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Assessment of the Support for Distribution program, Canada Book Fund

**Prepared by the More Canada steering committee
in consultation with Canadian publisher-distributor program participants (English
language)**

The 2020-21 Support for Distribution initiative had a first objective of ensuring resilience in the book supply chain during the Covid-19 disruption by improving Canadian-owned book distributors cash flow, enabling distributors to pay publishers for book sales, even though retailers were short of cash and slow in paying their bills due to lockdowns. The program put \$4 million into the English-Canadian publisher-distributor supply chain, and resulted in publishers receiving \$3.6 million in payment for sales sooner than would have otherwise been the case. This cash flow assisted these companies in maintaining their publishing capacity, and in carrying on their editorial, production, distribution and marketing operations.

The second objective of the program was to support retail booksellers. This was to be achieved by publisher-distributors passing on most of the benefit of the \$4 million to retailers. The form of the benefit to be offered was left to publisher-distributors to determine. It was expected that these funds would contribute to a key goal of Canadian book policy, which is to encourage Canadians' discovery and reading of Canadian-authored books.

This brief report summarizes data on the results of the program, its impact on publisher cash flows, retail bookstore viability, and the presence of Canadian-authored books in the English-language book supply chain.

The high-level summary of the data is:

- Publisher-distributors in English Canada received \$4 million in funding and forwarded the funds to publishers promptly, improving the publishers' cash flow
- Publisher-distributors quickly put in place a range of incentives and benefits for book retailers to pass on \$3.6 million to them
- Book retailers learned about the incentives promptly (96%), liked what they saw, and took advantage of them (92%), particularly from publisher-distributors they normally purchased from
- Most publisher-distributors (66%) experienced increased sales, which consist mostly of Canadian-authored books, to their independent book retail customers as a result of incentives funded by the program

- Indigo Books and Music, Inc. in particular took advantage of UTP's rebate program, and paid millions of dollars earlier than it would have traditionally. These payments further secured the cash flow of UTP-Distribution, and ensured cash continued to flow in a timely way, throughout the second wave of government mandated closures of retailers to more than 80 Canadian publishers, further supporting the key objective of the program.
- The program led to a wider range of Canadian authored books in retailers (50% of publisher-distributors reported this) and more frequent and/or larger orders for Canadian-authored titles for some (33%) suppliers
- Some smaller publisher-distributors succeeded in opening up new book retail accounts (66% cited this impact), thanks to the incentives they could offer funded by the program
- In the program period October-December 2020 average indie bookstore inventory of books from indie publisher-distributors was **up 10.3%**, more than double the increase of all titles of 4.3% -- indicating impact of Support for Distribution program
- A pilot program for greater Canadian-authored book display and sales in Indigo Books and Music, Inc.'s retail chain stores in Atlantic Canada was possible because publisher-distributors were able to use program funding
- The results of that pilot showed that local/regional Canadian books significantly outperformed reasonable equivalent non-Canadian titles usually promoted by the chain
- The success of the Atlantic Canada pilot has led Indigo Books and Music, Inc. to roll out a similar program to all stores across Canada, with the prospect of a significant increase in display, discovery and sales of Canadian-authored books in the chain – which could make a major contribution to closing the gap between current market share of these books in retail overall (**10.6% in 2020**) vs market share in independent bookstores (**18% in 2020**)

In conclusion, all book supply chain participants – distributors, publishers, bookstores -- strongly support continuation of the program as the most effective measure ever put in place to secure cash flow in the supply chain and stimulate the sales of Canadian-authored books in retail stores

Detailed results of the assessment of the program, and data regarding its impact on the book supply chain cash flow and the discovery and sales of Canadian books are set out in Appendix A to this report, attached.

