



Magazines Canada Alternate Delivery Study:

August 18th 2015.

Prepared by Lacunae Consulting for Magazines Canada.



Table of Contents

Introduction and Scope.....	3
Background	3
Magazine Printing and Distribution	4
Work Undertaken	6
Potential Issues	10
FSA Analysis.....	12
Next Steps/Conclusions	20
Appendix A – Interviewees	22



Funding for this study was provided by Ontario Media Development Corporation. Any opinions, findings, conclusions or recommendations expressed in this material are those of the author and do not necessarily reflect the views of Ontario Media Development Corporation or the Government of Ontario. The Government of Ontario and its agencies are in no way bound by the recommendations contained in this document.

Introduction and Scope

This study is limited to the home delivery of magazines to Canadian consumers. It does not address the delivery of single copy magazines for sale at retailers and other single copy outlets. The aim of this project is to undertake preparatory research prior to offering publishers the possibility of an economic alternative to Canada Post. Specifically for serving the approximately 80% of the population of Canada where alternate door step delivery service exists today for products such as newspapers and promotional materials not delivered by Canada Post. It is not anticipated that alternate service providers will offer significantly lower rates than those currently charged by Canada Post, rather that the introduction of viable alternative service providers for the majority of Canadians will create a competitive marketplace. This marketplace will help actively constrain rate rises once the current link to rates of inflation by Canada Post expires. In addition the alternate providers will continue to offer Canadians doorstep delivery.

Background

Printed materials have been delivered to consumers' homes by the postal service since before Confederation. The importance of this service to both publishers and consumers has been recognised by the support provided to publishers since the 1849 Postal Act. The history of that support was outlined in the Summative Evaluation of the Publications Assistance Program prepared by the Evaluation Services, Corporate Review Branch of the Department of Canadian Heritage dated June 22, 2005:

“Support for the postal distribution of periodicals in Canada has followed a path of gradual evolution, shifting in administration and focus, as changing socio-economic, legislative and demographic environments have demanded”.

Subsequent to this evaluation the PAP continued until 2009 when it was replaced by the Canada Periodical Fund. In relation to this report the key change was that publishers were given the flexibility to apply the available support across their business. There was no longer a proportion of the support directed to be spent with Canada Post. At the same time Canada Post ceased to offer rates which reflected “included support” from Canada Post. Canada Post continues to offer publications specific rates. The industry continues to negotiate with Canada Post through Magazines Canada.

In 2013 Canada Post announced that it would cease to offer home delivery services. The approximately one third of Canadians currently receiving home delivery will be converted to “super mailbox” delivery over a five year period beginning in 2013. This will bring uniformity to mail delivery for all Canadians. At the same time Canada Post announced substantial postal rate increases to address a rapidly deteriorating financial position including a large pension deficit. Canada Post has made a short term commitment to limit rate increases to no more than the rate of inflation however it is likely that publication mail rates will increase substantially after the rate commitment period expires. Publishers are already facing declines in the print component of their brand offerings so a substantial increase in delivery rates will further impact the print component of publisher revenues. This is a matter for substantial concern as printed products remain the primary source of revenues for many publishers as

new digital business models evolve and stabilise. A substantial cost increase combined with reduced customer convenience in key markets may threaten the viability of some publishers and reduce the capability of others to make digital investments as part of a brand strategy.

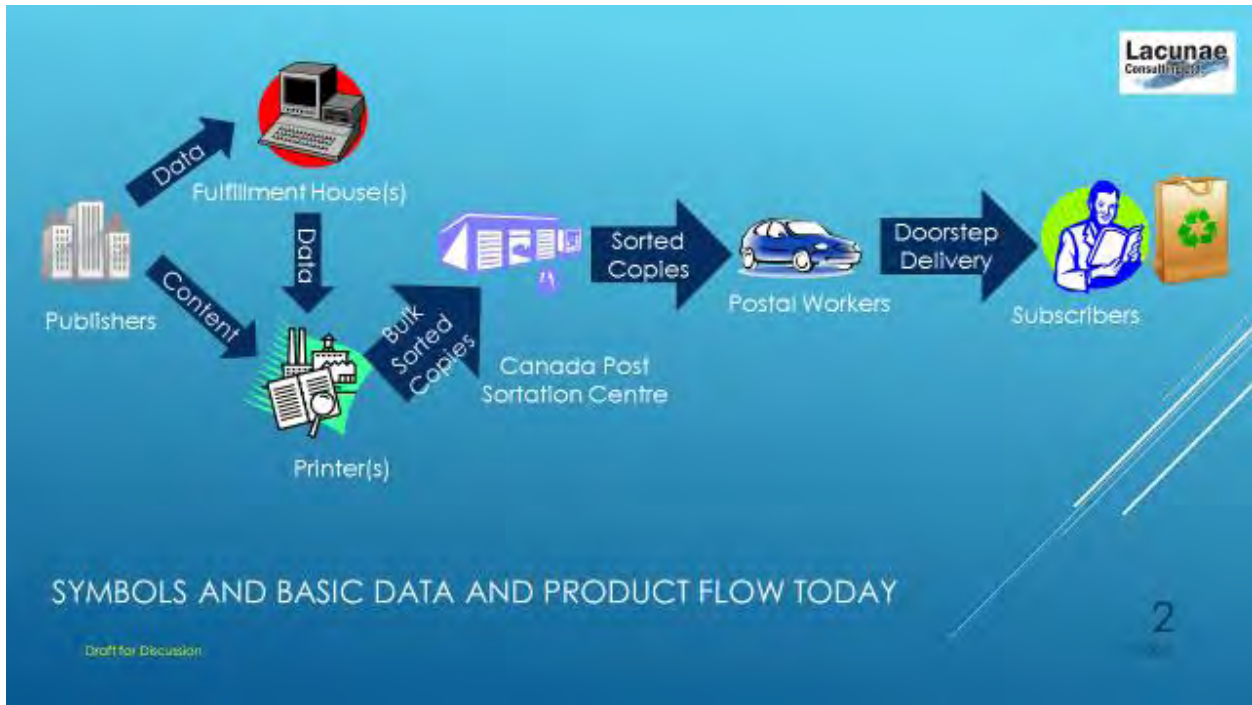
As a final consideration, the home delivery product post print preparation (fulfillment) and delivery standards which the magazine industry has operated to have been set by Canada Post. These standards cover a wide range of areas including, labelling, bagging, pre-sorting for delivery, delivery locations and frequency as well as target times required to deliver to the consumer after arrival at the designated Canada Post facility. In an “alternate delivery” scenario publishers will have the opportunity to define these standards for the first time. This is both exciting and challenging. Publishers have not had to consider these standards previously (though they are very aware of the impact of the current standards, and any failure to meet them, on their business). The same is true for other players in the system including the printers and fulfillment houses. While it is possible for individual publishers to seek to set their own standards, in practice this will be unlikely to succeed. Conversely a practical set of industry wide Publisher defined standards should find a ready set of suppliers willing to work with Publishers cost effectively as an alternative in whole, or in part, to Canada Post. N.B. in developing these standards Publishers will need to ensure that they do not infringe on Canada Post’s monopoly on the delivery of addressed mail.

