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CT-94/03

THE COMPETITION TRIBUNAL

IN THE MATTER OF an Application by the
Director of Investigation and Research under
sections 77 and 79 of the Competition Act
R.S.C. 1985 c. C-34 as amended.

Between:

THE DIRECTOR OF INVESTIGATION AND RESEARCH

Applicant

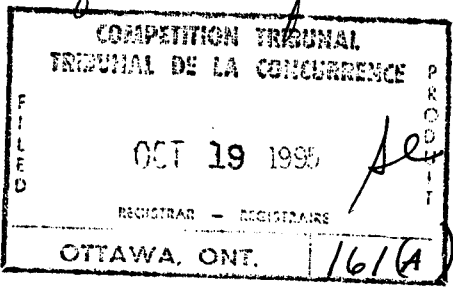
- and -

TELE-DIRECT (PUBLICATIONS) INC.,
TELE-DIRECT (SERVICES) INC.

Respondents

**AFFIDAVIT OF RICHARD SCHWINDT
PUBLIC VERSION**

Conf. version filed on Aug 31/95



**COMPETITION TRIBUNAL
TRIBUNAL DE LA CONCURRENCE**

File No. CT-94/3
 No. du dossier 161(A)
 v Tele-Direct
 et
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 Greffier

THE COMPETITION TRIBUNAL

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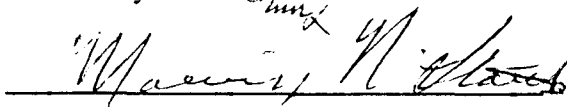
Respondents

AFFIDAVIT OF RICHARD SCHWINDT

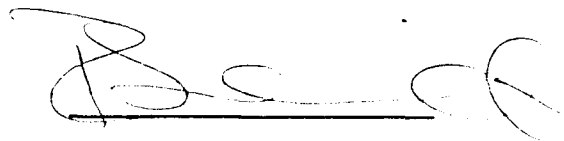
I, Richard Schwindt of the Municipality of Abbotsford, in the Province of British Columbia, MAKE OATH AND SAY:

1. I am an Associate Professor of Economics and Business Administration at Simon Fraser University and was retained by counsel for the Director of Investigation and Research to provide expert economic evidence in this matter.
2. Attached hereto and marked as Exhibit "A" is a true copy of my evidence. The contents of Exhibit "A" and the findings and opinions expressed therein are true to the best of my knowledge, information and belief.
3. Attached hereto and marked as Exhibit "B" is a true copy of my curriculum vitae.
4. I make this affidavit pursuant to Rule 47(1) of the Competition Tribunal Rules.

SWORN before me, at the Municipality of ^{the Municipality of} Burnaby in the Province of British Columbia this ^{14th} day of ^{Aug} 1995.



A Commissioner,



Richard Schwindt

MARVIN N. STARK, Q.C.
Barrister & Solicitor
OLD STEVESTON COURTHOUSE
12011 THIRD AVENUE
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CANADA, V7E 3K1

Exhibit "A"

I. INTRODUCTION:

I was asked by counsel for the Director of Investigation and Research to provide an economic opinion on the definition of the relevant product and geographic markets set out in paragraphs 58 to 63 and related paragraphs of the Statement of Grounds and Material Facts filed in this matter. I was also asked to indicate whether the Respondents possess a dominant position and market power in the relevant market as properly defined.

In coming to my opinion, I have relied for a factual foundation upon the pleadings, documents exchanged by the parties in discovery, and the transcripts of the oral discovery. I have also relied upon relevant academic literature, industry sources (including trade publications) and my training in industrial economics for an overview of the workings of the industry and with respect to the method of analysis applied to the relevant issues.

A. Telephone Directory Advertising Space and Services

The products alleged by the Director in this case are telephone directory advertising space and services. The production of directory advertising space involves the publishing of the physical directory. The provision of advertising services is a separate function. The supplier of services provides the advertiser with a number of services. These include advice on the content of the ad, size, formatting, and placement (i.e., the choice of directories in which the ad will be placed), order processing, account billing services and the monitoring of directories to ensure that publishers have properly acted on the order. Service suppliers also may provide advertisement designs, marketing research, and advice on multi-media advertising strategies.

Currently, it is the practice of Tele-Direct, an affiliate of Bell Canada responsible for publication of directories in Bell Canada territories, to tie the supply of advertising space to the provision of advertising services. For customers (advertisers) seeking to place advertisements in Tele-Direct's directories, Tele-

Direct is the source of advertising services.¹

The analysis of the relevant market focuses on the end product, telephone directory advertising.² If it is found that Tele-Direct holds a dominant position in the relevant market or markets in which directories compete, then Tele-Direct also holds a dominant position in the supply of directory advertising space and services.

B. Plan of the Report

A brief overview of the Yellow Pages directory business is set out in the first section of this study. This is followed by an analysis of the relevant market through the application of an evaluative criteria commonly used by economists to define relevant markets in competition policy cases. This is followed by a review of two critical structural characteristics of the relevant market - seller concentration and barriers to entry.

II. OVERVIEW

A. The Advertising Directory Business: Orders of Magnitude

Telephone advertising directories are usually viewed as an advertising medium. In 1993, Yellow Pages, with \$856 million in revenues, represented 9.5 percent of all media net advertising revenues.³ Tele-Direct, with nearly two-thirds of all Yellow Pages advertising revenue, is by far the largest Yellow Pages directory publisher in Canada.

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- 1 Independents supply directory advertising services to a narrow set of advertisers known as "commissionable" or "national" accounts. The definition of what qualifies as a commissionable account is determined by the Yellow Pages publishers and is restrictive (i.e., a small proportion of accounts qualify as commissionable).
 - 2 As used here, "telephone directory" refers to a directory wherein telephone subscribers, both ~~business~~ business and residential, are listed alphabetically. This section of the directory is commonly called the white pages. Telephone directories also contain business listings arranged under classified headings according to the type of business. The classified sections of Tele-Direct's telephone directories are known as Yellow Pages. Depending upon the area served, the classified section may be co-bound with the white pages, or may be bound separately. Businesses can advertise, for a fee, in the white pages through simple enhancements to their listing (e.g., bold or capitalized fonts).
 - 3 CARD, *A Report on Advertising Revenues in Canada*, September 1994. CARD reports only on Yellow Pages directories, not all telephone advertising directories.

