well as in their net profit margins (increasing from 1.4% to 5.7%). However, this improved performance may be only in a limited number of firms, since the number of businesses showing a loss has remained roughly the same, from eight businesses showing a deficit out of a total of 24 in 2004-2005 to seven out of 21 in 2005-2006.

Despite this somewhat sobering data, Marc Ménard noted in 2001 that distribution firms had high shareholders’ equity (27.7%). The same is true for retained earnings (25.7%), which indicates good financial health. Similarly, [TRANSLATION] “with debt ratios, we note few significant anomalies, with ratios showing rather low debt in both cases [Quebec and the US].”[33] However, distributors must remain vigilant, particularly at a time when the role of each segment of the book trade is constantly at risk during a period of major technological change.

It is also essential, for any distributor that wishes to maintain its operations, to reach a critical size that allows it to cover its fixed costs and spread them over the largest possible number of titles, and possibly reduce its variable costs through increasing economies of scale, which results in decreased unit costs. The distributor must therefore be fully aware of the distribution of operating costs for each expense category.

The following two tables show the distribution of unit operating expenses for diffusers and distributors. We can obviously consider that in general these costs remain the same and are added together for diffuser/distributors. Although, in the light of the data available, as they specifically concern costs related to the management of new titles, they remain relevant in measuring the significance of each expense field.

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[33] Marc Ménard, *Les chiffres des mots: portrait économique du livre au Québec*, SODEC, 2001, p. 183.

Table 15. Diffusers' unit operating expenses, 2004-2005

	Operating Expenses by Activity	Operating Expenses by Group of Activities
Publisher relations	$0.08	$0.17
Distributor relations	$0.02	
Bookseller relations	$0.07	
Demand assessment	$0.03	$0.05
Supply assessment	$0.02	
Soliciting orders	$0.27	$0.27
Accounting and IT	$0.04	$0.04
Promotion support	$0.70	$0.70
Returns management	$0.01	$0.05
Restocking management	$0.04	
TOTAL	$1.28	$1.28

Source: *Étude sur la mise en marché des nouveautés par le système de l'office au Québec*, Table de concertation interprofessionnelle du milieu du livre, 2007, p. 185.

Table 16. Distributors' unit operating expenses, 2004-2005

	Operating Expenses by Activity	Operating Expenses by Group of Activities
Publisher relations	$0.01	$0.08
Distributor relations	$0.02	
Bookseller relations	$0.05	
Soliciting orders	$0.09	$0.09
Receipt	$0.10	$1.05
Warehousing	$0.34	
Deliveries preparation	$0.21	
Shipping	$0.40	
Accounting and IT	$0.09	$0.09
Promotion support	$0.08	$0.08
Returns management	$0.20	$0.33
Restocking management	$0.13	
TOTAL	$1.72	$1.72

Source: *Étude sur la mise en marché des nouveautés par le système de l'office au Québec*, Table de concertation interprofessionnelle du milieu du livre, 2007, p. 186

For diffusers (Table 15) — or for diffusion work carried out by diffuser/distributors — the main cost item is fixed costs: $0.70 per unit to support diffusion, that is, work done by representatives in retail trade networks. This expense represents a fixed cost, since each diffuser must have a team of representatives to serve retailers. Even though the size of this team normally depends on the scale of the diffuser's activities (the size of the catalogue being diffused), the fact remains that the number of titles diffused may increase without increasing promotion support costs. The diffuser must therefore attempt to reduce its costs elsewhere, either through an increase in the number of title diffused (however, certain costs will remain proportional to the number of titles), or by increasing efficiency (collecting orders, managing returns and restocking, assessing supply and demand, etc.).

From the distributors' side, the division between fixed costs and variable costs is even sharper. Warehousing alone represents 19.8% of operating expenses. It is essential for the distributor to maximize the use of its warehouses by accurately estimating the impact of excessive growth, which would increase its warehousing needs beyond its capacities. Most other expenses are related to the circulation of titles; increasing efficiency at all levels will allow the distributor to take full advantage of economies of scale. To cite only a few examples, we must consider that the unit costs of shipping packages to a retailer will be inversely proportional to the number of packages. The distributor must have a critical mass that will allow it to increase the number of packages per shipment in order to reduce unit shipping costs, ignoring the fact that increased fuel prices could have an substantial impact on shipping costs and therefore on distributors' revenue. Managing returns and restocking, which account for 19% of operating expenses, requires maximum efficiency, both in the computerized management of book movement — managing returns could be the source of many errors — and in logistics management.

While facilitating the work of diffuser/distributors, new technologies in the book trade also increase the complexity of some of their operations. As Turner-Riggs points out, "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."[34] For the distributor, this results in an increase in the volume of books in circulation, and therefore in distribution operating costs.

The need for the distributor to improve its performance and increase its critical mass in order to take advantage of economies of scale necessarily means focussing on concentrating distribution activities into one increasingly large business. [TRANSLATION] "Considering the constraints of critical size and the economies of scale inherent in this

34 Turner-Riggs, *The Book Retail Sector in Canada*, Department of Canadian Heritage, 2007, p. 46.

type of activity, any rationalization trend will obviously encourage business concentration.”[35]

[35] Marc Ménard, *Les chiffres des mots: portrait économique du livre au Québec*, SODEC, 2001, p. 178.

8 The Thorny Issue of Returns

The economics of the book market are based in particular on the principle that unsold books may be returned within a specified period. Titles shipped under the *système d'office*, for example, may be returned within twelve months. This practice may be surprising for anyone not familiar with the book trade. To explain the reasoning behind the principle of returns, it must be understood that if unsold copies could not be returned, independent bookstores would not be able to take risks with the works of lesser-known authors, making access to a diversity of titles difficult, if not impossible. When we consider booksellers' very thin profit margins, it is easy to understand that returns are essential to the survival of bookstores and the diversity of supply.