Magazine Printing and Distribution

The current system is summarised in Diagram 1 below.

NB this description primarily applies to the largest publishers and titles. The system is broadly similar for smaller publishers with, for example, the exception that smaller publishers may give instructions direct to the printers in place of the Fulfillment House.

Diagram 1



- **The steps shown above may be described as follows:** Publishers send the print order(s) to the printers and subscriber delivery information to the fulfilment house. The print order will include any variances in the printed product by geography or other criteria resulting in variances within the same title.
- The fulfilment house manages the data to prepare the files needed for the printer to sort (to Canada Post requirements) and print individual labels when required.
- The Printer prints the copies and prepares them including any customisation such as the labelling previously mentioned and bagging with additional materials (generally promotions cards etc.)
- The magazines are delivered by the printer to the main Canada Post sortation centre specified by Canada Post based on the postal codes to be delivered to. Canada Post then redistributes to the local post offices for final delivery to subscribers.
- While Canada Post has general operations standards delivery is not confirmed to publishers. Issues such as non-delivery and late delivery generally come to the attention of Publishers through customer complaints and feedback. This information often is so late in coming to the Publishers attention that remedial action is often not practical.

Work Undertaken

This study was commissioned by Magazines Canada after extensive discussions by Magazines Canada's Board, and with financial support from the Ontario Media Development Corporation (OMDC). Key Board members have been actively engaged throughout this study and have ensured the full support of their organisations and suppliers. The Board has also acted as an advisory group as the project has progressed.

As a result of the above, we interviewed a selection of publishers identified by Magazines Canada as being broadly representative of large and small magazine publishers (See Appendix A for list of interviewees) on their service requirements from a distribution service. We also engaged the Publishers in either directly supplying the data used (smaller publishers) or in working with CDS Global to supply the data required.

We visited a major magazine printer, Transcontinental RBW Graphics, (one of 3 in Canada printing the large majority of titles) to understand their current processes and capabilities in the context of understanding what may need to change if multiple final suppliers are introduced.

Specifically we obtained volume weight and size data (by Canada Post Forward Sortation Area (FSA)) from smaller publishers selected by Magazines Canada for March 2015. Magazines Canada confirmed that this is a representative sample month and that given the nature of home delivery subscription sales, that a one month sample can be extrapolated to give a 12 month sample for distribution planning purposes.

We also obtained volume weight and size data (by FSA) for the 40 highest circulation magazine titles in Canada for March 2015. Following discussions with the large publisher group, this data was collected through CDS Global who provide fulfillment services to the larger Canadian publishers.

We then summarised the volume data by a number of criteria including by publisher, by province, by publication size and weight and by delivery schedule. This information is detailed later in this report in the FSA Analysis section.

We confirmed the physical product service standards required by publishers from Alternate service providers. These include:

- Packaging and labelling requirements, commensurate with existing publisher capabilities:
- Ability to receive and store magazines for the FSA's to be served by the selected distributor based on printer production and trucking schedules, as well as the publishers' delivery schedule. NB Alternate service providers may be required to store and sort copies prior to distribution for a maximum of 3 weeks (typically 1 week to 10 days).
- Ability to aggregate multiple titles from multiple publishers and printers and deliver in a specified week following previous receipt of the magazines from the printers. Except for certain specified titles delivery can be on any day of the week specified. The alternate distribution

service provider will be required to combine the titles for a given household into a single bag and label that bag with a bar code or similar (primary label) allowing the contents by publisher to be identified as well as the recipient details (name, address etc.) N.B. some of the titles may already be bagged and may contain additional materials specified by the publisher and may therefore be “double bagged”. Single titles already in a sealed bag will not require to be bagged again though the identifier label will require to be added.

- For a limited range of titles such as weekly titles such as *Maclean's* and *People*, same week and nominated day delivery, typically on a Friday will be required.
- All deliveries must be confirmed by scanning the primary label capturing the delivery information including:
 - Time of delivery
 - GPS coordinates of the delivery
 - Service provider and Carrier id for the firm making the delivery
- Upload the data by the end of each business day or week to the magazine publisher.
- The ability to receive instructions from the magazines publishers including subscriber complaint information for redelivery. N.B. Magazine publishers will continue to deal directly with subscribers at all times. Delivery service providers will be instructed by the magazine publishers and will be required not to enter into direct discussions with subscribers.
- Delivery/redelivery of failed or “complaint” deliveries within 24 hours of the receipt of the replacement copy(s), again with delivery confirmation.

These requirements are summarised in Diagrams 2 and 3 below. The key differences from the existing system are:

- The introduction multiple vendors each with allocated Postal codes to deliver to. , each of the new vendors will receive individualised data files from the fulfillment houses based on the postal codes they are contracted to deliver to with sufficient detail for the alternate distributors to “route” the magazines in their existing delivery systems. The Printers will continue to receive the data required to prepare any geography specific editions. N.B. Nay customisation of individual copies will need to be compliant with Canada Posts monopoly of addressed mail, specifically not including the full name and address of individual subscribers.
- The introduction of positive confirmation of delivery reporting by the distribution system service providers using a Global Positioning System (GPS) enabled mobile device device at the time and location of delivery.

Lacunae Consulting Ltd.

- Doorstep delivery for all subscribers that the alternate system can reach including those currently served by “super mailboxes” as well as those who will be converted to “super mailboxes over the coming period”. N.B. It is expected that some subscribers will continue to be served by Canada Post where alternate providers cannot offer service or are not cost competitive.