APPENDIX A

Assessment of the Support for Distribution Program, Canada Book Fund

Prepared by the More Canada steering committee

in consultation with Canadian publisher-distributor program participants (English language)

Canada Book Distributors, Firefly Books, Formac Lorimer Books/Irwin Law, Goose Lane Editions, Heritage Group Distribution, Harbour Publishing, LPG Distribution, Nimbus Publishing, Orca Book Publishers, Raincoast Book Distribution, University of Toronto Press

Background and sources

This assessment draws together data from three sources: a report on book trade sales in 2020 prepared by Noah Genner, BookNet Canada (BookNet); a survey in January 2021 of independent bookstores on their experience with the Support for Distribution program by CIBA, the Canadian Independent Bookstores Association (CIBA); a survey in February-March 2021 of the publisher-distributor program recipients by the More Canada steering committee (cited as More), and the Q3 2020-21 quarterly report from Indigo Books and Music, Inc. (Indigo). Copies of the surveys are available on request. Select data is also included from a confidential report on the impact of the Indigo pilot of regional/local title initiative in Atlantic Canada in the pre-holiday season 2020.

Impact of Covid on retail book sales, English Canada

- 2020 vs 2019: unit sales down 2.7% (BookNet slide 8)
- online book sales share of total sales dramatically up in 2020 Q1 Q2 and Q3 (BookNet slide 10)
- Unit sales drastically down during March-June Covid first wave, but significantly higher than 2019 in mid-November onwards, catching up most of earlier lost sales (BookNet slide 11)
- Indie bookstores outperformed chain and other book retail; unit sales decline held to 1.2% (in contrast to overall market down 2.7%) (BookNet slide 12)
- Indies experienced worst hit in Q2 (down 22%) but bigger pickup in Q4 (12.5% over 2019) than overall market (up just 2.5%) in quarter
- “Shop Local”, customer loyalty and customer service worked well for indies
- Indigo Books and Music, Inc.’s saving grace was strong online sales, making up for most of the volume lost due to store closing and reduced store traffic
- Indigo Books and Music, Inc. sales for Q3 in 2020 were down 4.8%, but earnings were \$30.7 million for the quarter (\$25.8 million for Q3 in 2019)
- Indigo Books and Music, Inc. sales of books and other print materials were 52.6% of sales in Q3 in 2020, up noticeably from 50.6% in the same period in 2019, and also at 57% for the nine-month period up from 55.6% in 2019 (Indigo p.7)

Overall retail and indie stores' book sales of Canadian publisher-distributors' titles, 2020

- Overall sales were down in all four quarters, as much as 37% down in Q2, as little as 4.8% in Q3 and 6.5% in Q4 (BookNet slide 13)
- Sales by indie bookstores of Canadian publisher-distributor titles also down in three quarterly periods – but **up in Q4 by 5.7%**, when sales of Canadian publisher-distributors in retail overall were **down 6.5%** (BookNet slide 13)
- The Q4 performance of publisher-distributor titles indicates impact of Support for Distribution in stocking and sell-through of Canadian publisher-distributor titles in indie bookstores (BookNet slide 14)
- Canadian publisher-distributor book sales to indie bookstores were up 5.7% when overall market sales of those books were down 6.5%, **indie bookstores gave indie publisher distributors a performance boost of 12.2%** (BookNet slide 14)
- BUT Canadian titles from Canadian publisher-distributors did not get as big a lift in indie bookstore sales in Q4 as other titles (all titles up 12.6%, Canadian publisher-distributors up only 5.6%) (BookNet slides 13 and 14)
- **Canadian publisher-distributors lost ground to multinationals** in book trade overall **in Q4**, with decline of 6.5% from 2019 in contrast to a gain of 2.5% in sales by all distributors (BookNet slides 13 and 14)

Retail channel performance comparison for Canadian authored books from Canadian publisher-distributors

- Canadian publisher-distributors' average market share of retail book sales varies by quarter from **3.0% to 4.3%** during 2018-2020 (BookNet slide 15)
- Vast majority of these sales are Canadian-authored books
- Canadian publisher-distributors average market share of independent bookstores sales also varies by quarter from **8.2% to 10.2%** -- more than double the share of their retail sales overall (BookNet slide 15)
- **Indie bookstores dramatically outperform** other retail in generating awareness and sales of Canadian-authored books from independent Canadian publisher-distributors
- Indie stores **outperform** other retail by **two to three times** for Canadian authors from independent Canadian publisher-distributors (BookNet slide 15)

