

## OVERVIEW OF THE BOOK SUPPLY CHAIN IN ENGLISH CANADA



Prepared for ADEL  
Association des Distributeurs Exclusifs  
de Livres en Langue Française

March 29, 2018

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## 1.0 INTRODUCTION

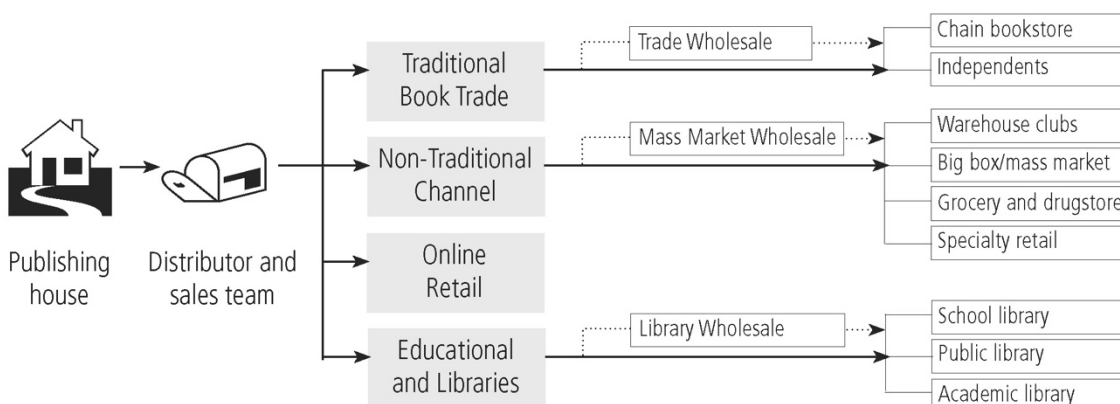
Effective management of the supply chain – the process of getting books to where they need to be, when they need to be there, and as efficiently as possible – is a critical function in publishing. The term “distribution” is generally used to refer to a wide range of supply-side activities, including functions such as sales and marketing, warehousing and inventory management, order processing and administration, logistics and fulfillment, collections, data management, and customer service.

We should also note at the outset that book distribution in English Canada is heavily influenced by an important structural aspect of the domestic marketplace: Canada is a relatively small market, with a modest population spread over a large geographic area. Economies of scale are particularly difficult to achieve in such a market, and this has contributed to a supply chain where inventories for Canada’s English-speaking market are largely aggregated and stored in and around the Greater Toronto Area – both with respect to titles originated in Canada and the large volume of books imported to Canada – with supply routes running east and west to the relatively lower population regions in the rest of the country.

## 2.0 SUPPLY CHAIN PARTICIPANTS

In Canada’s English-speaking market, the major participants in the supply chain are:

1. **publishers**, who acquire rights to titles and prepare them for sale;
2. **distributors**, who provide fulfillment and warehousing services to the publisher for a fee, have exclusive territorial rights to the publishing lines that they represent, and sell to all types of customers, including wholesale accounts;
3. **sales representatives**, who provide sales representation for a range of publisher-clients and are paid on a commission basis;
4. **wholesalers**, who buy selected titles from many publishers and distributors on a non-exclusive basis and then re-sell to retail and institutional accounts; and
5. **customer accounts**, including retailers and institutions.



*An illustration of the major domestic sales channels that are commonly served by distributors, wholesalers, and sales agencies.*

## 2.1 DISTRIBUTORS

Distributors generally offer a fairly comprehensive and complete service to publisher-clients, and, as noted above, they do so on the basis of an exclusive distribution right for a given territory or territories. These include a foundation of basic fulfillment services, such as:

- Warehousing
- Receiving and processing orders
- Order fulfillment: picking, packing, and shipping
- Data management of inventory and orders for client-publishers and customer accounts<sup>1</sup>
- Returns receipt and processing
- Invoicing and collection of accounts receivable

Most distributors will offer optional marketing services as well. These may be provided on a fee-for-service basis or as an option to be bundled with basic fulfillment<sup>2</sup>:

- Publicity
- Sales catalogue
- Trade advertising
- Representation at trade shows and sales conferences
- Administration of co-op budgets