These differences are summarised in diagrams 2 and 3 below:

Diagram 2

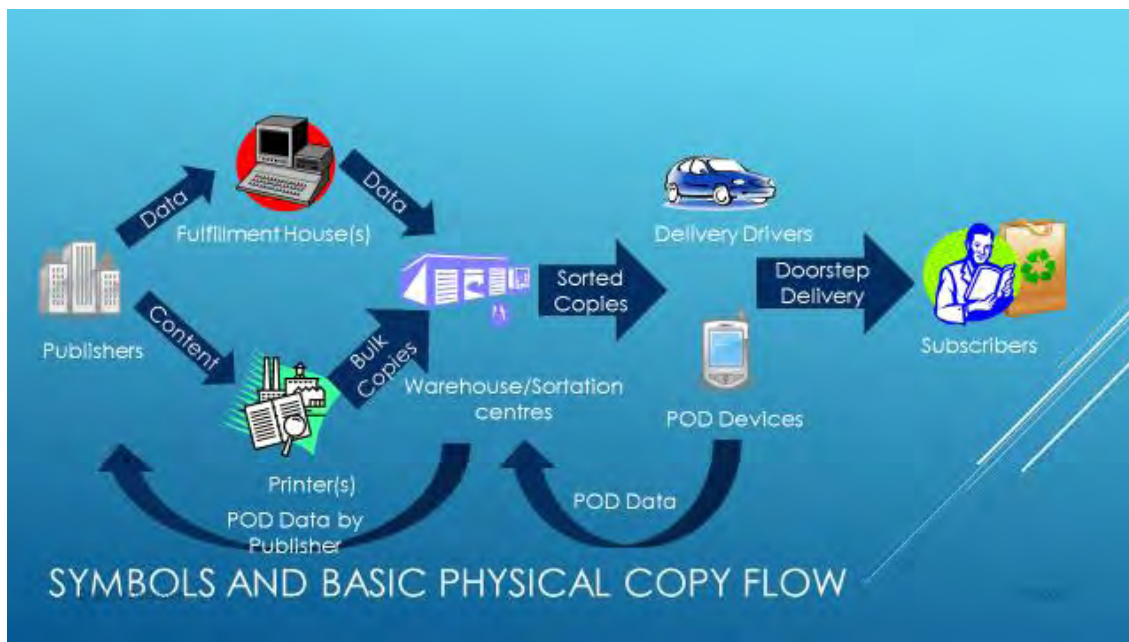
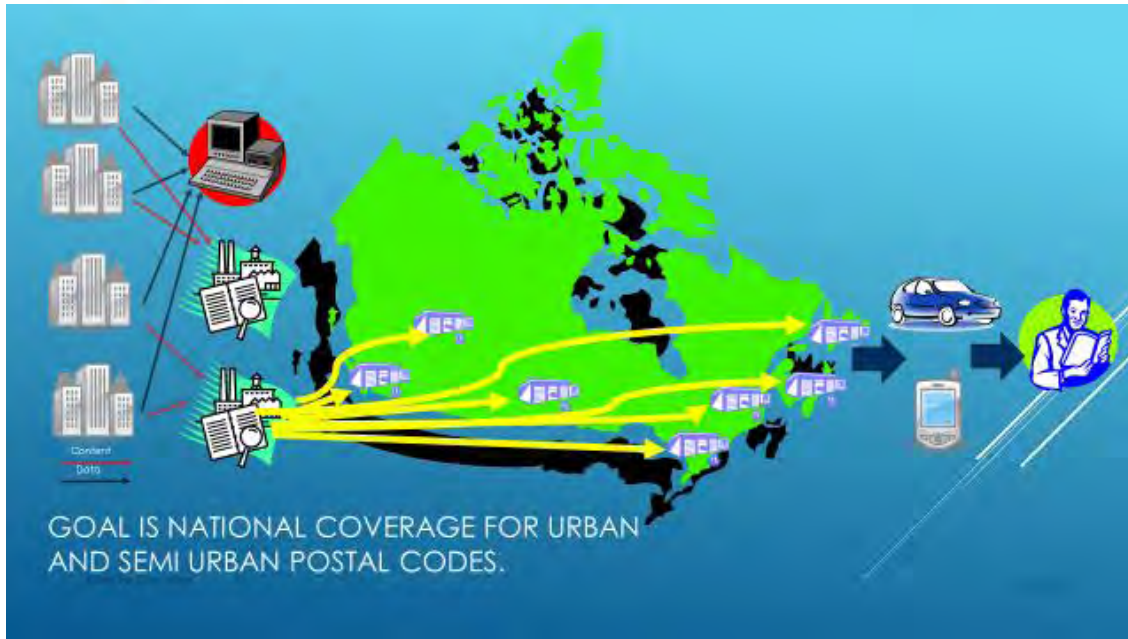


Diagram 3



As described above, initially it is anticipated that alternate delivery service providers will be asked to confirm which FSA's they are able to/willing to serve. Within each FSA the service provider should confirm any addresses that they cannot serve. For example, multiple dwelling units such as condominium towers and offices. Potential service providers will also be asked to offer possible ways to achieve delivery at "undeliverable" addresses such as foyer lock boxes if accepted by the condominium corporation.

All of the above are expected to require substantial data processing changes at the fulfillment house.. These will include:

- Preparing bulk order make up instructions for the printers based on multiple service providers and their specific operational parameters rather than the current single provider (Canada Post). These make up instructions will need to be specific to the FSA's to be served by each service providers less any addresses agreed as undeliverable. The balance will likely continue to be delivered by Canada Post.
- Preparing a much revised Canada Post schedule for those deliveries which will remain with Canada Post.
- Sending aggregate address information by distribution service provider to permit the service provider to upload the delivery files into the service providers routing and proof of delivery system(s)
- Receiving the delivery confirmation files from the service providers, storing the data and being able to both query at an individual address level and to aggregate for reporting including proactively identifying anomalies such as missed deliveries in exception reports. It is envisaged

that payment to the alternate service providers Proof of Delivery (POD) files though this will be subject to detailed negotiations with each provider.

As described above, it is anticipated that Canada Post will retain a material but much reduced delivery role for FSA's where alternate service providers do not offer service, or are not economic. Canada Post may also be retained for situations such a multiple Dwelling buildings where an alternate solution cannot be found. In this context it is worth noting that with the rapid expansion of online shopping the variety and number of "collection" points for collecting parcels is rapidly expanding. This may offer another alternative set of service providers to Canada Post based on consumer choice.

Potential Issues

As may be expected, a number of potential issues have been identified by publishers. The principal issues identified include:

- The willingness of alternate service providers to invest in warehouse space, sorting, bagging and labelling systems as well as POD systems.
- Delivery to multifamily residences (e.g. condo towers) as described above
- The long term future of newspaper delivery systems and the possibility of the existing systems shrinking over time reducing the percentage of the population served.
- Limitations in newspaper circulation systems recognising some rural addresses
- The possible reaction of Canada Post re remaining volumes and costs for activities such as promotional mailings, premiums etc. Can reasonable, competitive rates still be negotiated where needed?
- Introducing structured carrier route "discipline" with the use of "route sheets" especially in TMC i.e.. Community paper delivery systems
- Simplifying the carrier activities at time of delivery when time pressure is considerable and it may be dark, bad weather etc.
- Timely complete data transmission including stops and starts for carrier route sheets
- Maintenance between stakeholders of subscriber file information to maximise "deliverability".
- Doorstep theft/damage

- A fair pricing structure for large and small publishers. This may be particularly an issue for some smaller publishers serving rural populations with specialist titles.