Breaking down the unit costs of book distribution has clearly shown the magnitude of the costs of handling and shipping books. The costs of preparing and shipping books, particularly returns, can be critical in determining whether a distributor is operating at a profit or a loss.

For a long time, attempts have been made at measuring the return rate in the various retail networks, usually with only limited success. It was thought, for example, that in the 1980s and 1990s (at the same time Bill 51 was enacted and the *système d'office* was enhanced), [TRANSLATION] "the return rate doubled in 15 years, from 15% to 30%, with peaks of up to 40% in the early 1990s."[36] Ménard published an estimate of the return rate for 1998-1999, in the bookstores and mass-market channels, demonstrating in particular that the return rate on new titles and reissues was 13% higher in the mass-market channels that in the bookstore channel, and 14% higher for all titles.

There is a great deal of concern about the return rate, particularly when it is high, since the profitability of the distribution business depends on it. It is indeed estimated that [TRANSLATION] "a 1% variation in the overall return rate (up or down), when it is the result of a variation in net sales, means, for distributors, a 0.12% increase/decrease in their gross margins, which, all other things being equal, corresponds to a 0.1% variation in their net profit before taxes."[37] In real terms, a 30% return rate means that in order to sell 100 books, 143 have to be handled.

In order to better grasp the significance of return rates and analyse the impact of the way the *système d'office* currently operates on returns, the *Table de concertation*

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36 *Ibid.*, p. 173.

37 *Ibid.*

interprofessionnelle du milieu du livre commissioned a major study specifically on the *système d'office.* The report, *Étude sur la mise en marché des nouveautés par le système de l'office au Québec,* was released in 2007. Although the study was limited to new titles in the bookstore channel (mass-market channels do not operate on the *système d'office* model), it contains a great deal of data and information that is just beginning to be fully utilized.

The study reveals the real return rates on new titles by calculating, for each title shipped under the *système d'office* over a period of one year, the number of copies shipped under the *système d'office*, less the number of copies returned, plus the number of copies sent as restocking over a period of one year following the release of the book.

Table 17. Overall flow of Quebec and foreign titles combined by category, bookstore channel

Shipping		**Restocking**		**Returns**		**Publishers' Net Sales**		**Return Rate on *Système d'office* %**		**Return Rate on *Système d'office* and Restocking %**	
Copies	**$**	**Copies**	**$**	**Copies**	**$**	**Copies**	**$**	**Copies**	**$**	**Copies**	**$**
5,823,578	120,960,294	3,783,583	80,591,776	2,898,687	61,709,306	6,708,474	139,842,765	49.78%	51.02%	30.17%	30.62%

Source: *Étude sur la mise en marché des nouveautés par le système de l'office au Québec*, Table de concertation interprofessionnelle du milieu du livre, 2007, p. 38

During the twelve months covered by the study, 5,823,578 copies were shipped under the *système d'office* in the bookstore channel, to which 3,783,583 copies were added through restocking, or 65% of the value of the *système d'office* in terms of number of copies. However, 2,898,687 copies were returned, which represents net sales of 6,708,474 copies. Thus, if we consider strictly the return of copies shipped under the *système d'office,* the return rate amounts to 49.78%. However, it is more relevant to also consider copies shipped in restocking during the year following the release of the book, since we then bring together all the movements of new titles. In this case, the return rate (based on the number of copies) on the *système d'office* and restocking is 30.62%.

The study also reveals that the return rate on *système d'office* and restocking, based on the number of copies, is different for Quebec titles (27.04%) and foreign titles (32.51%), which indicates that diffusers and distributors are effective at accurately planning the placement of Quebec and French-Canadian titles in the bookstore channel.

Lastly, there are already findings based on the analysis of Table 9, which presented the average number of copies sold, by *système d'office* bracket. What was found was that the smaller the number of copies placed on the *système d'office* by title, the higher the return rate on *système d'office* and restocking; the result was a very high number of titles with very high return rates (the 22,471 titles placed on the *système d'office* for 500 copies or less recorded an average return rate of 41.95%), whereas a very small number of titles experienced very low return rates (the 87 titles placed on the *système d'office* for more than 5,000 copies recorded an average return rate of 11.64%).

This survey of returns in the French-language book trade in Canada definitively highlights the importance of continuously reducing the return rate in order to ensure better profitability for businesses throughout the supply chain. Returns are very expensive for diffusers and distributors, booksellers and publishers. It will probably be necessary to continue industry consultations and dialogue in order to develop rules for the *système d'office* that are better adapted to the realities of the book trade, mainly by taking into account the larger number of titles being published with increasingly smaller print runs. Moreover, it is becoming increasingly obvious that [TRANSLATION] "at a time when the number of titles to be distributed is increasing, average sales decreasing and number of retail outlets growing, the pressure on unit costs requires constant improvement to distributors' logistical performance."[38]

[38] Marc Ménard and Benoît Allaire, "La distribution de livres au Québec," in *État des lieux du livre et des bibliothèques*, Observatoire de la culture et des communications du Québec, p. 141.

9 PERSPECTIVES AND LIMITS OF NEW TECHNOLOGIES

We have seen the extent to which new technologies have provided new opportunities for diffuser/distributors, especially in terms of communications throughout the chain of supply, specifically communications between the diffuser/distributor and the retailer. The introduction of Needa, for example, has made it possible to accelerate communications between partners, achieve greater accuracy and minimize error, thereby reducing the operating costs of distribution companies and bookstores. Even within distribution companies, order management and inventory management systems make it possible to accurately trace all copy movement, thus minimizing losses and improving speed and efficiency even further. Book distribution can no longer be managed effectively and efficiently without these remarkable technological systems. Distribution technology is also essential for access to diversity, because it makes distributing books with very low sales potential cost-effective.