Beyond these core functions, distributors also provide additional service options. These are generally charged on a fee-for-service basis over and above basic distribution fees, and may include:

- Warehousing of publisher overstock
- Packaging and shipping of promotional displays
- Shipment of advance reading or review copies
- Stickers or other special stock handling
- Special promotions or title-specific marketing programs

There is some room here for confusion between “distribution” as an important business function and a “distributor” as a key type of participant in the supply chain. And it is helpful to understand that individual publishers approach this important function in different ways. For example, some will contract for some or all of their domestic distribution with a full-service distributor. The field of such firms is relatively limited in Canada’s English-language market today, and currently includes Raincoast Books, Georgetown Terminal Warehouses, Fraser Direct, Publishers Group Canada<sup>3</sup>, LitDistCo, and UTP Distribution.

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<sup>1</sup> Note that in many cases this includes the aggregation of bibliographic data from publishers and its onward transmission to key trading partners or other data aggregators within the supply chain.

<sup>2</sup> There is a distinction to be made here between Canadian and foreign publishers, in that the former tend to keep such marketing services in-house (that is, they do this work themselves) whereas foreign publishers will be more open to bundling these services with their Canadian distribution arrangements.

<sup>3</sup> Now a wholly owned subsidiary of Raincoast Books.

Other firms, such as BC's Harbour Publishing, self-distribute from their own warehouse facilities. And still others operate their own commercial distribution operations and contract with both Canadian and foreign publishers to provide them with distribution services in Canada. Examples of this last category include Random House of Canada, Nimbus Publishing, and Firefly Books.

## 2.2 SALES REPRESENTATIVES

Publishers' sales representatives make regular sales calls on buyers with retail accounts across the country. They sell the publisher's books into these accounts – with orders going to the distributor for processing and fulfillment – and play a critical role in field support for their retail accounts.

As with distribution, publishers organize their national sales representation in a variety of ways. Some distributors have in-house teams of sales representatives working in territories throughout the country, and so client-publishers of those firms will often have sales representation bundled with their fulfillment services.

Other publishers will rely on independent sales agencies, some of which are formally or informally affiliated with distributors, for national sales coverage. There are a number of well-established sales teams throughout the country, including Ampersand, Canadian Manda Group, Hornblower Books, and many other regional and subject specialists as well.

Publishers may also choose to establish a mix of in-house and commissioned sales representation, where the publisher retains some regions of the country, or certain key accounts<sup>4</sup>, for its in-house staff. This can be effective in cases, for example, where the publisher has a concentration of sales in one part of the country, so that these accounts can be effectively served by a "house rep", and where is a sufficient sales volume to support one or more such permanent staff.

## 2.3 WHOLESALERS

In contrast to distributors, most wholesalers do not actively sell to accounts via sales representatives. Rather, they receive orders to re-supply retailers, provide efficient mechanisms to consolidate orders for libraries and institutions, and in some cases, manage buying and fulfillment for non-traditional retail accounts.

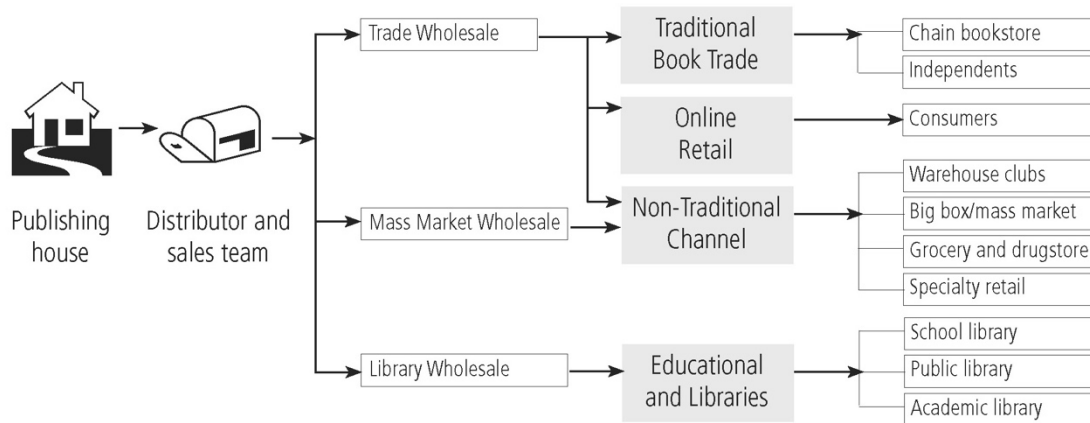
Much of the value proposition of the wholesaler arises from how quickly they can re-supply trade accounts with in-demand titles, or, in the case of library or mass market wholesalers, the additional specialized services they can provide to specific types of customers.