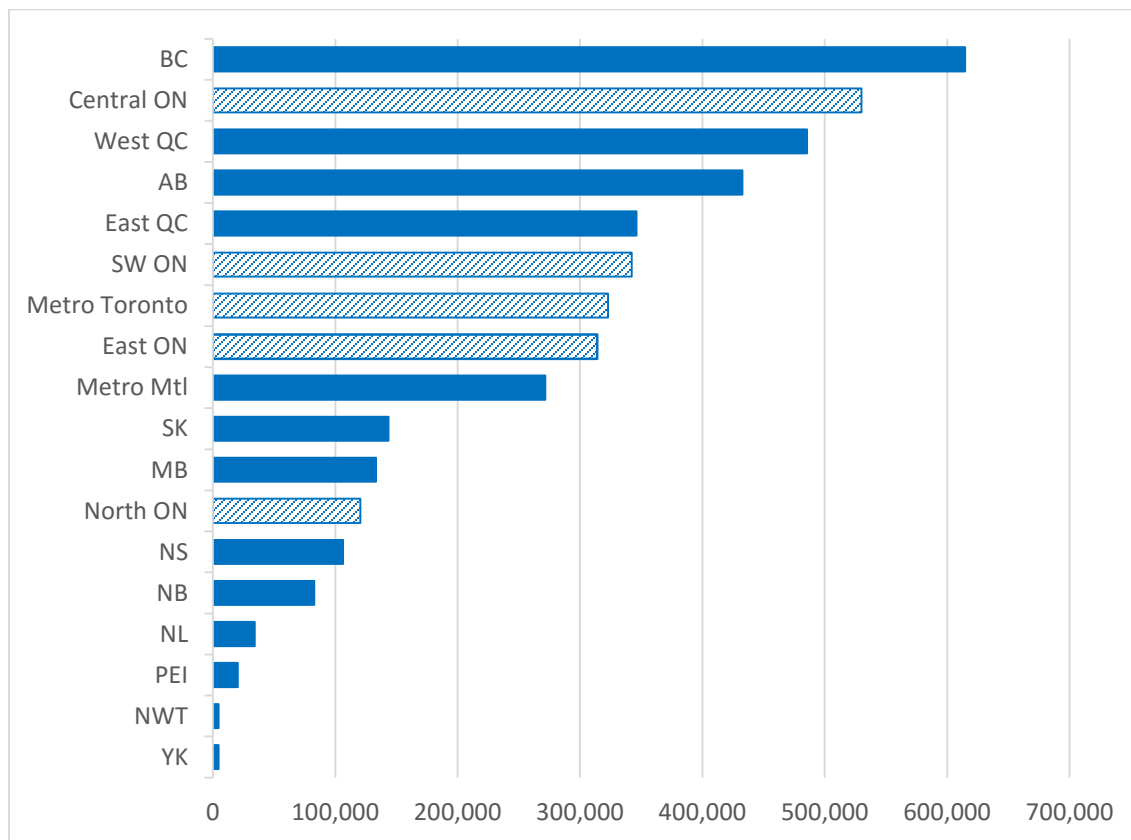
Addressing the above points as well as the changes to the fulfillment data processing requirements will need an open discussion with potential suppliers based on the specified service requirements and the projected volumes. That discussion will form the next stage of this project if mandated by Magazines Canada. The starting point will be to establish what coverage alternate service providers can provide relative to the current magazine subscriber base as defined by the FSA analysis.

FSA Analysis

This analysis is based on the subscription information for the approximately 50¹ largest by paid home delivery circulation magazines in Canada and 3 smaller titles.

The Magazines in the sample were distributed to 1,684 FSA's across Canada and in every Province and Territory in March 2015. Each FSA code begins with a letter indicating the region to which the magazine was delivered. The following chart illustrates the distribution of magazines in each of these regions (with Ontario regions highlighted):

Figure 1 - Copies Delivered per FSA (March 2015)

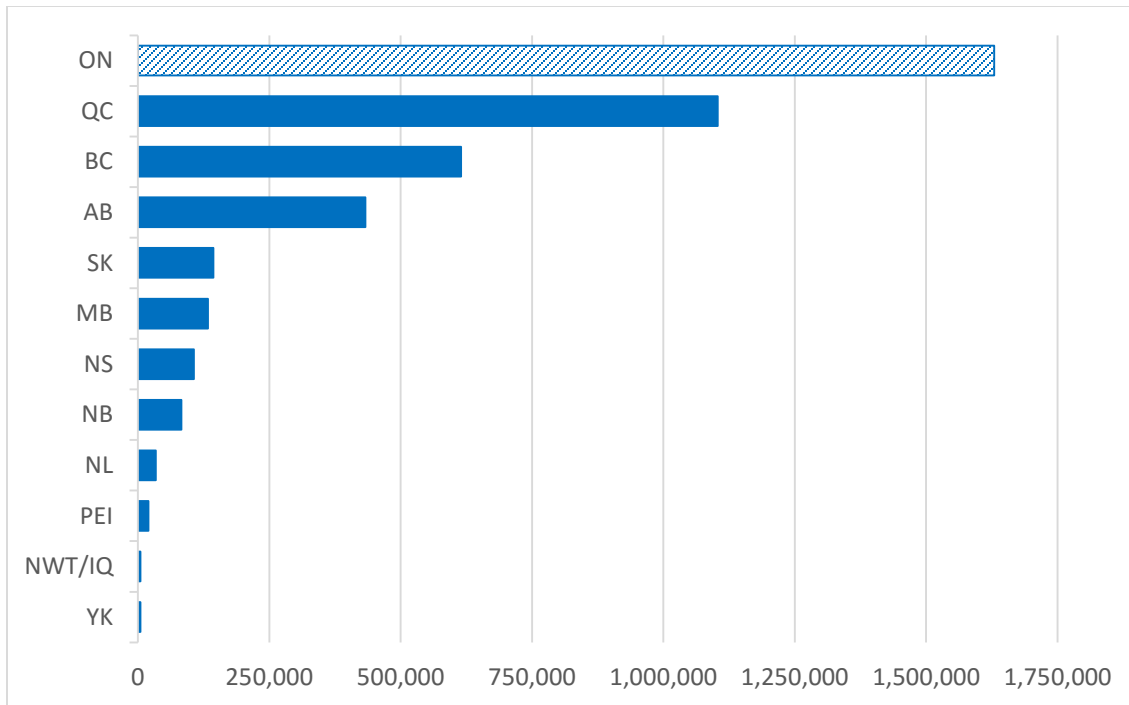


Source: Publisher data supplied directly and through CDS

As such, regions in Ontario account for four of the top ten regions for magazine delivery in Canada. When aggregated to the provincial level, Ontario is the top jurisdiction for magazine delivery (as shown below):

¹ The titles analysed included both the English and French language versions of some titles as well as supplements distributed less frequently than the main title.