Impact of Support for Distribution program

- Impact of Support for Distribution clearly visible in the store inventory of indie bookstores compared to other retail
- Average store inventory, books from all distributors, was 1.70 million books in Q4 2019 but 1.80 million in Q4 2020, up 4.3% (BookNet slide 16)
- **Average store inventory, books from independent Canadian publisher distributors**, was 154,000 in Q4 2019 but 170,000 in Q4 2020, and at **up 10.3%** this increase was more than double the rate of increase of all titles (**4.3%**) (BookNet slide 16)
- Canadian publisher distributor books increased from 9.0% of average stock in indie bookstores in Q4 2019 to 9.5% in Q4 2020, a **significant gain in shelf and display presence** (BookNet slide 16)
- Increased store inventory means more book discovery through browsing and display, and higher sales of indie-published Canadian-authored titles

Canadian authors' share of retail book sales, 2020

- All Canadian-authored books sales in 2020 were 5.6 million copies, **10.6%** of total retail book sales (BookNet slide 17)
- **All Canadian-authored** book sales in 2020 in **indie bookstores were 18%** of total book sales
- **Canadian-authored books from indie publisher-distributor** book sales in 2020 in indie bookstores were **9%** of total sales, compared to **4%** in total retail book sales

Indie bookstores evaluation of Support for Distribution – Survey results from CIBA summary

- Survey got responses from **53 indie bookstores** across Canada
- **Very high awareness of program (96%)**, with awareness generated by a variety of different industry sources (CIBA slide 1)
- High awareness that program continued after holiday 2020 season (74%) (CIBA slide 3)
- Of respondents to the question (38), participation rates varied from 92% (UTP) to Irwin Law (0%) with a **median rate of about 30%** (CIBA slide 7)

- Most common reported impact of program was that it “**enhanced existing buying pattern**” cited 117 times across 35 respondents (CIBA slide 13)
- Second most common reported impact was “**resulted in new buying exploration**”, cited 50 times across 35 respondents (CIBA slide 13)
- Strongest appeal of program was **opportunity to improve margins** (positive impact cited by **90%** of respondents) (CIBA slide 19)
- Second strongest appeal was opportunity to **reduce impact of shipping costs** (**80%** of respondents) (CIBA slide 19)
- Third in importance was **opportunity to work with new publisher-distributors** (**49%-53%** of respondents) (CIBA slide 19)
- **51%** of bookstores reported they were likely to **feature books** supported by the program instore on online in displays (CIBA slide 20)
- **100% of respondents supported renewal of the program**

Summary of key impacts of program, as reported by bookstores:

- **Improved their margins** on sales, increasing their business viability
- **Generated positive attitudes** to indie Canadian publisher-distributors
- Generated **increased stocking** of Canadian-authored books from indie Canadian publisher-distributors
- Generated **additional instore and online promotion** and awareness for Canadian-authored books from indie Canadian publisher-distributors
- All of which supported **higher sales of Canadian-authored books** from indie Canadian publisher-distributors, and a **higher market share** for these books in indie bookstores

Publisher-distributor impact survey results

- Survey gathered data from 6 program participants representing 69% of program funding (More slide 1)
- Improved relations between indie publisher-distributors and book retailers cited by 100% of distributors (More slide 1)
- Increased the sales of Canadian-authored books – 66% of respondents (More slide 1)

- Widened the range of Canadian-authored books in retailers – 50% of respondents (More slide 1)
- Increased sales to Indigo Books and Music, Inc. – 2 respondents able to participate in a regional program with Indigo Books and Music, Inc. (More slide 1)
- Led to faster payments by customers – one major respondent (UTP), whose use of program focused on this immediate objective (More slide 1)
- Other impacts of the program cited included reduction in returns, improved sales of spring 2021 titles, happier client publishers, and happier authors (More slide 1)