The Sales Information System, to be introduced in February 2009, is also likely to revolutionize the book trade by allowing the principal stakeholders to follow day-by-day progress in sales of a title, and monitor sales activity by title, collection, publisher, region, etc. These increasingly targeted and sophisticated analyses will permit better planning of print runs and reprints, as well as placements and restocking. While it is currently still difficult to obtain accurate, reliable and complete data on book sales, the Sales Information System should overcome this deficiency in the system.

There is no longer any doubt that the development of new technologies in the book trade has created rising expectations of more efficient practices among commercial partners, and even between retailer and client. However, the fact remains that many independent booksellers make little use of computers and are even hesitant to adopt new practices that would allow them to increase efficiency and save time and money. Booksellers' associations and governments must continue their efforts in this respect. Tools such as Needa and the Sales Information System will be most beneficial only if they encourage all the commercial partners to join in. Otherwise, gains will only be partial and the information gathered incomplete and therefore of little use. Updating computer systems in all French-language bookstores in Quebec and Canada remains a major challenge for the sector.

The development of new technologies influences the sales medium as well. Clients have changed a lot and continue to change their purchasing practices, even for traditional books in printed form. Since the very beginning, books have been one of the products most sold online, perhaps thanks to Amazon's massive promotions early on.

In every survey by Statistics Canada on purchasers' Internet behaviour, books have been among the most popular products among online consumers. The *Indice du commerce électronique au Québec* [index of e-commerce in Quebec][39] very recently showed that from May 2007 to February 2008, an average of 15.95% of Quebecers made one or more online purchases each month. Of these, on average, 12.3% bought a book, magazine or newspaper online each month for the period from October 2007 to February 2008.[40] Books thus rank second among online purchases in Quebec, after travel products. Data on the amounts spent on book purchases by Quebec Internet users is expected to be released shortly.

What is the impact of online sales for Canada's French-language distributors? According to the distributors consulted, this impact is still not being felt to a significant degree, but it could become significant in the medium term. It must first be recognized that online sales by Quebec and French-Canadian booksellers (including Amazon.ca) do not generally bypass the distributors, since booksellers still obtain their stock from the distributor, regardless of how the sale is made. In Quebec, under Bill 51, all institutions must obtain their books through a local bookstore, whether electronically or directly at the sales location. Institutional purchasers usually wish to examine the book and thumb through it before buying, and this can only be done in the bookstore, at least at present, although the possibility of "thumbing" through online books is now under development.

Quebec and French-Canadian publishers were slower than their English–Canadian counterparts at allowing customers to buy directly from their own Web sites. Even today, a substantial number of Canadian French-language publisher sites redirect purchasers to an already identified bookstore or a list of bookstores. In this respect as well, Bill 51 prohibits institutions from directly purchasing books from publishers, which limits purchases outside of bookstores.

However, there is perhaps some concern given that distributors' final sales decreased 21.3% from 2001 to 2007 (Ref. Table 10), unlike publishers (61.1% increase) and booksellers (37.3% increase). Publishers are thus becoming increasingly active in direct sales to clients, and it is not difficult to believe that the development of online sales has had something to do with it. This report suggests that certain sectors of the supply chain could be in increasing competition with their traditional partners, which may very well upset the fragile balance between the sectors and endanger the profitability of certain links in the chain. In the medium term, the rapid growth in final sales by publishers

[39] http://www.infometre.cefrio.qc.ca/loupe/enquetes/indiceCommerceElectronique.asp.

[40] Specific data on purchase categories have been collected only since October 2007.

could have a significant impact on booksellers and distributors. New technologies may thus alter certain sales channels.

New technologies have also altered a number of cultural products. We only have to look at the music industry to see how quickly CDs replaced audio tapes, and then how CDs themselves are gradually disappearing in favour of direct downloading into a digital audio player. Of course, the book as an object is also part of the pleasure of reading; however, the fact remains that in certain sectors, the electronic book in all its forms is a harbinger of significant changes in the product as such.

Will distributors still have a role to play in the marketing of books in electronic format (such as e-books and .pdf)? It appears that the major online bookstores (particularly Amazon) and the main portals (such as Yahoo, Google, Microsoft) have already entered the race, not to the electronic product as such, but to the contents in electronic form, which could pave the way for them to become suppliers of books and content in electronic form, to the detriment of book distributors and traditional bookstores. In this connection, even our major Canadian bookstore chains are not in the race.

Publishers could also be swayed by the direct sale of books in electronic format. Through their professional association, they are currently working on introducing an electronic product integrator that would allow them to sell these products directly to individuals and institutions without going through the traditional middlemen, the booksellers and distributors. At least for the time being, electronic products are not covered by Bill 51 (they did not exist at the time the Bill was passed). The direction this strategy will take in the coming years will have a significant impact on distributors and may jeopardize the fragile balance within the book trade.

The distributors interviewed said they were worried, less for the short term than the medium term, and would like to know how to best prepare for this technological shift. Just as it is important for Canadian publishers to confer in order to learn more about the current changes and develop common solutions, there is a similar need among distributors. Perhaps the associations and governments should begin examining this issue immediately.