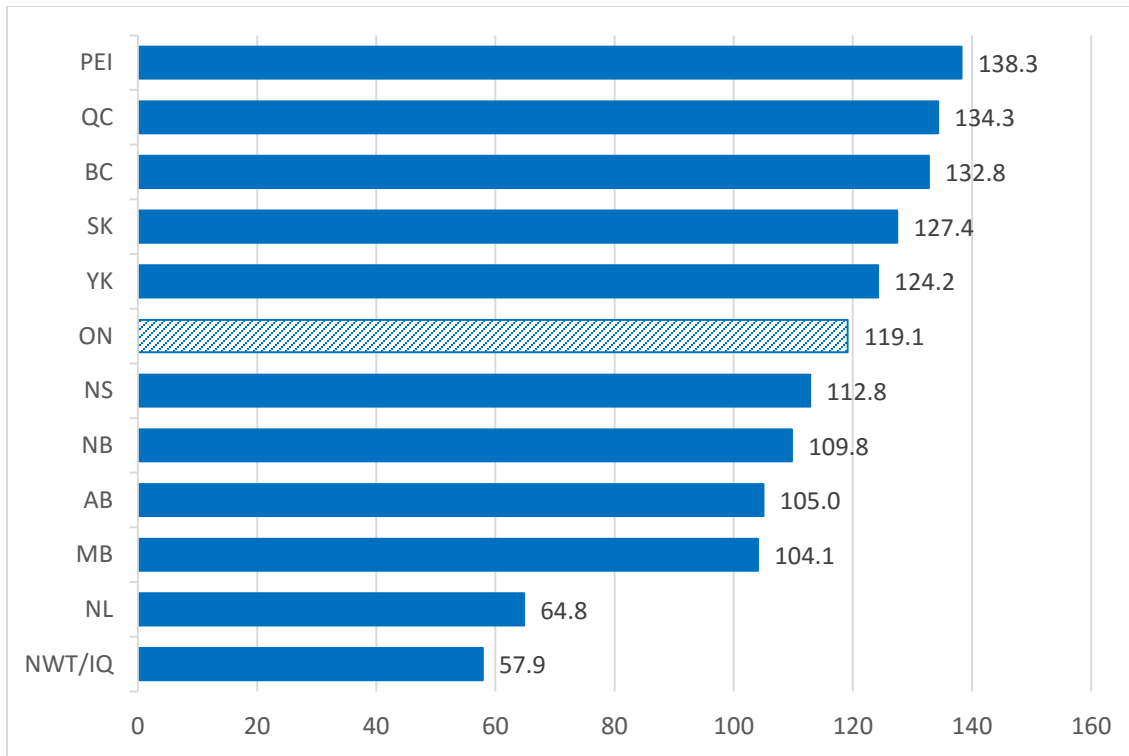
Figure 2 - Copies Delivered by Province (March 2015)



Source: Publisher data supplied directly and through CDS

This observation does not, however, mean that Ontarians read more magazines (on average) than residents of other Canadian provinces. The distribution of magazines delivered per 1,000 residents is depicted below:

Figure 3 - Magazines Delivery by Province per 1,000 Residents (March 2015)



Source: Publisher data supplied directly and through CDS; Statistics Canada, CANSIM Table 051-001 (July 2014).

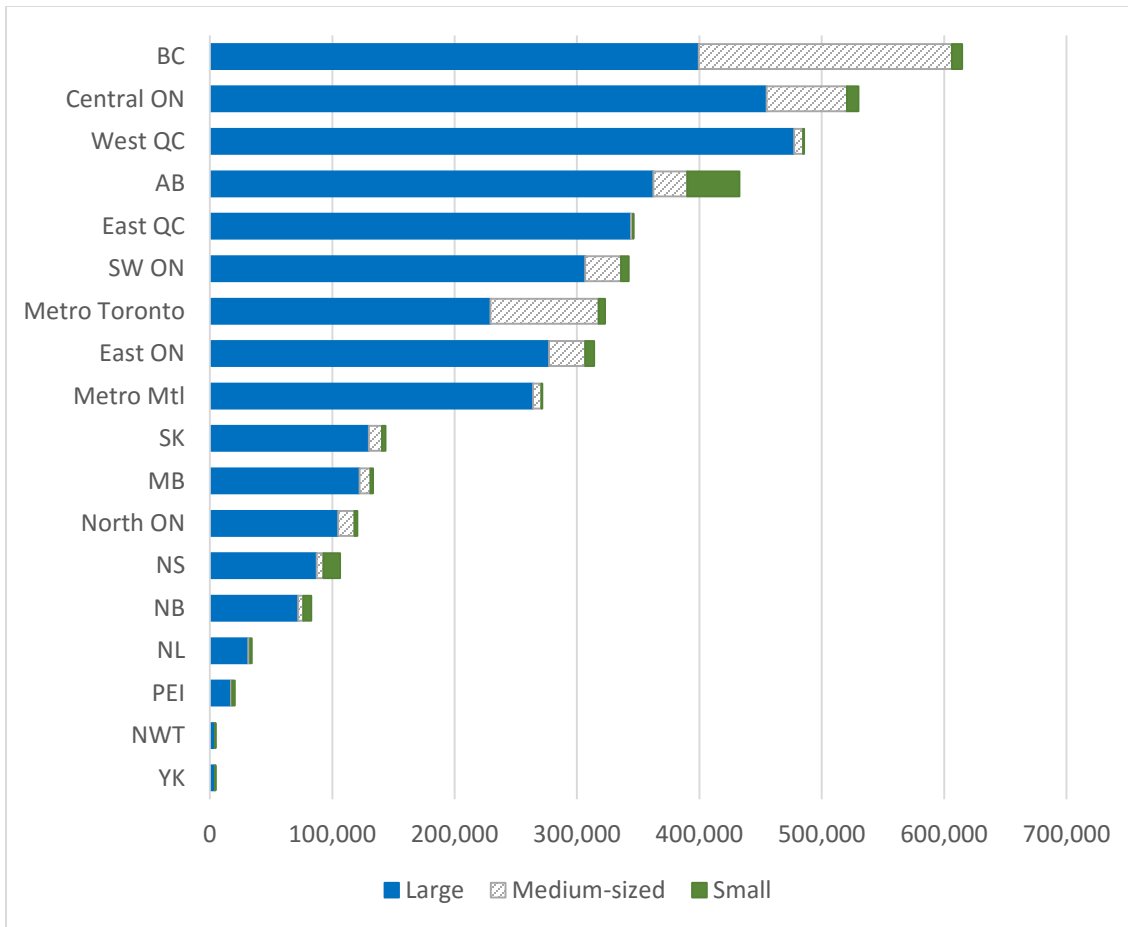
Indeed, it appears that residents in PEI, Quebec and BC are the most avid magazine readers.