Table 1
Yellow Pages Directory Publishers' Revenues (1994)⁴

Publisher	1994 Revenues (\$millions)	Percent of all 1994 YP Revenues
Dominion Directory Co		18.4%
AGT Directory Limited		6.7%
Ed Tel		4.1%
DirectWest Publishers Ltd		3.0%
Manitoba Telephone System		3.1%
Tele-Direct (Pub & Services)		62.3%
Maritime Telegraph & Telephone		2.3%
Total Published Revenues		100%

B. Profitability

It is widely acknowledged that the Yellow Pages directory business is very profitable. For example, W. Lazarus estimates that in the early 1980s, New York Telephone's directory operations generated a return of between 46 and 53 percent on sales.⁵ Tele-Direct is also profitable, although it is difficult to calculate a precise return on sales. Tele-Direct's statements of earning for the years 1991-1994 are set out in Table 2. Operating income as a proportion of revenues ranged from 21% to 25% over those years. However, Tele-Direct includes in its operating expenses a cost/customer services (CCS) charge which is essentially the fee it pays to Bell for the "right" to produce the directory.⁶ This CCS cannot be viewed simply as additional profit accruing to the telephone company. Bell does provide some services to Tele-Direct which involve additional costs. For example, it provides the

4 Tele-Direct (Publications) Inc. & Tele-Direct Services Inc., "1994 Corporate Post Canvass Analysis Report," (Document 128984).

5 William Lazarus, "The Yellow Pages: A Medium, An Industry," Ph.D. dissertation, Dept of Political Science, Massachusetts Institute of Technology, June 1984, pages 461-467. Lazarus' findings are consistent with other estimates for 1989, see Communications Trends, Inc. "Yellow Pages in the 1990s: The Strategic Choices," 1990, p. 52 (Document 107902) which shows operating margins for 10 major U.S. Yellow Pages companies of between 35 and more than 50 percent..

6 This is the approximately 40 percent fee paid by publishers to the respective telephone company, whether affiliated or not.

subscriber lists, and billing and collection services. The actual cost to Bell of providing these services is not known, but are presumed to be moderate.⁷ In any case, returns are high, but just how high cannot be determined with precision from the available financial statements.

Table 2
Tele-Direct (Publications) Inc., Directory Division
Statement of Earnings⁸
(\$millions)

	1994	1993	1992	1991
Revenues				
Operating Expenses				
Operating Income				
Income/Revenue	21%	24%	25%	25%
Fees paid to Bell				
Income plus fee				
Income + fee / Revenue	59%	62%	62%	63%

III. DEFINITION OF THE RELEVANT MARKET

Market definition is crucial to the analysis of market power.⁹ If a firm holds a very small share of the market it is unlikely that the firm can unilaterally influence the market price. If it attempts to raise price above costs, buyers will simply switch their patronage to the firm's competitors. In the case at hand, the market definition issue focuses on competition from other media. If in fact telephone advertising directories competed in a much broader market with other media, such as newspapers, billboards, direct mail, radio and television, then it would be difficult for any directory publisher to unilaterally influence the price of directory advertising. In the face of an attempted price increase, advertisers would simply switch their advertising from the directory to, say, television. On the other hand, if

7 Historically, the CMRs (independent providers of directory advertising services) received a 15% commission on sales of Yellow Pages advertising. They provide multiple services besides billing and collections hence the cost of these must be well below 15% of revenues.

8 Sources: Documents 107836, 107848, 117809

9 Market power is the ability of a firm, or firms to hold prices above costs (where costs include a normal profit) without attracting significant entry by competitors.

these other media did not represent close substitutes for directory advertising, buyers would have little recourse in the face of a price increase.

Market definition proceeds in two steps. First the relevant product must be isolated. This involves an examination of the extent to which buyers are willing and able to substitute between alternative products or services, and the willingness and ability of firms to supply those alternatives. Second, the geographic area in which those buyers and sellers interact must be delineated.

A. The Relevant Product Market

When defining a relevant product market, economists would ideally like to have information on own-price and cross-price elasticities of demand.¹⁰ For example, since the availability of close substitutes tends to increase the own-price elasticity for a product, it would be helpful to know the effect of changes in telephone directory advertising rates on the quantity demanded. It would also be useful to know the effects of directory advertising price changes on the demand for potential substitutes, such as classified newspaper advertising or radio advertising. Because these statistics are rarely available, economists generally rely upon more qualitative measures when defining markets in competition policy cases.

The task of market definition in antitrust cases has tended to follow the second approach -- practical indications of market boundaries - - rather than the first -- price elasticity of demand. Few economists who offer market definitions in antitrust cases do so based on numerical estimates of the cross-elasticity of demand between products or regions. The reason is simple: it is usually difficult to make numerical estimates of cross-elasticities of demand with any reliability. Instead, prospective market definitions are offered to courts based on judgements about the price elasticity of demand. Those judgments are based on the kinds of "practical indicia" previously mentioned.¹¹

The practical indicia referred to include answers to the following questions: does the product have distinct physical characteristics; what is the end-use; are

10 Own-price elasticity of demand measures the sensitivity of buyers of a product to changes in the price of that product. Cross-price elasticity measures the sensitivity of buyers of one product to changes in the price of another product.

11 Stephen Martin, *Industrial Economics, Economic Analysis and Public Policy* (New York: Macmillan Publishing Company, 1988) p. 253.

unique production facilities required; does the product appeal to a distinct set of customers; are the product's prices distinct relative to the prices of potential substitutes; are buyers sensitive to price changes; and is the product distributed through specialized channels?

These indicia are generally viewed as workable in the sense that usually information is available that allows their application to real situations.¹² They are reflected in the functional evaluative criteria for market definition set out in the Director's *Merger Enforcement Guidelines*.¹³ The criteria include the following elements:¹⁴

- End use
- Views, strategies, behaviour and identity of buyers.
- Trade views, strategies and behaviour
- Physical and technical characteristics
- Price relationships and relative price levels
- Cost of adapting or constructing production processes, distribution and marketing
- Switching costs

1. End use

Telephone directory advertising, like all advertising, is intended to increase sales of the advertiser. This observation, while true, is not helpful in defining the relevant market and is akin to the observation that all food products serve to satisfy consumers' demand for nourishment. It may be that different foods "compete" for the consumer's grocery budget but this does not put all foods in the same relevant

12 See Alvin M. Stein and Barry J. Brett, "Market Definition and Market Power in Antitrust Cases -- An Empirical Primer on When, Why and How," *New York Law School Law Review*, Vol. 24 (1979), pp. 639-676.

13 Director of Investigation and Research, Competition Act, Department of Consumer and Corporate Affairs, *Merger Enforcement Guidelines*, (Supply and Services Canada, Ottawa, 1991).

14 The "Guidelines" include several other evaluative criteria. Consideration of the "existence of second hand, reconditioned or leased products" is not relevant to the case at hand. The "cost of adapting or constructing production processes, distribution and marketing" is discussed in the context of barriers to entry.

market.¹⁵

An issue is whether independent telephone directory advertising and other media advertising are viewed by buyers (advertisers) as close substitutes for Yellow Pages advertising.