Lastly, the new roles that distributors could play include offering print on demand. Print on demand makes it possible, using compact reprographic printing equipment, to print short runs, or even one copy of an out-of-print work, or a title that has never even had an initial print run.[41] Distribution companies are the only businesses (along with the big bookstore chains) to have the critical mass (and contractual agreements with publishers)

[41] See *New Technologies and Cultural Policies in the Publishing Sector*, a 2007 study carried out by Édinova for the Department of Canadian Heritage.

needed to offer print-on-demand services and, most importantly, make it profitable. In light of this, however, it is still difficult to know what platform will be adopted for producing or saving electronic documents, which increases the risk associated with investing in this technology. Furthermore, a book printed on demand still does not have the quality of the classic printed book, and is still expensive. However, in the medium term, print on demand could become a service offered by distributors, which would make it possible to considerably increase supply by making out-of-print titles available, and considerably reduce warehousing needs.

10 Foreign Influence

As noted above, initially French-language books in Canada were distributed mostly by foreign companies. In 1970, although there were a substantial number of small distribution companies, four major distributors dominated the market: MIL (subsidiary of Hachette), Socadis (Gallimard/Flammarion joint venture), Les Presses de la Cité and L'Agence de distribution populaire (ADP, founded in 1961 to distribute Les Éditions de l'Homme). Only one, ADP, was Canadian-owned, and only Socadis and ADP are still around today. The 1970s also saw the appearance of new predominantly Canadian-owned players[42] that are today among the largest distribution companies, particularly Dimedia (1974) and Prologue (1976).[43]

Thus, over the years, the book distribution sector in Quebec and French Canada has changed from being predominantly foreign-owned to being predominantly Canadian-owned. Of the major distribution companies, only Socadis is foreign-owned (and, among medium-sized businesses, Diffusion du Livre Mirabel). Socadis, owned by Gallimard and Flammarion, concentrates on distribution — and excludes diffusion — in particular distribution of its two owners and Hachette, and a growing number of Quebec and foreign publishers. Socadis is also one of the three major distribution companies serving the mass-market channels, and it has concluded specific agreements with several distributors for the mass-market channels.

It seems that neither foreign ownership nor parallel imports (importing books into Canada that are published legally in their country of origin, but are imported without permission from the rights holder into Canada) is an issue for the French-language book distribution sector in Canada. All distributors interviewed consider, for example, that having Socadis in the Canadian market does not change anything specific in the competition among distributors, and that the ownership of Socadis does not give it any particular advantage. Most of its catalogue does come from foreign publishers, but this situation can be explained by the fact that the business does distribution only, and that foreign publishers — more particularly French publishers — are more accustomed to doing diffusion and distribution separately in their own country. Socadis also distributes a significant number of Canadian publishers, particularly in mass-market channels. When questioned about the impact of a hypothetical change in a distributor's ownership in favour of a foreign owner, the same distributors state that they would regret that

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42 It is sometimes difficult to accurately know the percentages of Canadian and foreign ownership of certain distributors that are mixed-capital companies.

43 Marc Ménard, *Les chiffres des mots: portrait économique du livre au Québec*, SODEC, 2001.

distribution had become less Canadian-owned, but claim that the terms of competition would not change.

On the other hand, foreign ownership is not the only possible impact from the foreign book industry on the French-language book trade in Canada. Indeed, the greatest changes experienced by Quebec distributors became necessary not because of the performance of the distributors involved, but because of transactions that took place abroad — mainly in France–involving the foreign publishers they distribute in Canada. Thus, Canadian distributors have seen a significant portion of their foreign catalogue moving to a Canadian competitor because the foreign publisher was sold to a group distributed in Canada by their competitor.

The changes involving the Canadian distribution of the two best-known French dictionaries (Le Robert and Larousse) clearly illustrate this influence of foreign transactions on book distribution in Canada. Until 2004, the Larousse dictionary was distributed in Canada by ADP, owned by the Sogides Group. It was then bought out in France by Hachette. However, Hachette is distributed in Canada by Socadis. As a result, ADP lost distribution rights for Larousse, including *Le Petit Larousse*, which alone has sales of some 50,000 copies per year. Sogides then turned to Le Robert, owned by Interforum. While Interforum was distributed by Sogides, Le Robert was distributed by Dimedia in the bookstore channel to avoid having both major dictionaries handled by the same distributor. Le Robert was therefore moved from Dimedia to Sogides for the bookstore channel, which was a major blow to Dimedia.

Although foreign investment in the French-language book distribution sector in Canada is not specifically an issue for the industry, we must not therefore conclude that there is no danger of important players in the French-Canadian book trade being taken over by foreign owners, which would have a major impact on the sector. Indeed, the concentration of several book trade companies into large groups could expose them to a transfer to foreign owners in the event that the group is sold as a unit. These groups have become so large that it is possible that no Canadian purchaser could afford to acquire one.

To this effect, the *Investment Canada Act* provides that any acquisition by a non-Canadian of a Canadian business in the book trade must be compatible with domestic cultural policy and be to Canada's net advantage. Thus, as a general rule, "Acquisition of an existing Canadian-controlled business by a non-Canadian will not be permitted."[44] However, the policy specifies that the government could make an exception to this general rule if "Canadians have had full and fair opportunity to purchase and the

[44] Source: http://www.pch.gc.ca/invest/bkp-eng.cfm. The complete version of the *Investment Canada Act* is available at: http://lois.justice.gc.ca/en/ShowFullDoc/cs/I-21.8///en.

business is in clear financial distress." However, several large groups in the book trade have now reached such a size that, in the event of a sale, its purchase could exceed the financial ability of their Canadian competitors. In the event that the group were sold — or that the business group that owns the publishing group were sold — it is possible that no Canadian could become the purchaser, which could bring pressure on the Government of Canada to authorize the acquisition of the group by a non-Canadian, resulting in an exception to the policy. Although large economic units, with their improved investment capacity and greater presence on domestic and foreign markets, strengthen the Canadian book industry, this concentration and integration increase the risk that a portion of the Canadian book industry will fall under foreign control despite the policy.