When examined by the size of publisher:

- a large publisher was deemed to have delivered more than 250,000 copies in one month;
- a medium-sized publisher delivered between 75,000 and 249,999 copies in one month; and,
- a small publisher delivered fewer than 75,000 copies.

With that breakdown in mind, the following presents deliveries per region by size of publisher:

Figure 4 - Copies Delivered by Region and by Size of Publisher (March 2015)

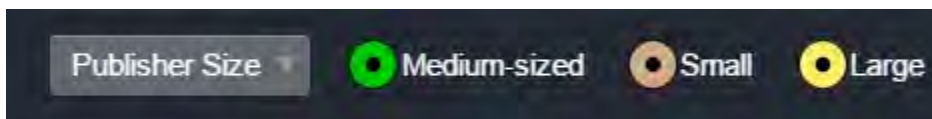


Source: Publisher data supplied directly and through CDS.

As the chart shows, in all regions, larger publishers account for the clear majority of copies delivered per month. The largest representation of medium-sized publishers seems to be from BC, while Alberta leads in term of copies delivered from the small publishers included in the analysis.

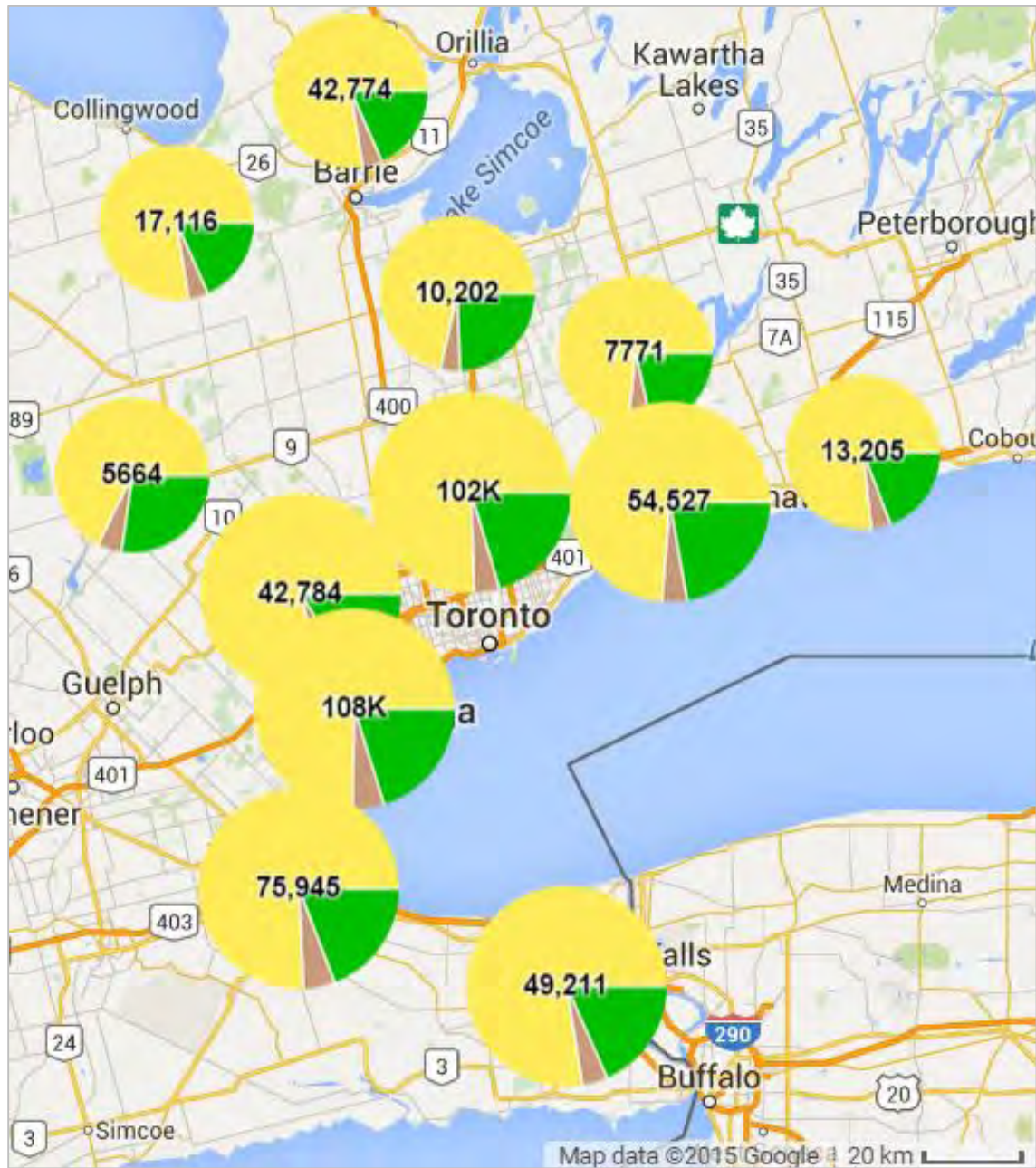
Figures 6 to 10 below map the number of copies delivered (by FSA) in March 2015 in each Ontario region, by Size of Publisher. Figure 5 presents the legend for the maps that follow.

Figure 5 – Publisher Size Legend for Figures 6 to 10



Lacunae Consulting Ltd.

Figure 6 – Distribution of Copies Delivered in Central Ontario, by Size of Publisher (March 2015)



Lacunae Consulting Ltd.