The academic literature dealing with telephone directory advertising (which is admittedly scanty) suggests that this medium is fundamentally different from other media and thus has a fundamentally different end use. W. Lazarus, who has studied the medium extensively, views directories, more specifically Yellow Pages directories, as a reference tool that is used once the decision to purchase a good or service has been made.

The Yellow Pages is frequently characterized as a "directional" medium, one that **directs** [emphasis in original] a consumer to the distribution outlet for a product or service. A directional medium is necessarily relatively targeted, but a targeted medium is not necessarily directional. (Advertising in small, special interest magazines is likely to be highly targeted but it is not necessarily at all directed.)

While targetedness is a matter of degree, directionality is a matter of kind. Using the Yellow Pages (or any reference advertising medium) entails a rather unusual behavioral sequence. First, the user has an intention to buy (or to collect further information, etc.), then he looks at the medium, attends to one or more ads, selects

15 This notion is captured in the following quotation from a Tele-Direct document titled "Multimedia Training Course." Document 118830.

GENERIC COMPETITION

Generic Competition occurs between products capable of satisfying the same basic need. The need, rather than the form defines this competition. For example, many different companies producing entirely different products and services compete to satisfy an individual's need to be entertained....

In the advertising industry, generic competition exists between different Media capable of satisfying a company's need to advertise -- the competition is for a share of the advertising dollar. (i.e. newspaper, television, radio, magazines, billboards, Yellow Pages, etc.)

PRODUCT FORM COMPETITION

Product form competition occurs between products that have similar functions or forms. Examples of this type of competition within the directory industry would be "niche" directories such as ethnic directories, neighbourhood directories and business to business directories. Frasers directory and Electronic Yellow Pages would also be examples of product form competition.

one to contact, and then makes a call and frequently a purchase.¹⁶

The notion that telephone directory advertising is directional in nature is reflected in other academic writings.

Yellow Page directories are not an advertising medium. The Yellow Pages even admit to not being an advertising medium but a reference [emphasis in the original] medium....

Hence, the Yellow Pages serves as a dictionary of sorts. It is referred to by consumers only after they have decided what they want to purchase; they may need a telephone number or an address, so they can let their "fingers do the walking" to the appropriate place on the page. But the pages themselves play no role in the production of retail sales through consumer education, frequency, or repetition.¹⁷

Usually the Yellow Pages are used by a prospect after need is established and the prospect is ready to buy. Ultimate consumers and industrial users have long recognized the value of the Yellow Pages in finding names, addresses, telephone numbers, and additional information regarding sources of goods and services.....Probably the chief characteristic of Yellow Pages advertising is its directionality, appealing as it does to specific audiences. It generally reaches people **after** [emphasis in original] they have decided to buy but do not know where to buy it.¹⁸

The proposition that Yellow Pages advertising is directional in nature is accepted by the industry and this acceptance is reflected in its training material.

The Yellow Pages medium reaches people who are ready to buy. Unlike the other media -- which work to create demand -- the Yellow Pages is often viewed as a directional medium -- that is, it directs buyers to a particular business.

In this regard, the Yellow Pages can be seen as a complementary medium -- supporting and extending the reach of your advertising

16 William Lazarus, "The Yellow Pages: A Medium, An Industry," Ph.D. dissertation, Dept of Political Science, Massachusetts Institute of Technology, June 1984, p. 293.

17 Barton White, *The New Ad Media Reality: Electronic Over Print* (Westport, CT: Greenwood Publishing Group, Inc., 1993) pp. 62-63.

18 Maurice Mandell, *Advertising* (Englewood Cliffs, NJ: Prentice Hall, 1980) pp. 468-470.

in other, creative media.¹⁹

Indeed, Tele-Direct makes the distinction in its own directories. For example, in the Toronto book, a display ad directed at potential advertisers notes that "creative advertising (which is shown to include television, radio, newspapers, billboards, magazines and direct mail) stimulates customer interest," while "directive advertising (the Yellow Pages) directs people when they're ready to buy."²⁰

Finally, it is worth noting that Tele-Direct's attempts to introduce non-directional, creative type content (e.g., AdSpot and BrandSell) to its directories have not been particularly successful.

Creative advertising is fundamentally different from directional advertising in that the end use differs. The former "creates" or stimulates demand, while the latter directs consumers to where that demand can be satisfied. Based upon this, the primarily creative media (television, radio, magazines, outdoor signage, and at least national advertising in newspapers) cannot be viewed as close substitutes for telephone directory advertising.

2. Views, strategies, behaviour and identity of buyers of Yellow Pages advertising

An understanding of market boundaries can be drawn from the views, strategies, behaviour and identity of buyers. The identity of buyers is dealt with first.

Telephone directory advertising is a directional medium in that it informs consumers of where to purchase, not what to purchase. Not all businesses believe that they benefit from this type of advertising. Tele-Direct measures its success in convincing businesses to advertise beyond the "free" listing in terms of a penetration rate. The rate has been slightly more than 50 percent over the last few years.²¹

William Lazarus helps to identify who advertises in the Yellow Pages by identifying how the book is used.

19 Tele-Direct, "Multimedia Training Course." (Document 118592); see also Mc Kim, "Yellow Pages & the Media Mix, An exciting new look at Yellow Pages" (Documents 108893-4).

20 Tele-Direct Publications Inc., *Toronto Consumer-Household Yellow Pages*, June 1994-June 1995, p. 1301.

21 Tele-Direct (Publications) Inc. & Tele-Direct Services Inc., "1994 Corporate Post Canvass Analysis Report," (Document 128991).

First, the Yellow Pages is a telephone directory so that we would expect it to be used when use of the telephone is likely to be involved in the transaction. Second, the directory provides directional information to help the consumer locate the source for some non-routinely purchased good. Third, we would expect the Yellow Pages to be used for relatively large purchases where the expected value of additional information might be significant. Finally, we would not expect the Yellow Pages to be used for routine, frequent or impulsive purchases.²²

This set of expectations is reinforced by Tele-Direct's Yellow Pages promotional literature. Table 3 provides an example of such a topology.

Table 3
Characteristics of Yellow Pages Users²³

Buyers looking for any firm	Buyers looking for your firm
1. Newcomers and travellers	1. Recommended Customers
2. Emergency buyers	2. Customers reached by advertising
3. Dissatisfied (with their current supplier) buyers	3. Solicited customers
4. Infrequent buyers	4. Passers-by
5. Comparison shoppers	5. Former customers

Some insights as to what type of businesses actually use the Yellow Pages can be gleaned from usage by directory heading. The top (in terms of 1995 Yellow Pages revenue) 25 headings for Tele-Direct Publications are set out in Table 4.