Wholesalers do not compete with full-service distributors. Rather, they are one of the customer groups served by distributors and they have a distinct role to play within the supply chain. With rare exception – for example, a fast-selling self-published title that may have its Canadian distribution via a single wholesaler – wholesalers do not have exclusive rights to the books they carry. Rather, those territorial distribution rights rest with the Canadian distributors from which Canadian wholesalers source their inventories.

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<sup>4</sup> The heavy concentration of book retail sales with a relatively small number of large retail accounts – such as Indigo, Amazon, and Costco – has further encouraged some publishers to handle key accounts in-house, while contracting for broader sales representation with an outside agency.

Broadly speaking, the wholesale component of the supply chain can be categorized into three segments – trade wholesale, mass market wholesale, and library wholesale – as illustrated in the figure below.



*Wholesale channels in the supply chain.*

To be more specific about the different types of wholesalers we have identified here, there are two major trade wholesalers operating currently in Canada’s English-language market: North 49 Books, which primarily services retail accounts in Ontario and Quebec, and BookExpress<sup>5</sup>, which mainly serves clients in Western Canada.

Speed of service is key for these firms. “We do one thing,” said one wholesaler we interviewed for this study. “But we do it really well.” Stock management is another key factor as wholesalers typically inventory a relatively small number of fast-selling titles (normal stock range for a trade wholesaler is +/- 2,000 ISBNs).

In comparison, mass market wholesalers have a broader service offering for their retail accounts but are specialized in the very demanding vendor relations context of the large retailers they serve. In fact, many of Canada’s mass market and non-traditional chain accounts, including Wal-Mart, are serviced by a mass market wholesaler.

English Canada’s two major wholesalers of books and periodicals – Canadian Mass Media Inc. (CMMI) and TNG (formerly The News Group) – provide buying, inventory management, category management, and merchandising services for major non-specialist retailers in the mass market, grocery, drug, and convenience sectors. Both firms are major players in the supply chain for books. CMMI buys all of the books most Wal-Mart locations throughout Canada, and TNG supplies thousands of retail outlets nationwide, including major grocery and drug chains such as Loblaws, Shoppers Drug Mart, and Overweitea/Save-On.

Library wholesalers, as with those serving the mass market channels noted above, combine high levels of service, including active curation and selection of recommended titles, with specialized expertise in

<sup>5</sup> Also a subsidiary of Raincoast Books.

institutional channels. Wholesalers in this category include Library Bound, Library Services Canada, Skylight Books, United Library Services, and Tinlids.

These firms receive title information and review copies from publishers and select the books that they will present to their public and school library clients. Selected titles are presented to libraries through a series of thematic seasonal catalogues, showrooms, and in the case of school libraries, in listings that correspond to curriculum requirements.

These wholesalers provide an efficient ordering mechanism for libraries, allowing for consolidated orders, invoices, and shipments of books from many different publishers. Further, library wholesalers offer a range of services customized to the needs of individual libraries and library systems, including processing (even laminating) and cataloguing of new books.

To these three main categories of book wholesalers, we could add a fourth and final category: the specialist wholesaler that has a particular subject, regional, or niche focus. There are a number of such firms operating in Canada today – including Fairmount Books (publishers' overstock), B. Broughton (religious titles), and Crown (government publications).

### 3.0 INTEGRATION IN THE NORTH AMERICAN SUPPLY CHAIN

#### 3.1 MARKET CONTEXT

It is important to highlight as well that Canada’s English-language book market is dominated by imported titles and by books from the US in particular. Reflecting the historical (and current) dominant market share of imported titles, a number of Canadian distributors and publishers act as exclusive in-Canada distribution agents for foreign publishers.