Figure 7 – Distribution of Copies Delivered in Eastern Ontario, by Size of Publisher (March 2015)

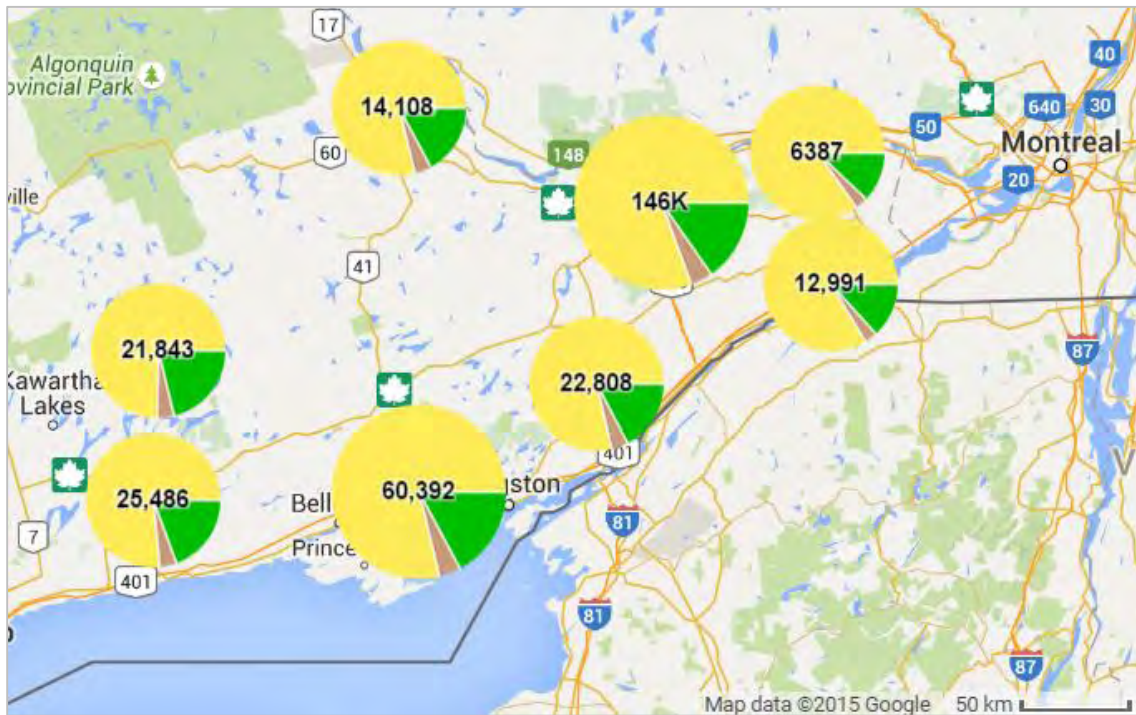


Figure 8 – Distribution of Copies Delivered in Metro Toronto, by Size of Publisher (March 2015)

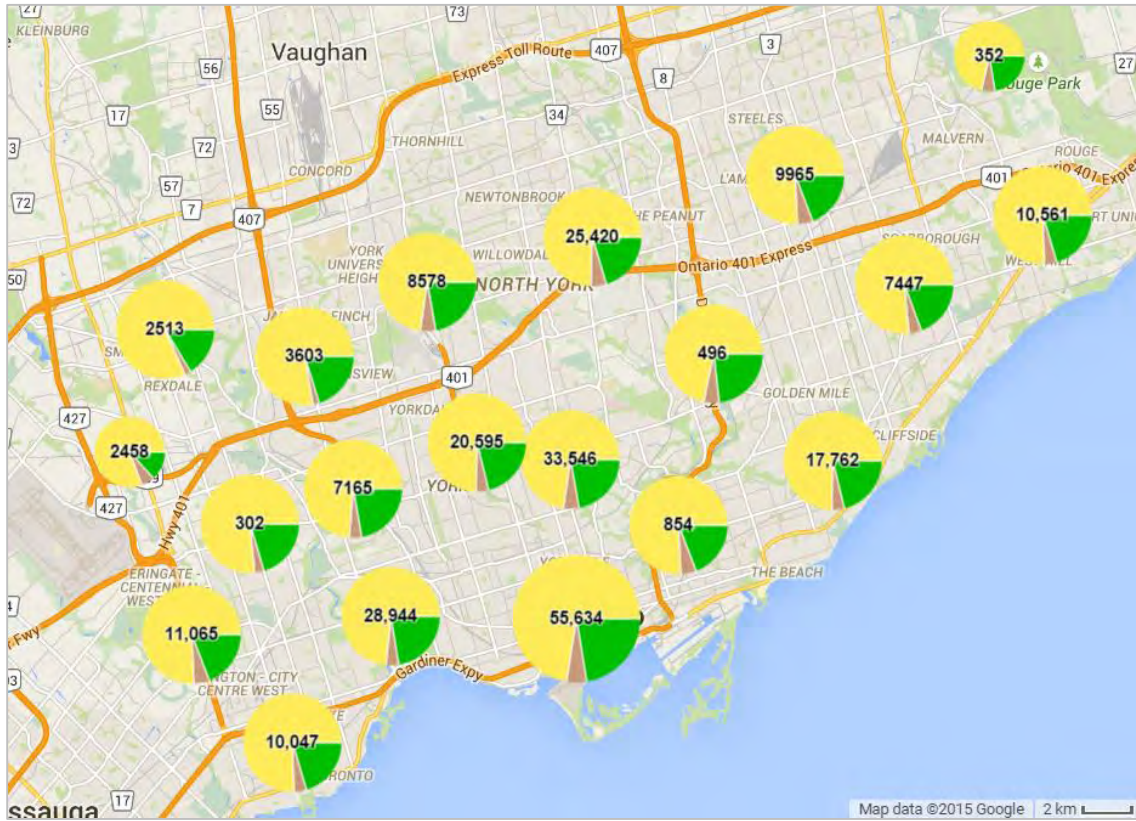


Figure 9 – Distribution of Copies Delivered in Northern Ontario, by Size of Publisher (March 2015)