The results provide few surprises. Infrequent and/or emergency services such as movers, plumbers, glaziers, roofers, auto repair shops, auto body shops and exterminators rank among the top 25. Distributors of infrequently purchased, expensive durables, where comparative shopping is likely, such as new automobiles, major appliances and computers are also important, as are services where the

22 William Lazarus, "The Yellow Pages: A Medium, An Industry," Ph.D. dissertation, Dept of Political Science, Massachusetts Institute of Technology, June 1984, page 217.

23 Tele-Direct's Toronto Consumer & Household (See, Tele-Direct Publications Inc., *Toronto Consumer-Household Yellow Pages*, June 1994-June 1995, p. 1302).

Table 4
 Top 25 Directory Headings
 (by revenue, 1995)²³

Heading	Revenue (\$millions)	Subscriber (#)	Percent w/Ads	Avg per Subscriber (\$)	Avg per Advertiser (\$)
Lawyers	10.37	7,701	64%	1,347	2,108
Restaurants	7.45	19,874	39%	375	951
Moving & Storage	6.43	1,031	85%	6,235	7,309
Automobile Dealers -New	6.22	1,976	88%	3,150	3,576
Dentists	5.51	5,898	75%	934	1,251
Glass-Auto, Plate, Window	5.00	1,515	84%	3,302	3,926
Garages-auto repairing	4.04	9,571	68%	422	624
Florists - Retail	3.96	2,655	77%	1,491	1,947
Insurance Brokers	3.90	3,275	67%	1,190	1,787
Roofing Contractors	3.86	2,055	82%	1,878	2,294
Plumbing Contractors	3.65	3,371	72%	1,082	1,499
Beauty Salons	3.50	12,397	50%	282	560
Tire Dealers - Retail	3.45	1,172	87%	2,947	3,407
Automobile Body Repairing	3.26	4,239	65%	770	1,191
Appliances -Major	3.23	2,094	83%	1,541	1,858
Windows	2.96	1,915	88%	1,543	1,758
Printers	2.84	3,616	60%	785	1,318
Computers - Personal	2.82	2,231	64%	1,263	1,961
Exterminator & Fumigation	2.79	369	86%	7,570	8,813
Carpet and Rug Cleaners	2.76	1,546	77%	1,787	2,312
Pizza	2.69	2,126	65%	1,267	1,959
Automobile Renting	2.68	451	80%	5,938	7,423
Travel Service	2.59	2,832	53%	916	1,728
Signs	2.56	2,049	81%	1,251	1,554
Kitchen Cabinets	2.39	1,999	80%	1,194	1,499

²³ Derived from Documents 131699 to 131713, titled "Top 500 Headings, T.D. Pub." The data refer only to Yellow Pages advertising (advertising in the white pages is excluded).

telephone plays an integral part in organizing the transaction (e.g., pizzas).

However, some caution should be exercised in concluding that high revenue generating headings clearly delineate the types of services amenable to heavy telephone directory advertising. Headings' revenues are influenced by several factors including the number of businesses included under the heading, the penetration rate (i.e., the proportion of businesses buying advertising) and the amount spent per business. For example restaurants (large number of subscribers, low penetration and low average advertising expenditure) and exterminators (small number of subscribers, high penetration and high average expenditure) both make the top 25 list. An examination of Table 4 shows that the headings with the highest average expenditure per subscriber (not per advertiser) include emergency services (e.g., glass replacement, exterminators), infrequently purchased services (e.g., moving and storage), products where comparative shopping is common (e.g., new automobiles and tires), and services used by travellers (e.g., automobile renting).²⁵

Equally important, however, are the types of businesses which do not advertise in the Yellow Pages. Grocery stores had a penetration rate of just 22 percent and an average expenditure per subscriber of just \$55. Department stores and theatres did not make the list of the top 500 headings.²⁶ These three are very heavy users of other media, particularly newspapers, newspaper inserts and flyers. These types of businesses do not require directional advertising, and, as will be discussed presently, need advertising with different characteristics.

In sum, it appears that telephone directory advertising is particularly important to suppliers of goods or services when telephone communication is integral to the purchase, when the product or service is purchased infrequently, particularly in emergency situations, and when the purchase involves comparative shopping.

Additional insights into how advertisers view the Yellow Pages can be drawn from industry reports. Table 5 shows advertisers' ratings of the Yellow Pages and other media in a number of dimensions.

25 A number of headings with very high average expenditures per subscriber do not make the top 25 list. These include (with expenditure per subscriber in brackets) escort services (\$12,728), bankruptcy trustees (\$9,069), truck renting (\$5,257), bullet proof glass (\$5,039), and locksmiths (\$5,231).

26 A review of Tele-Direct's Toronto Consumer directory shows negligible advertising under the department store and theatre headings.

Table 5
 Characteristics of the Yellow Pages and Competitive Media:
 Advertisers' View of Usefulness²⁷

Characteristics	YP	News- Paper	Radio	TV	Direct Mail
Comprehensive	H	M	L	L	L
Universal	H	M	M/H	H	L
Targetable	L	L/M	M	L	H
Creative	L	M	M	H	H
Timely	L	M	M	M	H
Promotional	L	M	M	M	H
Responsive	H	M	L/M	L/M	H
Clarity	M	H	M	M	H
Emotional	L	L/M	M	H	M

L = little usefulness; M = medium usefulness; H = highly useful

Again, advertisers' views are consistent with the idea that directory advertising is directional. The Yellow Pages rank high as being comprehensive (all businesses are included), universal (all households have the directory) and responsive (customers respond to the ads). The medium ranks low as being creative, promotional and emotional -- all attributes of creative advertising.

In sum, advertiser behaviour (usage) and views are consistent with the notion that telephone directory advertising is directional in nature.

3. Physical and technical characteristics

Telephone directory advertising exhibits a number of specific, in some cases unique, characteristics which sets it apart from other media.

First, telephone directory advertising is relatively time-insensitive. Since a Yellow Pages advertisement is set for a 12 month period, the medium cannot be used to describe product characteristics (including price) which may change during that period. Therefore, an advertiser cannot view Yellow Pages advertising as a substitute for other less static media when time-sensitive content is important to the advertisement. This explains, in part, why movie theaters with continual change in

²⁷ Communications Trends, Inc. "Yellow Pages in the 1990s: The Strategic Choices," 1990, p. 26 (Document 107876).

venue, and grocery and department stores, with their emphasis on limited time sales, eschew use of telephone directory advertising in favour of other, time-sensitive media such as newspapers.