Given the increasing integration of the American and Canadian supply chains, along with far-reaching technological change in book markets globally, Canadian retailers and book-buying institutions have ready access to foreign suppliers of imported books. However, parallel importation – or “buying around” a Canadian rights holder to order from a foreign supplier – undermines the investment that the Canadian distributor has made in building distributive capacity and in allocating a portion of that capacity to distributing, marketing, and selling a publishing line or title in Canada. To the extent that such parallel importation is widespread, the viability of the Canadian supply chain could be eroded as could its ability to provide a rich selection of domestic and imported books to Canadian consumers.

In a further variation on this issue, Canadian retail and institutional accounts may also find it advantageous to source orders of Canadian books from US suppliers, particularly in cases where north-south supply routes offer more timely or cost-effective buying options.

In recognition of the public interest in a sustainable domestic supply chain, Canada’s current *Book Importation Regulations* came into force in September 1999. Their principal objective was (and is) to extend protections to exclusive distributors against parallel importation—that is, against Canadian accounts’ “buying around” by importing copies of a title from a foreign supplier rather than ordering them from the Canadian rights holder.

In practical terms, the purpose of the Regulations is to establish a requirement for Canadian bookstores, wholesalers, and institutions to source imported books and Canadian editions from exclusive suppliers in Canada. This requirement is not, however, absolute and there are a number of exceptions anticipated in the *Copyright Act*. For example, individual consumers are permitted to import copies for personal use, while retail or institutional accounts may also order from foreign suppliers in cases where an exclusive distributor in Canada has not met regulatory requirements with regard to pricing, delivery times, and notification.

More specifically, the exclusive distributor’s rights are only protected if (a) the Canadian list prices for its imported books do not exceed the guidelines set out in the Regulations (i.e., the original list price plus the current exchange rate plus a specified percentage which varies by country of origin), (b) the distributor is able to ship orders for imported books within specified time limits, and (c) the distributor provides formal notification of its exclusive rights to supply its imported lines in Canada. In combination, these requirements are explicitly meant to protect retail accounts, institutions, and consumers against the possibility that the increased exclusivity afforded under the Regulations could lead to higher prices or lower service standards within the Canadian market.



## 3.2 NORTH-SOUTH SUPPLY ROUTES

### 3.21 Moving Distribution Operations to the US

Two of Canada's largest publishers and distributors now rely heavily on the warehouses of their international parent companies for Canadian fulfillment. A third has recently closed its Canadian distribution as well and now serves Canadian accounts via a third-party, US-based distributor.

Penguin Random House Canada ships stock directly to Canadian accounts from Random's US distribution centre in Westminster, Maryland. The then-Random House Canada first moved its customer service desk to the Maryland centre in 2003, but continues to operate a smaller warehouse in Mississauga to re-supply key titles and process Canadian returns.

Similarly, Simon & Schuster Canada closed its Canadian warehouse operations in 2004, moving to a system of consolidated shipments from S&S's distribution centres in Pennsylvania and New Jersey. These shipments are freight forwarded via Georgetown Terminal Warehouse for onward shipment to Canadian customers.

More recently, HarperCollins Canada, which was previously an important domestic distributor for a number of Canadian publishing lines in its own right, closed its Canadian distribution operation in 2015. At that point, the company opted instead to fill all Canadian orders through a new distribution contract with RR Donnelly (via a Donnelly warehouse in Indiana).

For these three Canadian subsidiaries of major multinational publishers, this strategy offers the following benefits:

1. It avoids duplication in systems costs between the Canadian subsidiary and the international parent.
2. It allows the Canadian subsidiary to take advantage of the considerable economies of scale realized through these large distribution centres in the US.
3. It provides access to a much larger selection of in-stock titles. Most distributors will establish minimum sales levels to justify keeping a title in the warehouse for immediate shipment. In the smaller Canadian market, this necessarily means a more limited title selection.
4. It respects copyright provisions both for titles originated by the Canadian subsidiary and for its distributed lines as well (as the importer of the books in such cases is the company that holds the Canadian rights).