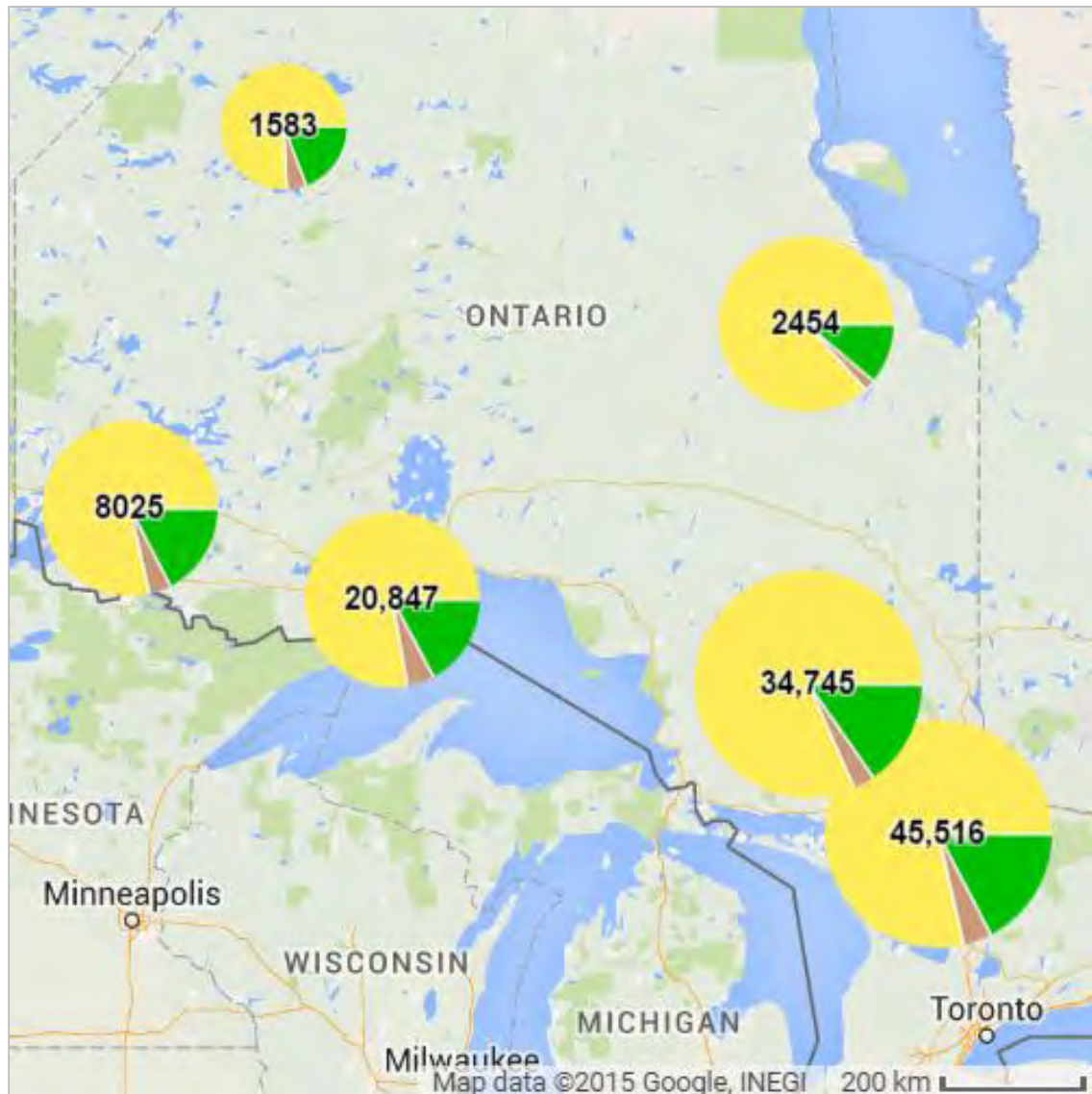
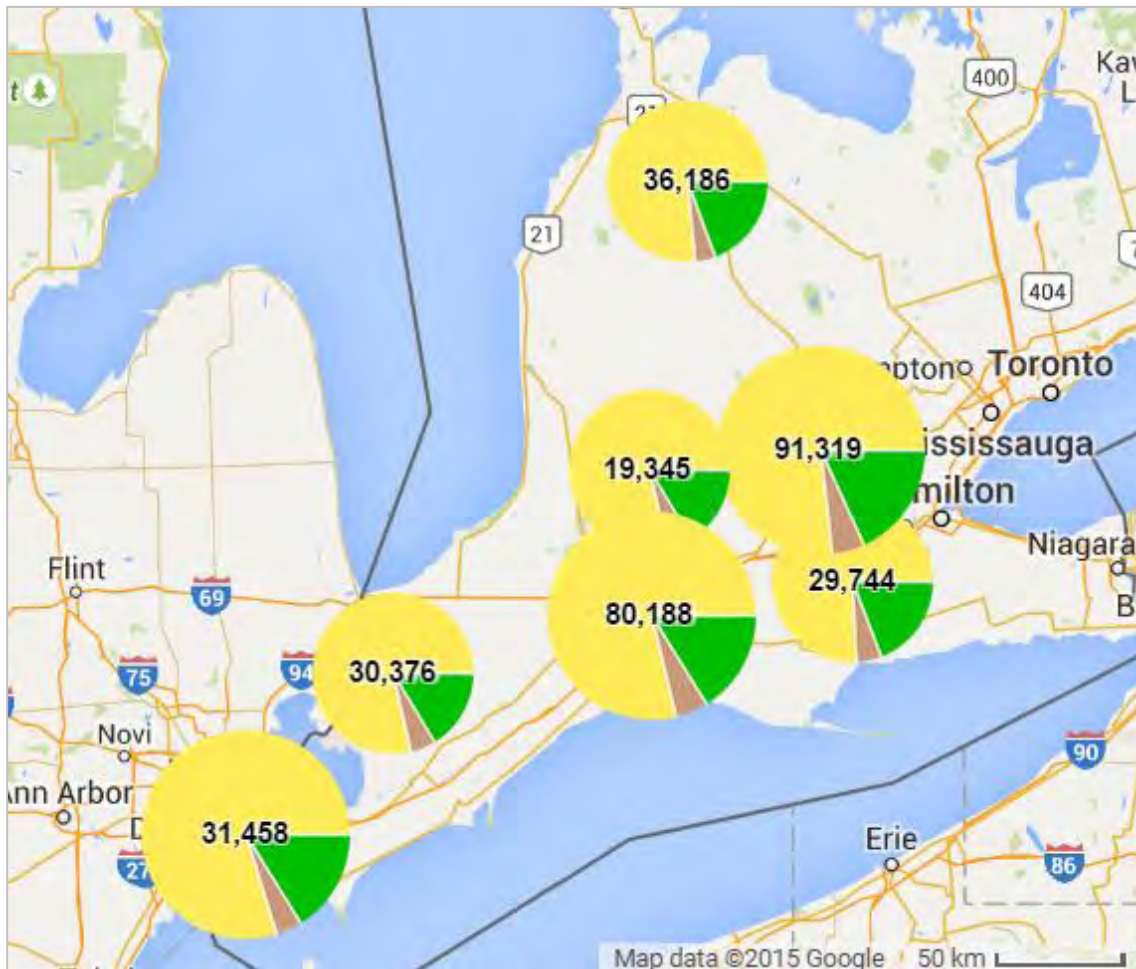


Figure 10 – Distribution of Copies Delivered in Southwestern Ontario, by Size of Publisher (March 2015)



Next Steps/Conclusions

The findings of this study will be discussed by senior industry leaders in conjunction with Magazines Canada to determine any next steps. The current digital driven changes in the magazine industry have lead to a complex market situation where all the aspects of this study must be carefully considered.



Appendices:

Appendix A – Interviewees

- **Rogers Media**
- **Transcontinental Media (since subject to ownership changes)**
- **St. Joseph Media**
- **Reader’s Digest**
- **Magazines Canada staff**
- **Garden Making**
- **TC Media printing division, Owen Sound.**