Second, due to its 12 month life, the Yellow Pages directory is a more permanent reference tool than, say, newspaper classified advertisements or direct mail. When it is important to the advertiser that the customer have ready, convenient access to directional information, as in an emergency or when telephone communication is integral to the transaction, the permanency of the directory sets it apart from the more transitory media.

Third, the Yellow Pages directory is comprehensive. This is true in two senses: all telephone subscribers are issued a copy and all business subscribers are listed. For suppliers of products which are infrequently, or randomly demanded, comprehensive distribution of the directory is important because it means that the directional information will be available when demand is registered. For example, all home owners are potential demanders of plumbing services. However, actual demand is infrequent, perhaps random. Under the circumstances, it would be very expensive for a plumber to continually target all homeowners with advertisements in transitory media in order to attract the very small subset who will need plumbing services at any given time. On the other hand, the comprehensive listing of all businesses in the Yellow Pages directory is important to the consumer who has a firm in mind, but needs direction to that firm. Because the directory is comprehensive, it is logical that the customer will turn to this reference source. The comprehensiveness of the Yellow Pages directory sets it apart from all other advertising media including classified newspaper advertisements and direct mail.

Fourth, rules imposed by the Tele-Direct upon directory content also serve to set this medium apart from others. These restrictions take two forms. First, the actual format for Yellow Pages ads is subject to detailed technical constraints (e.g., size, colour, position, borders). Second, there are restrictions on content. For example, the Tele-Direct sales manual includes restrictions on price quotations, the use of superlatives, comparative advertising, the use of coupons, group advertising and the use of foreign languages. Of these, the most important is, arguably, the restriction on price information. This makes the Yellow Pages inappropriate for advertising in which price is an integral part of the information conveyed to the potential buyer. In this regard, it is worth noting that other directional media, such as catalogues, newspaper and magazine supplements, and newspaper classified ads commonly include (indeed, often emphasize) current prices. In short, businesses that wish to inform potential buyers of the prices of their goods or services cannot substitute telephone directory advertising for other media.

In sum, the characteristics of Yellow Pages advertising, some of which are inherent in the medium (e.g., relative time-insensitivity) and some of which are imposed by the publishers (e.g., content restrictions) set it apart from all other media. This is supported by industry views that explain the lack of substitutability of Yellow Pages directional advertising with other media advertising as follows.

It is also attributable to the comparatively low flexibility which the Yellow Pages offer advertisers. Unlike other media, the Yellow Pages are only updated annually. Advertisers therefore may only alter or replace their advertisements every 12 months; they cannot use the Yellow Pages to convey to consumers time-sensitive price and product information. Further, because advertisements are difficult and costly to correct once the directories are printed, publishers are prudent in policing the content and layout of advertisements. Therefore, the form and message advertisers may deliver through the Yellow Pages is more circumscribed than is the case with creative advertising media.²⁸

4. Price relationships and relative price levels

The economics literature recognizes that price relationships (particularly correlation of price series) and relative price levels can provide insights on the issue of substitutability.²⁹ In effect, if price changes of one product are closely followed by price changes of another product, this provides necessary, but not sufficient evidence that the products are substitutes. (In other words, if prices do not move together it is unlikely that the products are substitutes, but if they do move together this supports, but does not prove the hypothesis that the products are substitutes.)

An industry source states that the price of Yellow Pages advertising has not changed with price changes in other advertising media.

Therefore, because of the directional nature of Yellow Pages advertising and because of the relatively low flexibility offered to advertisers, Yellow Pages advertising is not readily substitutable with the creative advertising provided by other media. This lack of substitutability has been confirmed by the fact that changes in price

28 T.J. Bourke, President, Tele-Direct Publications, correspondence with H. Wetston, DIR, July 12, 1991

29 There is a very extensive literature dealing with this subject. See Philip Areeda and Donald Turner, *Antitrust Law*, vol II (Boston, Little, Brown, 1991) pages 351-357; and George Stigler and Robert Sherwin, "The Extent of the Market," *Journal of Law and Economics*, 1985, pages 555-585.

for Yellow Pages advertising historically have not varied consistently with changes in price for the advertising in other media.³⁰

The view is further supported by a review of the documents bearing upon Tele-Direct's pricing policies. When products are viewed by suppliers as close substitutes, this realization is logically folded into pricing decisions. One would therefore expect that the analysis preceding price changes would emphasize the pricing of close substitutes. No such emphasis is found in Tele-Direct's documents produced on discovery dealing with pricing. Two other factors are emphasized in explaining its decisions to change, or not to change directory advertising charges.

The increases are based upon a combination of cost of production and circulation increases.³¹

In effect, prices reflect cost and value conditions. As Tele-Direct's costs of producing the directory (e.g., paper costs, labour costs) increase, advertising prices are increased to compensate for this. Further, as the value of the directory to the advertiser increases (i.e., as circulation or coverage increased) this too would be reflected in ad prices.

This is not to say that the pricing of other media is completely ignored. The documents do indicate that data on the consumer price index and average price changes for all media were included in material dealing with Tele-Direct's own price changes.³² However, the material does not suggest that all-media (or any specific medium for that matter) average price increases were ever an integral part of Tele-Direct's pricing decisions.

5. Trade views, strategies and behaviour

A sense of the boundaries of the relevant market can be gleaned from an examination of the views of those familiar with the industry, whether as participants, suppliers, trade association representatives, distributors or knowledgeable observers

30 T.J. Bourke, President, Tele-Direct Publications, correspondence with H. Wetston, DIR, July 12, 1991

31 Tele-Direct Memorandum, "Subject: 1987 Pricing Policy" (Document 129704). The documents refer repeatedly to the role of Tele-Direct's cost of production and circulation increases as the basis for prices changes. See Documents 129689, 129697, 107576, 110073. The 1993 pricing policy notes that price increases were reduced due to the "economic conditions" (presumably the recession in Central Canada) and were in step with the advertising industry (Document 109108).

32 See Documents 129708, 129742, 128890.

such as consultants or specialized reporters.

a. Tele-Direct's views, strategies and behaviour

Tele-Direct views independent telephone advertising directories as competitors. Apparently it also views directory consultants and advertising agencies as competitors. The documents produced on discovery are replete with references to these perceived competitors, and contain extremely detailed analysis of individual directories.³³ An example of the extent of Tele-Direct's monitoring of competitors is its placement of "keyed ads" in competing books to determine usage.³⁴

At issue is whether Tele-Direct views other media as direct competitors, and similarly, whether other media view the telephone directory advertising medium as a close substitute. If Tele-Direct did hold such views, one would expect to see as much attention paid to the activities of the other media as was paid to independent directories.