11 Concentration and Integration in The Industry

In the past twenty years, the book trade has experienced two distinct but complementary trends that have greatly changed its environment: concentration and integration.

Concentration was especially substantial among publishers and booksellers. The 1990s saw the first publishing groups appear. Trade publisher Sogides (which already brought together a number of publishing houses) formed the Groupe Ville-Marie. In educational texts, the Groupe Beauchemin and the Groupe Gaëtan Morin were formed through mergers and acquisitions. Concentration accelerated in the late 1990s and the 2000s, and the groups increased in size; Quebecor acquired a still-growing number of individual publishers as well as the Groupe Sogides/Ville-Marie, while Éditions de la Chenelière merged with the Groupe Gaëtan Morin Éditeur, then acquired the Groupe Beauchemin, before being themselves bought by Transcontinental. All these changes led to the emergence of two major publishing groups: Quebecor, mainly in the literature sector (the group also includes a textbook publisher); and Transcontinental, mainly in the educational sector. There are of course a number of smaller groups in both sectors as well.

Among booksellers, there is a struggle between two factions: independent bookstores and the bookstore chains, which in Quebec are defined as being four or more bookstores held by the same owner. Concentration among booksellers is mainly marked by the presence of two large groups. First, the Groupe Archambault, owned by Quebecor, owns 15 locations plus an English-language bookstore, Paragraph, in addition to having taken over the Camelot bookstores. Then, the Groupe Renaud-Bray was formed by the merger in 1999 of the chains Renaud Bray, Champigny and Garneau, and today has 24 locations. In Quebec, bookstore chains, including Renaud Bray and Archambault, control 48.7% of the book market.[45]

Until quite recently, distribution seemed to have been spared from the concentration, which might seem surprising since, as we mentioned, distribution profitability depends on attaining a critical mass. However, the absence of mergers and acquisitions has not prevented the increasing concentration of publishers among a few large diffuser/distributors. Even so, the recent acquisition of the Groupe Sogides by Quebecor

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45 Benoît Allaire and Claude Fortier, Observatoire de la culture et des communications du Québec, “Hausse de 9% des ventes de livres en 2007,” *Statistiques en bref*, n^o 39, June 08, p. 2.

has led to the merger of the distributors in each of the two groups, Québec-Livres and ADP, under a new entity that has adopted the name ADP. Therefore, there is now much greater concentration among distributors. In 2005-2006 (see Table 2), the three largest distributors controlled 79.7% of retail trade, and the five largest, 90.2%.

Already in 2001, Marc Ménard recognized a certain logic in the concentration among distributors: [TRANSLATION] "Any tendency to rationalization, considering the constraints of critical size and the presence of economies of scale inherent in this type of activity, obviously encourages business concentration."[46] Concentration itself will allow distributors to better reach the critical mass necessary to make their activities cost-effective. They will be better able to serve both their publisher partners and their customers in the bookstores and any they may have in the mass-market channels. However, the benefits of distributor concentration can at the same time conceal certain negative effects. In its rush to increase profitability at any cost, a distributor may become more inclined to give priority only to titles with virtually assured sales: [TRANSLATION] "Greater concentration could first weigh heavily on the publishing sector. Indeed, a title with a strong placement is, and always will be, more profitable and easier to distribute than a series of titles with limited, more uncertain sales. If the concentration of diffusion/distribution increases, this profitability constraint, that is, concentrating efforts only on titles with strong placement, is very likely to increase further. However, this is clearly contrary to the push for productive and innovative exuberance in publishing […] The goal of distributor profitability could thus make diffusion and distribution of smaller publishers or more challenging titles more uncertain if they begin, for example, refusing to distribute titles that do not meet certain minimum sales criteria.[47]

As can be seen from the formation of business groups in the book trade, concentration (horizontal) and integration (vertical) often go hand in hand. Through integration, organizational structures bring together businesses (business groups) in several sectors, or even all sectors in the book supply chain. Thus, the Groupe Quebecor, for example, has numerous printing firms, a considerable number of publishing houses covering virtually all publication sectors, one of the largest distribution companies in Quebec, a chain of bookstores, newspapers, electronic media, etc. Transcontinental has a similar profile, owning a large number of newspapers, and has gained a prominent position in academic publishing at all educational levels, except that the group does not own any bookstores.

Should we fear integration in the book trade? What is obviously most disturbing, at first glance, is the weight these large groups can have within the sector. Integration is also of

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46 Marc Ménard, *Les chiffres des mots: portrait économique du livre au Québec*, SODEC, 2001, p. 178.

47 *Ibid.*, p. 186.

concern because it gives these groups every opportunity to improve their own position in marketing their books. At the beginning of this study, we mentioned certain characteristics specific to distributors — that they had little influence over their products or the conditions of their marketing: little or no influence over supply, how titles are promoted, price, etc. However, integration gives distributors from the major groups the power to influence supply and how their group's books are released. The groups control all businesses in the marketing chain needed to impose the best conditions for a title: they own publishing houses to publish the book, printers, the distributor to properly position the book in bookstores and in mass-market channels, bookstores to properly present the book to customers, media to promote the author and the book, etc. It is not the fact that groups actually put these strategies into practice that is worrisome (no one can demonstrate that they have actually done so); it is just that they have the power to do so.