These integrated supply chains find their primary rationale in the greater economies of scale afforded by consolidated supply operations in the US. At the same time, they are greatly enabled by supply chain technologies that streamline ordering, order processing, tracking, and all other transactional processes for the distributor and retailer alike.

### 3.22 The Role of US Wholesale

Ingram is the leading trade wholesaler in the US and is widely regarded as one of the best distribution specialists in the book trade. Founded in 1964, Ingram currently operates four distribution centres in the US in Oregon, Pennsylvania, Tennessee, and Indiana.

The company has grown its sales in a number of ways in recent years. Along with its shipments to retail accounts in the US, Ingram's direct-to-consumer shipments (in fulfillment of both online and offline consumer orders passed from Ingram's retail partners, notably Amazon), and international shipments (to Canada, Australia, and Europe) have expanded significantly.

As one of America's largest privately held companies, Ingram does not report its sales publicly. However, anecdotal reports clearly indicate that the company's Canadian sales have grown significantly in recent years. As one of our distributor respondents put it, "We're seeing erosion [of sales] to American competition that scale-wise no one can touch."

There are two main factors that encourage Canadian accounts to order from Ingram<sup>6</sup>:

1. Ingram is an extremely efficient distributor. Through its national network of warehouses in the US, it is able to make north-south shipments much more quickly than most domestic distributors can ship along Canada's east-west supply routes. This is a compelling factor given both the consumer and retailer demand for prompt delivery.
2. Depending on US-Canadian dollar exchange rates, there may be a price advantage for a Canadian account to order from a US supplier, and one that is within the limits prescribed by the *Book Importation Regulations*. Aided by electronic ordering and inventory tools (that allow buyers to quickly check price and availability between different suppliers), Canadian retailers can now easily source these books outside of Canada at a lower cost than they can buy them from Canadian rights-holders.

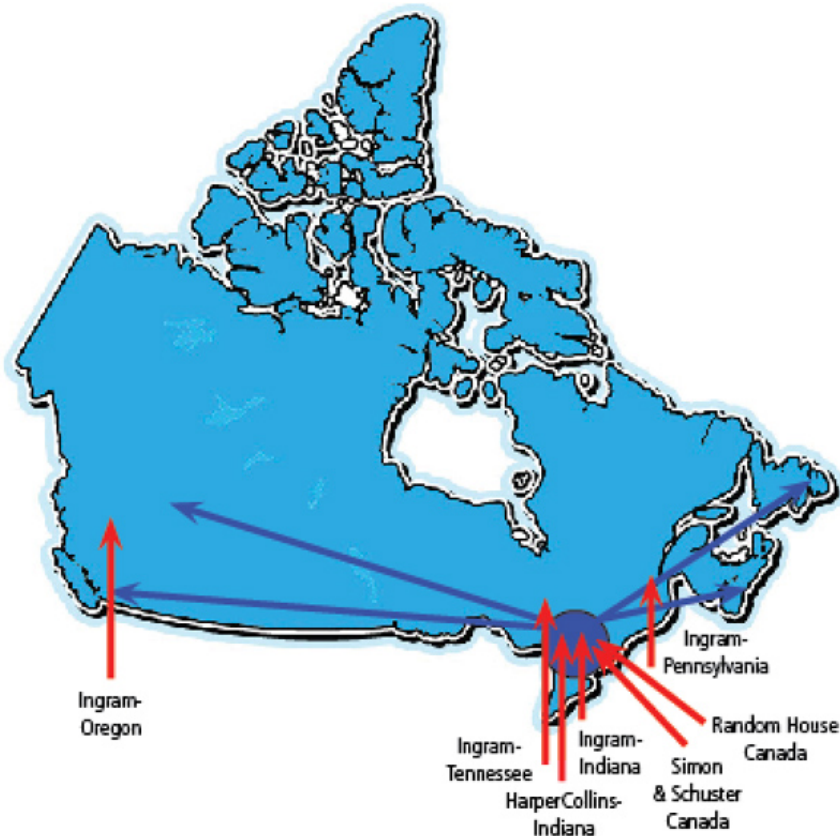
Whatever the reason, the structural effects of increased US sourcing are significant. First and obviously, increased foreign buying undermines the territorial rights of Canadian rights holders (by placing lower-priced US editions in the market at the same time as a Canadian publisher or distributor is trying sell a Canadian edition with a Canadian list price). This issue is relevant to Canadian subsidiaries of multinational publishing firms, Canadian distributors, and Canadian publishing houses that also act as distributors for foreign publishers (and so rely on distribution revenues to varying degrees to support domestic publishing programs).