There are several instances where Tele-Direct did express some concern over the activities of newspapers. An example is the attempt by some newspapers to convince Yellow Pages advertisers to redirect expenditures away from the directories to the newspapers. Apparently, during the recession in Central Canada in the early 1990s, some newspapers attempted to curb revenue losses by marketing to directory advertisers.³⁵ The following comment illustrates Tele-Direct's concern.

I (J. Sweeney, Tele-Direct's director of communications) don't think it's any secret that there are organizations traveling the continent selling packages to newspapers on how to pirate Yellow Pages advertisers.....I don't, though, think it's a worry. It's more pesky than anything. Whenever we run into (this) we sharpen our

33 The information compiled on independent directories is impressive. The Competition Database Binder: sets out a flow chart for Tele-Direct's "Competition Intelligence System;" contains circulation, scoping, and revenue (by ad characteristic) information by independent directory by individual geographic market; documents bankruptcies of independent publishers; provides in-depth analysis of specific competitors (e.g., "The Other Book"); and contains Dun & Bradstreet "Business Information Reports" for specific publishers. Documents 117406-117808. See also, 107996-108001.

34 A keyed ad is placed only in a specific directory. Calls can then be attributed to that directory. See "Competition Update," Document 115191.

35 The gist of the strategy was to convince advertisers that while directory advertising was important, they likely over-used the medium. Interestingly, a 1994 report from The Newspaper Research Center identifies numerous sources of increased competition for newspaper advertising revenues, but telephone directory advertising is not amongst them (Document 116969).

sales skills. We've always seen ourselves as part of the marketing mix, and we've never knocked newspapers, radio or TV.³⁶

This is consistent with the proposition, discussed earlier, that Tele-Direct sees directory advertising as a complement, not substitute, for other advertising media.

b. Other trade views, strategies and behaviour

Insights as to market boundaries can also be gleaned from the views, strategies and behaviour of others involved directly or indirectly with directory advertising.

Advertising research agencies treat the Yellow Pages directories as a separate medium when reporting on advertising revenues.³⁷ There are trade journals which focus on the directory advertising business.³⁸ Agencies have been established which specialize in the selling of Yellow Pages advertisements.³⁹ A survey of general advertising agencies found that these professional buyers do not consider the Yellow Pages a real medium, but rather a reference guide. They also consider placing Yellow Pages ads as unprofitable due to the effort required.⁴⁰

Before leaving the topic of trade views and practices, it is worth noting that conventional measures of effectiveness are not used in the selling of Yellow Pages advertising. For example, syndicated third-party research (e.g., Nielsen ratings) are commonly used for other media, but not for Yellow Pages. Apparently there is some dissatisfaction amongst ad agencies over the lack of independent research and reporting on the effectiveness of the medium. Further, Yellow Pages publishers have eschewed the use of common media numeraires such as comparative data on the cost-per-thousand (commonly termed CPM, this reflects the cost of reaching one

36 John Taff (1991), "Turning Over a New Leaf," *Link*, Vol 3, No 2, page 8, Document 102994. J. Sweeney took the same position in his July 25, 1990 letter to the Oshawa Times (Document 108108). In a report to J. Sweeney on the Oshawa Times' initiative, A. Smith wondered whether countering the newspapers' program would give it more credence that it deserved (Document 108120).

37 See, for example: CARD, *A Report on Advertising Revenues in Canada*, September 1994

38 See, for example, *Link* and *Directory World*.

39 DAC, NDAP, Media Nexus, DirAd, Mediaplex and Ad Performance are examples.

40 Tele-Direct, "Syndicated Research (CPM)," Document 106958. See also, Documents 106515-106572.

thousand potential customers).⁴¹

6. Switching costs

When it is difficult or impossible for buyers to switch from one product to another this may set those products in separate markets. It would appear that the direct costs to switch between different local advertising media are relatively low.⁴²

7. Conclusions: Product Market

Application of the evaluative criteria for defining the relevant product leads to the conclusion that there is very limited substitutability between telephone directory advertising and advertising in other media. Directory advertising is directional and this sets it apart from creative advertising. Directory advertising differs from other directional advertising in terms of time-sensitivity, comprehensiveness and content. Further, the distinctiveness of directory advertising is supported by: the behaviour of Tele-Direct; the views of those knowledgeable with the industry; the development of unique marketing channels; and studies by those outside the industry.

On the other hand, it is clear that Tele-Direct views independent advertising directories as substitutes. This is reflected in the detailed monitoring and copious reporting of independents' activities. It is also clear that knowledgeable third parties view independent books as being in competition with the telephone companies' directories.⁴³ In the result, independent telephone directories belong in the relevant market.⁴⁴

41 Document 129788. Apparently Tele-Direct believed that CPM measures were useful when competing with other directories. The lack of competition in this regard explains the lack of a CPM measure. See Tele-Direct, "Syndicated Research (CPM)," Documents 106946-106973.

42 This may not be true for switching to broadcast media. Obviously, an advertiser would have to significantly alter the advertising program when switching from telephone directories to, say, television.

43 See Simba Information, "Lessons of Yellow Pages Competition: A study of Independent and Competitive Directory Strategies," 1993, Documents 115911-116053.

44 Arguably, not all independent telephone directories are substitutable for the Yellow Pages directory. Very small books appealing to niche markets, such as foreign language directories, probably are such weak substitutes as to be outside of the market.

B. The Relevant Geographic Market

The relevant geographic market with respect to telephone directory advertising is a local market, bounded in many instances by the extent of the local free calling area. In the jargon of the industry, directories are "scoped" which is to say they are aimed at a specific market. Historically, scoping simply meant deciding upon the geographic area to be covered by the directory. Often times this was determined by political boundaries (e.g., city limits, counties), telephone exchange boundaries, or both. Tele-Direct describes its current scoping practice as follows.

The geographical area covered by the White Pages alphabetical directory is larger than the areas covered by the Yellow Pages directory in most cases. The Yellow Pages directory services all members of the business community, large and small. The majority of advertisers are business with local marketing needs. The Yellow Pages is scoped to these local marketing needs, and businesses that wish to cover broader geographical areas can do so by purchasing advertising in more than one directory.⁴⁵

Indeed, Tele-Direct has made efforts to more precisely scope directories. A case in point are the Toronto neighborhood directories which are aimed at more narrow, community markets.⁴⁶ In a sense, the neighborhood books are substitutes for the more widely scoped metropolitan book. Nevertheless, it is generally true that a telephone directory aimed at one geographic area is not a substitute for one directed at a different geographic area.

C. Relevant Product and Geographic Markets

In summary, an application of conventional criteria leads to the conclusion that telephone directory advertising constitutes a relevant product market. Relevant geographic markets are local in nature.