Similarly, we consider that businesses within integrated groups can offer each other favourable conditions that could give them a competitive advantage: lower costs or quicker printing turnaround, lower distribution costs, better positioning in bookstores, less expensive advertising, more accessible interviews for authors, etc. The distributor knows how many copies are in stock for a title that is selling out quickly and could inform the group bookstore of any anticipated inventory shortage and encourage it to order up the remaining copies, and so on. A group publisher can automatically forward online orders to a bookstore in its group. Once again, no one is accusing the groups of encouraging these practices, but we fear that they have all the ingredients needed to be able to encourage them.

Lastly, the businesses within the integrated groups could have access to privileged information on their competitors' performance. They have the means to find out, for example, the sales of their competitors in bookstores that are part of the group, or in all bookstores served by the group distributor. The most promising authors or themes can be identified, publishers' successes and failures known. The businesses concerned do not actually allow themselves access to such information, but they do have an alarming power to gain such access.

Concentration and integration are surely two of the main issues facing the French-language book trade in Canada. By concentrating distribution in too-restricted a number of distributors, there is a risk of endangering diversity of supply and access to French-language books throughout Canada. By giving priority to financial interests and granting increasing space to bestsellers, we are considerably impeding the emergence of new publishers that will introduce the new authors who are often among the most innovative.

Moreover, [TRANSLATION] "this concentration can also increase the pressures on bookstores, particularly independent or trade bookstores or those in remote areas.

Bookstores that can order only small quantities could be isolated and neglected by distributors with rising profitability thresholds and minimum-quantity requirements. Once again, this would curb diversity and accessibility to books throughout the territory."[48]

[48] Marc Ménard and Benoît Allaire, "La distribution de livres au Québec," in *État des lieux du livre et des bibliothèques*, Observatoire de la culture et des communications du Québec, p. 146.

12 Specific Issues Facing Small Publishers

In light of growing concentration in the book distribution sector and an ever growing number of titles published, small publishers are finding it increasingly difficult to find diffusion and distribution partners. The rapidly expanding distributors are more hesitant about agreeing to distribute small publishers or titles that do not offer a guaranteed sales threshold and pose too great a risk. They will find the task in terms of diffusion efforts and warehouse space too demanding and the financial benefits insufficient. It is logically more profitable to sell 50 copies of one title than one copy each of 50 titles.

Even a small publisher that manages to conclude a diffusion/distribution agreement will have no guarantee that it will be treated fairly or that its titles will receive all the attention they deserve. Since there is limited time to present new titles to booksellers, many representatives do not present all their new titles, obviously giving priority to better-known authors and better-selling titles.

These conditions, which are unavoidable in an increasingly concentrated distribution sector, can seriously jeopardize the diversity of supply. The choice of titles to be made available to the public, even under the best of conditions, will depend on a title's sales potential, rather than on its innovative character or contribution to literature.

Some groups of small publishers have attempted to find solutions better suited to their status and means, and more likely to increase their visibility. As previously mentioned, publishers that are members of the *Regroupement des éditeurs canadiens-français* (French-language minority publishers) felt that they were unfairly treated by their distributor, and some did not have the production needed to attract a distributor. In 1991, in partnership with the distributor Prologue, they decided to take over diffusion of their own titles by hiring their own commercial representative and turning their distribution over to Prologue. This agreement allowed publishers to ensure that all their new titles would be properly presented to bookstores; they took a more active role in determining marketing strategies for their titles. This formula also allowed the distributor to reduce its risk since it was no longer paid based on sales, but instead on book turnover. This solution was warmly welcomed by booksellers and proved very positive for RÉCF publishers.

The Coopérative de diffusion et de distribution du livre [book diffusion and distribution co-operative] (CDDL) is another example of a solution suited to small publishers. In 2006, the heads of a dozen small publishing houses (self-described micropublishers) decided to establish a diffusion and distribution co-operative when faced with the impossible task of finding a distributor willing to represent them. Today, the co-operative brings together more than thirty diffused publishers, which demonstrates a certain degree of interest in the formula and suggests that the results are such that not only do they justify continuing the service, but also allow for expansion. By combining their efforts and organizing unique promotion activities, they have managed to introduce their titles to the public and — although not without difficulty — place a certain number onto the market, mainly through independent bookstores and a bookstore chain.

Another group of small Quebec publishers, finding it impossible to reach an agreement with a diffuser/ distributor or dissatisfied with the lack of visibility provided by their diffuser/distributor, decided to separate the diffusion and distribution activities for their titles and delegate each to a different business. What distinguishes them from other Quebec publishers is that have they opted to delegate diffusion of their titles to the major French diffusers (Flammarion, Gallimard and Hachette) that found it to be to their advantage to add Canadian titles to their catalogues, as it enhanced their reputation among retailers. The publishers concerned are automatically distributed by Socadis. Thus, these small publishers (Lux Éditeur, La Pastèque, Art Global, Les Allusifs, Alto, Le Lézard Amoureux, Héliotrope, Nota Bene, and more recently Marchand de Feuilles) are some of the few domestic publishers distributed by these foreign diffusers. The strategy seems to have been very successful judging by the bestsellers that several of these young publishers have had. Surprisingly, this solution seems to apply only in Canada, since none of the publishers is distributed in France by its Canadian diffuser.

Lastly, several small publishers in France have decided to join Calibre.[49] This organization is set up to distribute small publishers, which are generally self-distributed. Its organization is based on bringing together the various physical, administrative and financial flows, which provides economies of scale and saves time for both publishers and booksellers.

Inventory remains with the publisher. Calibre receives orders from bookstores for all the publishers represented, groups them by publisher and forwards only one order to each, aggregating all the bookstores’ requirements. This way, the publisher sends only one set of titles, which will be combined with shipments from all the other publishers represented and then distributed to each bookstore. The publisher sends only one invoice to Calibre, which also forwards the bookstore only one invoice containing all the titles.