More broadly, increased parallel importation could also contribute to relatively lower-priced imported books (relative to Canadian titles, that is) claiming a larger overall share of the Canadian market.

The figure on the following page provides an illustration of this continuing pattern of north-south integration in the book supply chain.

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<sup>6</sup> We should note as well that there is a parallel case in terms of Canadian library accounts, many of which are served in part by Baker & Taylor, which is a very large scale library wholesaler in the US.



*Patterns of north-south integration in the book supply chain.*

### 3.3 THE AUTOMATION OF THE SUPPLY CHAIN

Technology, and what can be broadly understood as the increasing “systematization” of the supply chain, is another factor that bears on buying behaviour within the Canadian book trade. There are two broad impacts of this that we can observe at this point.

1. Wholesale, retail, and institutional accounts can use sophisticated buying systems to quickly and efficiently measure relative pricing across Canadian and US suppliers, and to then place orders based on the best available pricing and services, particularly in cases where Canadian-US price gaps exceed the limits prescribed by Canadian regulations.
2. Very large retail accounts, such as Amazon, are increasingly automating their product sourcing in ways that can disadvantage in-Canada suppliers, particularly in cases where those suppliers are unable to match shipping times or pricing in place from US suppliers. One practical effect of this is that Amazon.ca may find it more efficient (and within regulatory provisions) to fill Canadian consumer orders out of one of its US-based distribution centres as opposed to sourcing an item from a Canadian supplier.

### 3.4 EFFECTS ON ORDERING AND DISTRIBUTION IN CANADA

These broad patterns of north-south integration and technological change have a number of observable effects on ordering by retail and institutional accounts in Canada.

The challenging issues of scale and efficiency that we explored earlier still mean that for most Canadian accounts, ordering from Canadian sources remains the preferred and most effective supply option.

However, it is also clear that Canadian accounts do not always observe the exclusive territorial rights of Canadian distributors, and there is some indication that sourcing from US suppliers has been on the increase over the past decade. It is equally clear, however, that at least some proportion of this US sourcing is entirely supported and justifiable in relation to the limits on the distribution right set out in the *Book Importation Regulations*. This pattern of cross-border sourcing has been further supported by improved ordering and inventory systems in use throughout Canada that allow for active and efficient price and service comparisons between Canadian and US suppliers on an ISBN-by-ISBN basis.

We might note as well that the increasing integration of the US and Canada has begun to have one other observable effect – and one that is also fueled by the increasing automation in ordering exhibited by very large retail accounts in the book trade. While Canadian distributors have long relied on agented lines, especially those of US publishers, as an important revenue stream within their Canadian operations, there is an increasing competitive pressure from large multinational firms, such as Penguin Random House, that are actively distributing in the Canadian market via US distribution centres. Those large players are now competing for some agented lines in Canada, in part on the basis of their stronger market influence and competitive position in relation to dominant retail accounts.

### 4.0 CONCLUDING NOTE

There remains a strong business case for in-Canada distribution and in some important respects the supply chain is more stable and competitive today than it was a decade ago.

As this overview suggests, however, the book supply chain in Canada has changed considerably over the past decade and more, and particularly so as a result of technological change and in relation to some important structural shifts in the marketplace. Chief among those are the increasing concentration of retail sales within a small number of key accounts, and the increasing integration of the US and Canadian supply chains.

Looking back over these important development, we can also acknowledge that these are the same factors that will continue to act on the structure and shape of the book supply chain over the next ten years, and that will continue to test the regulatory context, trading practices, and competitiveness of the Canadian book industry going forward.