45 Tele-Direct, "Facts & Figures," April 3, 1992 (Document 110085).

46 Tele-Direct's rationale for introducing neighborhood directories was to increase penetration. Apparently it believed that many potential advertisers do not buy space in the major metropolitan books because area coverage was too wide. See "Facts & Figures," April 3, 1992 (Document 110121). These books were made attractive to local businesses by prohibiting advertisements by businesses not physically located within the defined territory or the fringe area. See Tele-Direct's "Neighborhood Operating Guide" (Document 110135).

IV. MARKET STRUCTURE

Given that directory advertising is distinct from other media advertising, the question remains as to whether Tele-Direct enjoys market power in the directory business. Generally it is accepted that two structural conditions must exist before a finding of single-firm market power can be made. First, the firm must have a dominant market share. Second, there must be barriers which allow the incumbent to raise prices above costs (including a normal profit) without inducing timely and significant market entry by competitors.

A. Market Share

While more precise market share data (which would have to apply to narrow geographic markets) are not available, it is possible to set out the shares for Tele-Direct directories in its eastern and western regions.

Table 6
Market Shares: Tele-Direct and
Independent Directories Eastern & Western Regions
(at Dec. 31, 1991: Revenue Based)⁴⁷

	Eastern Region	Western Region	Total
Tele-Direct	97.5%	92.0	94.0%
Independents	2.5%	8.0%	6.0%

Clearly Tele-Direct holds a dominant share across the markets in which it operates. Whether this dominance is sustainable depends upon the existence and significance of barriers to market entry and exit.

⁴⁷ Document (110070). A 1993 Tele-Direct document titled "Telephone Directory Competition in Ontario/Quebec" indicates that in 1992 there were 196 competing books (produced by 69 publishers) with revenues of \$9.6 million. This suggests a market share of only 1.7% for the independents, Document 115237. A 1994 Tele-Direct report titled "Independent Publisher Summary" shows 215 independent books with revenues of \$15 million. This suggests a market share of 3% for the independents. Document 116755.

B. Barriers to entry and exit

The existence of barriers to entry to the relevant market is important to the analysis of market power because in the absence of barriers, sellers (no matter how few) cannot exercise market power. At the extreme, when entry and exit to an industry are costless, price will reach the level of perfect competition, even if there is a structural monopoly (i.e., one seller). The reason is, if the seller attempts to raise price above costs, this will attract immediate, substantial entry, supply will increase and price will fall. Such a market is said to be contestable.

It is widely recognized among economists and anti-trust practitioners that two general conditions must be satisfied to establish the existence of entry barriers. First, the entrant must be exposed to significant losses if unsuccessful. Second, incumbent firms must have advantages which make failure on the part of the entrant more likely than would be the case in the absence of such advantages. The first condition is satisfied if entry requires substantial sunk costs (i.e., large investment which are specialized and irrevocably committed to the specific industry -- the investments are sunk in the sense that they are of little value if the entrant subsequently fails and exits the industry). The second condition is met if incumbent firms enjoy cost advantages, product differentiation advantages, or potential strategic advantages. All of these factors can increase the entrant's risk of failure.

This section reviews the recent record of entry both in the United States and Canada, identifies the sources of sunk costs, and discusses sources of incumbent advantages.

1. Observed entry

Yellow Pages directory publication is very profitable both in the United States and Canada. In competitive markets, profitability is the incentive that draws additional suppliers into the market. While high profitability has characterized the industry, consequential entry has not.

With the breakup of the Bell Telephone Co. in the United States came increased competition in the telephone directory business. While they were an integral part of the Bell system, the individual regional units (which had responsibility for publishing Yellow Pages directories) obviously did not compete with each other. However the newly created Bell operating companies (the "Baby Bells") had no such restriction. Presumably these companies, with their long experience in publishing their own Yellow Pages directories, were ideally positioned to encroach upon directory markets outside of their own regions. They did so, but

with very limited success.⁴⁸ Entry by what must be considered the most advantaged potential candidates (i.e., other telephone companies) was generally unsuccessful. At present, independents, including utility owned independents, account for only 6.5 percent of industry revenues in the U.S.⁴⁹ This attests to the existence of significant barriers to market entry.

In Canada, a number of independent publishers have, from time to time, successfully entered niche directory markets. However, more comprehensive directories, such as the Pink Pages and Purple Pages, which compete directly with the Yellow Pages directories, have had little success.⁵⁰

2. Sunk costs

Entry into major directory advertising markets involves significant sunk costs. The success of a directory hinges largely upon its acceptance by both consumers and advertisers. This acceptance, in turn, depends upon reputation which qualifies as a sunk asset. If the directory fails, there is no salvage value to this type of good-will. It should be noted that a common entry strategy is to provide advertisers with space in a prototype directory for free. The goal is to convince advertisers that the entrant publisher actually has the wherewithal to put out a directory and to recoup expenses with subsequent paid issues. Apparently White Directory Publishers spent \$1.2 million on prototype books in the Niagara area.⁵¹ This type of investment is obviously lost if the publisher exits the market. Tele-Direct, in a 1986 strategy report listing barriers to entry, acknowledged that entrants would have to incur heavy investments.⁵²

One source of these costs is staffing. As Tele-Direct notes in a description of barriers to entry to directory publishing,

48 See Simba Information, "Lessons of Yellow Pages Competition: A study of Independent and Competitive Directory Strategies," 1993, Documents 116000-116002.

49 *op. cit.*, p. 115920.

50 Other entrants who have failed include: Maritime Business Directories (known as the Maritimes Pink Pages); the Yellow Directory, published in the Kitchener-Waterloo region; the United Directory, published in the Montreal region; the United Directory, published in the Halton-Peel and Niagara regions; Pages Plus, published in Montreal; and Pages Plus, published in Quebec City.

51 "Competition Update," Document 115192.

52 Document 106015.

Staff: Difficulty in obtaining work permits would necessitate the hiring and training of large numbers of clerical, sales and management personnel. Trained directory personnel are a rare commodity in the labour force.⁵³

Clearly, investments in training are a sunk cost. It should also be added that the existence of independent directory advertising services providers would attenuate this problem and facilitate entry by independent publishers. This, too, is recognized by Tele-Direct.⁵⁴

3. Incumbent advantages

a. Access to lists and updates

By virtue of their exclusive rights to provide local service, the telephone companies possess comprehensive lists of business and residential telephone subscribers and current information on new subscribers, name and telephone number changes, and service suspensions. This possession of comprehensive and current information assists the Yellow Pages directory publishers in several ways. The lists contain information on business subscribers beyond what is published in the directory (e.g., complete mailing addresses, primary business listing, billing authority, and telephone service and equipment requested). Most importantly, requests for service from new businesses automatically alerts the publisher to potential customers for Yellow Pages advertising.