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[49] The following information is taken directly from the site of the Syndicat national des éditeurs, at www.sne.fr/pages/informations/calibre.html.

Calibre is responsible for collections and assumes the risk on outstanding accounts. It is associated with the Centre d'exportation du livre français [French book export centre] (CELF), which handles Calibre's logistics.

Calibre is a non-profit service; revenue is redistributed through reduced commissions and improved service.

13 Specific Issues of Book Distribution in French Canada

The distribution of French-language books outside Quebec poses a daunting challenge and raises some major issues. It must be recognized that there are flaws in the way French-language books are marketed in Canada, particularly in the low capacity to make books available to Francophone communities scattered across the country.

Since all French-language book distributors are located in Quebec and considering the limited number of French-language bookstores in the other provinces, it is virtually impossible for them to adequately serve these communities. Any initiative to establish a Canada-wide diffusion network would be doomed to financial failure. The few French-Canadian bookstores must usually order titles upon release, when they learn of their availability through the media. At best, they will search online themselves, often on the sites of the major bookstore chains. In view of the distances and the high cost of book shipments, booksellers will also try to limit their orders to guaranteed levels, since returns — when possible — are expensive. These constraints obviously affect the diversity of supply.

Moreover, French-language publishers in the other Canadian provinces are forced to do their own diffusion and distribution in their respective territories, since except for the mass-market channels, which virtually never handle titles from French-Canadian publishers, Quebec diffusers do not cover all of Canada. Thus, most French-language publishers outside Quebec often have no choice other than to limit their agreement with a diffuser/distributor to the Quebec market and attempt to serve the few bookstores operating in their own region as best they can. It would not make sense to allocate their local market to a Quebec distributor and have copies intended for a nearby retailer being shipped to Quebec and back.

Book diffusion and distribution in French Canada deserve special attention from governments, and a specific strategy is required to meet this essential need for better access to a diversity of French-language titles in communities where access to culture is essential to development.

14 Conclusion: Distribution and Access to Titles by Canadian Authors

The principal objective of the Department of Canadian Heritage's Book Publishing Industry Development Program (BPIDP) is to ensure the availability of and access to Canadian-authored books that reflect Canada's cultural diversity and linguistic duality in Canada and abroad. Through this study, the Canadian government has attempted to better understand the conditions under which French-language books by Canadian authors are distributed and grasp the main issues affecting the diffusion and distribution of books in Quebec and French Canada.

What can we conclude about access for all publishers and titles by Canadian authors to a nation-wide distribution service? How can we describe access for all titles by Canadian authors to the retail trade network? And what about access by all Francophone communities across Canada to books as a cultural product?

We must first recognize that the great majority of Canadian publishers have access to nation-wide distributors, and that the smallest publishers do not necessarily seem to be forced to work with the smaller distributors. According to BTLF data, 93.5% of Canada's French-language publishers are distributed across Canada, which is significant. Similarly, 89.3% of the Canadian titles in Memento are distributed across Canada, which reveals the great capacity of the book distribution system in French Canada to make a great majority of French-language titles by Canadian authors available. In addition, Quebec and French-Canadian books are, on average, released in proportions six times greater than foreign books. Lastly, when we learn of the lists of publishers registered with each of the distributors, we note that the smallest publishers are distributed among all distributors, rather than all being included in the same distribution group.

However, is it enough to conclude an agreement with a distributor to guarantee that one's titles will have fair access to the retail trade market? Our research and interviews have demonstrated that it is very difficult to be a small fish in a big pond. Diffusers, increasingly focused on profitability and often on the search for a bestseller, obviously pay more attention to the better-known publishers and best-selling books. This is why groups of small publishers, like the members of the *Regroupement des éditeurs canadiens-français* or the *Coopérative de diffusion et de distribution de livres*, have attempted to develop their own diffusion structures better adapted to their own realities in order to control the strategies and efforts employed to market their titles. A growing number of publishers are seeking and developing options for diffusing their titles that fall outside established frameworks and depend less on major diffusion and distribution companies, even if this means assuming a greater part of the risk associated with marketing their titles. Better control by publishers over the diffusion of their own titles partly explains the reduced role of Canadian French-language distributors in both final sales and resales of books in Canada.

In Quebec, the *Act respecting the development of Quebec firms in the book industry* (Bill 51) and use of the *système d'office* as a tool for marketing new titles have greatly encouraged variety in the supply of titles by Quebec authors and access to books — especially Quebec books — by communities scattered across the country. By facilitating the work of distributors and booksellers, the *système d'office* has indeed allowed a great variety of new titles to automatically reach retail outlets and be among the reading material offered to the public. Titles by little-known authors have succeeded in breaking into a market that did not anticipate their success. Similarly, despite the burden that it imposes on the industry, the ability to return unsold books allows bookstores to take risks with works by lesser-known authors and thus improve access to a greater diversity of titles, especially titles by Canadian authors. Returns on the *système d'office* and restocking, based on the number of copies, are different for Quebec titles (27.04%) and foreign titles (32.51%), demonstrating that diffusers and distributors accurately plan the positioning of Quebec and French-Canadian titles in the bookstore channel.

Moreover, the purchase mechanisms promoted by Bill 51 have given local booksellers guaranteed access to their own markets, at least to the public institution market, thus ensuring that regional bookstores have the minimum sales essential for survival. The mechanisms of the French-language book market, at least in Quebec, provide benchmarks that ensure equitable market access for titles published and a diversity of titles for communities.