Sample comments of publisher-distributor participants

“Through my 30+ years in this business, I have never seen a program that impacted sales of Canadian-authored titles published by Canadian publishers as much as this campaign did.” – Nimbus

“There is nothing but positive things to say about this support. Retailers, authors, publishers and readers will undoubtedly benefit from it for years to come. Ensuring a continuation of this funding (in one form or another) should be a primary goal for everyone in the Canadian book industry...” – Heritage Group Distribution

Support for Distribution and the Indigo Books and Music, Inc. retail chain

As a Canadian-owned book retailer, Indigo Books and Music, Inc. was eligible for support from publisher-distributors under the Support for Distribution initiative

Program generated two initiatives:

1. Indigo Books and Music, Inc. and publisher-distributor cash flow

- Distributor offer was discount of 10%, increased to 15% after one month, on accounts payable, if account paid on time
- Offer generated prompt payment of amounts owing, generating a substantial speed-up in cash flow to distributor
- Impact was substantial improvement in cash position of distributor, and ability to pay client publishers on time, improving client publisher cash positions

2. Indigo Books and Music, Inc. marketing and promotion of local/regional Canadian-authored titles from indie publisher-distributors

- Indigo Books and Music, Inc. initiated pilot program incorporating a wide range of promotion vehicles targeting 31 selected local/regional Canadian-authored titles in Atlantic Canada
- Promotion vehicles used included book buyer email marketing, features in digital consumer catalogues, web feature pages and other digital channels
- Key program element was front-of-store centre-aisle display table in all big box stores and similar feature in-store display in mall stores
- Publisher-distributors undertook parallel social media campaign based on 31 selected titles, targeting book buyers and promoting instore and online browsing and sales
- Program built on annual region-wide Atlantic publisher marketing initiatives which in 2020 included consumer magazine, consumer print catalogue plus new components including billboards, TV advertising and other components
- Retail sales of featured titles during program period **\$367,000**, 81% in stores 19% online
- Top titles had high unit sales, but program generated **strong incremental sales for all 31 program titles**
- Indigo Books and Music, Inc. evaluation of program sales results was that the featured titles **“delivered 45-100% more than reasonable counterparts”** (Indigo analysis)
- Impact of program was diminished by challenges of keeping titles in stock in face of unexpected high consumer response – the program did not achieve maximum potential sales results, but still outperformed the usual products from major publishers promoted using these vehicles
- Vendor support for program costs was open ended, due to Support for Distribution funding, and pilot yielded experience for both retailer and distributors to undertake joint promotions in cost effective way reflecting potential for incremental sales of targeted titles

Support for Distribution and chain retail “buy local” reorientation

- Analytics demonstrating success of Atlantic pilot have led to roll-out of national program by Indigo Books and Music, Inc. featuring local/regional Canadian-authored titles, highlighting mostly titles from indie Canadian publishers

- Initial national program now underway will feature locally-specific titles in-store front of store tables in all big box and most small format stores in 12-week period April-June 2021
- National program includes promotion and marketing support including Indigo Books and Music, Inc. emails, website promotions and features, store-level social media and other initiatives
- Program is planned to continue as ongoing in 2021 and beyond, and is a key element for chain in building on post-Covid consumer focus on supporting local retail and supporting local/regional/Canadian authors and books
- Program uses bricks-and-mortar strength of chain presence in English Canada versus its biggest competitor (Amazon), and aims to strengthen consumer support based on Canadian identity and local presence
- Program assumes vendor support from indie Canadian publisher-distributors, with support level in flux pending national data on impact of participation on sell-through
- Program requires indie publisher support in continuing to generate stream of attractive, saleable local/regional titles in all markets across English Canada
- Impact of program will be to **increase market share of Canadian-authored titles**, focused on indie published titles
- **Gap in current performance** of all retail vs indie retail (**10% vs 18%**) re Canadian-authored titles demonstrates potential for substantial growth in Canadian-authored market share
- Continuance of program depends on publisher-distributor ability to contribute appropriate vendor support (initial periods are being funded by Support for Distribution retailer funding)