In the United States, access to the lists and updates has been made available to publishers of competing directories for a number of years.⁵⁵ Only very recently has the CRTC directed Bell Canada to provide, for a fee, machine-readable, non-residential listing data to potential directory competitors.⁵⁶ However, the issue is not yet resolved. Major independent publishers believe that they continue to be disadvantaged with regard to their access to the lists.

53 Document 106015. The same point was made in Simba Information, "Lessons of Yellow Pages Competition: A study of Independent and Competitive Directory Strategies," 1993, Document 115924.

54 As a defence against entry, the Tele-Direct strategy document recommended reducing "the power of specialized agencies - they may direct advertisers to the competitive product if offered higher commissions." Document 106028.

55 Nonetheless, the U.S. telephone companies apparently continued to resist supplying these data on favourable terms to competitors. See Communications Trends, Inc. "Yellow Pages in the 1990s: The Strategic Choices," 1990, p. 35 (Document 107885).

56 Telecom Decision CRTC 90-12, June 14, 1990.

b. First Mover Advantages

First-mover advantages are commonly viewed as barriers to entry. The notion is that the first entrant to an industry incurs relatively low marketing costs because it faces no rivals. Subsequent entrants must incur all the marketing costs of the first-mover and additionally must convince buyers of the superiority of their particular product or service bundle. Buyers will attach some probability greater than zero that the entrant's product bundle will not be superior to the incumbent's. Moreover, if buyers have had bad experiences with the products of entrants, this is likely to raise the perceived risk and exacerbate the entry barrier. Apparently this has been the case in directory advertising.

Advertisers simply find it easier to give their business to the books that have been around for 100 or so years. The utility sales force is known to the advertisers and they know their territory. The history of book usage is clear, so the cost and risk of switching or even splitting a budget for the advertiser is just too high.⁵⁷

One of the biggest hurdles an independent publisher must overcome is one of credibility among local advertisers. That's especially true in markets where the local utility has strong name recognition and brand awareness for its yellow pages product.⁵⁸

In the result, a first-mover advantage can create a permanent long-term entry barrier. Tele-Direct has such an advantage and recognizes it as a barrier to entry.⁵⁹

c. Billing advantages

Commonly the telephone companies bill directory advertisers in twelve installments. These advertising charges are included in the monthly telephone service invoice. This provides two advantages. First, there is an obvious savings in handling costs (e.g., postage, accounts management). Second, and more importantly, the billing of telephone service charges and advertising charges on the same invoice blurs the distinction between the two. Telephone subscribers have a strong incentive to pay their telephone bills lest service be interrupted. As a result,

57 Communications Trends, Inc. "Yellow Pages in the 1990s: The Strategic Choices," 1990, p. 34 (Document 107884).

58 Simba Information, "Lessons of Yellow Pages Competition: A study of Independent and Competitive Directory Strategies," 1993, Document 115924.

59 Document 106015.

affiliated directory publishers enjoy a very low level of accounts receivable.⁶⁰

Independent directory publishers are disadvantaged in this regard. Once their directories are published there is little recourse for non-payment of advertising charges. The ad cannot be removed.

d. Control of the Yellow Pages logo/product differentiation

In the United States, the trademarks "Yellow Pages" and "Walking Fingers" logo are in the public domain. This is not true in Canada. These marks are the exclusive property of Tele-Direct. Tele-Direct in turn licenses the other Canadian telephone companies to use these marks.

These particular marks are widely recognized and confer upon their users product differentiation advantages. In effect, the term "Yellow Pages" has come to mean the "official" advertising directory.

Furthermore, control over the marks allows Tele-Direct to curb the entry of other telephone companies into its territory (the most common form of market entry in the United States). Tele-Direct only licences other telephone companies to use the trademarks within their own territories.

Finally, the differentiation advantage is maintained and enhanced by Tele-Direct's substantial advertising which generally incorporates its marks. Over the period 1991-1993 it spent well over \$5.3 million on such advertising.⁶¹

Tele-Direct recognizes that the marks constitute an entry barrier.

We are the official Telco product, with proprietary rights on the walking fingers logo and the "Yellow Pages." This identification of our product differentiates us from potential competitors.⁶²

e. Strategic behaviour

Finally, it is recognized that incumbents can use strategic behaviour to target potential entrants, thwart their entry attempts and discourage potential future entrants. Industry sources suggest that incumbent Yellow Pages publishers have

⁶⁰ This advantage is recognized in the documents. See Communications Trends, Inc. "Yellow Pages in the 1990s: The Strategic Choices," 1990, p. 35 (Document 107885).

⁶¹ Document 104211.

⁶² Document 106015.

used such tactics.

The utility publishers are rich and well financed. They can raise the cost of competing enough to bankrupt small independents and discourage competition from sister Bells by adding features, by increasing advertising expenses, lowering prices, or in the case of Nynex's defense against Southwestern Bell, raising prices enough to starve a new publication.⁶³

Utility publishers, which control nearly 95% of the U.S. yellow pages market, have reacted to independent competition with everything from disparaging advertising campaigns, copyright infringement lawsuits, rescoping of directories, special pricing programs, or genuine attempts to improve the quality of their products and services.⁶⁴

4. Summary

The record of failed entry, evidence of substantial sunk costs associated with entry, and the existence of substantial advantages enjoyed by incumbent Yellow Pages publishers, lead to the conclusion that there are significant barriers to entry to this industry.

V. CONCLUSIONS

Based upon the analysis it can be concluded that telephone directory advertising constitutes a relevant market and that Tele-Direct dominates the relevant geographic markets for telephone directory advertising in which it operates. Moreover, given the considerable barriers to entry to this industry, that dominance will continue in the foreseeable future.

63 Communications Trends, Inc. "Yellow Pages in the 1990s: The Strategic Choices," 1990, p. 35 (Document 107885).

64 Simba Information, "Lessons of Yellow Pages Competition: A study of Independent and Competitive Directory Strategies," 1993, Document 115923-115924.

Exhibit "B"

April, 1995

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- Commissioner, Province of British Columbia, Resources Compensation Commission (April-August 1992)

Publications:

A. Books, Monographs, Technical Studies:

Report of the Commission of Inquiry into Compensation for the Taking of Resource Interests (Victoria, B.C.: Queen's Printer, 1992) R. Schwindt, sole Commissioner

Business Administration Reading Lists and Course Outlines, third edition, 14 volumes (Duke Station, NC: Eno River Press, 1991)

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