Today, however, this fragile balance is threatened. Mainly because of the constant increase in the number of new titles, the *système d'office* seems increasingly unmanageable and is gradually being replaced by prenotification. Each week, an average of 564 new titles are sent to bookstores and big-box store networks in Quebec and French Canada. At this rate, it is becoming impossible for the bookseller to honour all agreements under the *système d'office* and offer its customers all titles. This is why there are now some questions regarding the terms and conditions for marketing through the *système d'office,* which we would like to revise so that they more effectively address the new realities of the book trade. Unfortunately, titles with small print runs and titles from lesser-known publishers and authors may be the ones to lose out from any possible revision of the *système d'office*. It is unlikely that a revision of the *système d'office* would provide more space for lesser-known titles; as tends to happen more and more for obvious reasons, solutions will be sought that will limit the number of titles placed with the *système d'office*, thus favouring the bestsellers, in order to improve the profitability of an already-fragile book marketing network. There is cause for concern about the impact of a possible revision of the *système d'office* on access to a diversity of products.

In the other provinces, access to French-language books is still inadequate; the system has limited ability to make books available to Francophone communities scattered across the country. This issue deserves particular attention from governments, and a specific strategy should be developed to ensure that this essential need for access to a diversity of French-language titles is better met for linguistic minority communities.

The book trade is also experiencing significant changes surrounding access to increasingly sophisticated technological tools designed to facilitate book marketing. The introduction of exchange standards between distributors and retailers is already making it possible for each one to gain substantial savings and more reliably and efficiently submit orders, invoices, delivery slips and various other documents related to returns and claims. The improved management systems used by distributors and booksellers have already helped manage inventory more carefully and more quickly return titles whose performance in the bookstore seems disappointing, limiting the time lesser-sold titles are kept on display. The Sales Information System (SIS), whose introduction has been announced for February 2009, will make it possible to follow the day-to-day fluctuations of each title on the market. It is expected to greatly improve the efficiency and effectiveness of book marketing in Quebec and French Canada. However, use of the SIS may also emphasize a title's performance in the bookstore and thus limit the presence of slower-moving titles. This of course decreases the probability that a title by a lesser-known author will find an unexpected market; with these sophisticated tools, sales will become increasingly predictable, based solely on sales performance.

Lastly, concentration and integration in the book trade influence the conditions of book distribution as part of a drive toward profitability at all cost. A strongly placed title is, and always will be, more profitable and easier to distribute than a group of books with reduced and more uncertain sales. With increasingly concentrated diffusion/ distribution, or a growing movement towards integration of businesses in the book trade, this profitability constraint, which focuses all efforts on titles with strong placement, is very likely to continue, to the detriment of diversity of supply and access to French-language books across the country. By single-mindedly focusing on financial interests, reserving increasing space to bestsellers, the emergence of new publishers that contribute to the book trade by introducing the newest and often most innovative authors is being considerably limited. Perhaps the ever-growing distributors will become more hesitant to agree to distribute small publishers or titles that do not achieve a guaranteed sales threshold and pose a risk considered excessive.

The French-language book trade in Canada is changing at an accelerating rate, and distributors are not immune to disruptions caused by the development of new technology and the need for profitability dictated by commercial legislation and increasing competition. The more innovations improve the quality of work by diffusers and distributors, the greater their incentive to change the role for the smallest publishers and lesser-known authors and the risk of reducing the diversity of supply for Canadians. Fortunately, there are new tools that help market these more marginal titles, and models are appearing that change the way the relationship between the publisher, the diffuser/distributor and the retailer has traditionally been defined. It is to be hoped that the disruptions the book trade is currently undergoing will not become an obstacle to the diversity of supply and access to books across Canada, but will instead reduce the barriers to improving the distribution of books in Quebec and French Canada.

Glossary

Accreditation: Official recognition granted by the government attesting that a business meets a number of conditions in terms of services offered and quality of services, and granting it the right to enjoy advantages derived from its status as an accredited business.

Bookstore chain: Bookstore that has four or more locations under the same ownership.

Consignment sale: Agreement between a diffuser and a customer that applies to all books in a publisher's stock, a publisher's collection or a series, for an extended or indefinite period, and under which only books not returned to the distributor must be paid for by the customer when unsold copies are returned or when the agreement expires.

Consignment: Agreement between a diffuser and a customer that applies to a restricted set of books, for a limited duration, under which only books not returned to the distributor must be paid for by the customer when unsold copies are returned or when the agreement expires.

Diffusion of books: All activities related to the promotion and marketing of books.

Discount: Percentage reduction that a supplier grants to a customer, calculated on the suggested selling price of a good or service in order to determine the net selling price.

Distribution of books: All the logistical activities carried out to forward books to their point of sale.

Mass-market channel: Commercial network that covers all customers for which the sale of books is incidental and on which services and conditions of sale are offered that are different from those offered to customers in the bookstore channel.

Prenotification: One-time modification of a *système d'office* order in which the quantities delivered are different from those set out in the boxes of a *système d'office* order form. A prenotification changes the quantities delivered, but does not alter the quantities set out in the boxes of the *système d'office* order form.

Restocking: Action to replenish inventories by ordering certain products that are no longer stocked in sufficient quantities.

Return right: A customer's right to return unsold books or certain books unfit for sale to a distributor.

***Système d'office* order form:** Form used by a representative and a customer to determine, by common agreement, the type and quantity of books to be sent by the *système d'office* in order to meet the customer's needs.

***Système d'office*:** Method of marketing new titles that are sent out periodically, based on the categories and quantities predetermined on the basis of a *système d'office* order form. The *système d'office* allows customers to receive books without having to order each one.

Tabulated statement (*tabelle*): Multiplier coefficient applied to the sales price of a book in its currency of origin, making it possible to set the maximum selling price of this book in Canadian currency.

Wholesaler: Person who sells wholesale and acts as intermediary between the producer and the retailer. Non-exclusive diffuser.