

Original

Southern Expert Aug. 16/91

CT-90/1

THE COMPETITION TRIBUNAL

IN THE MATTER of an application by the Director of Investigation and Research for orders pursuant to section 92 of the Competition Act, R.S.C. 1985, c.C-34, as amended;

AND IN THE MATTER of the direct and indirect acquisitions by Southam Inc. of equity interests in the businesses of publishing The Vancouver Courier, the North Shore News and the Real Estate Weekly;

B E T W E E N:

COMPETITION TRIBUNAL DIRECTOR OF INVESTIGATION AND RESEARCH
TRIBUNAL DE LA CONCURRENCE

COMPETITION TRIBUNAL TRIBUNAL DE LA CONCURRENCE		P R O D U I T
Applicant,	Aug 16 1991 <i>RM</i>	
REGISTRAR - REGISTRAIRE	OTTAWA, ONT. #153	

Dossier CT-90/1
V Southam Inc.
et

- and -

Exhibit No. 151 14:10
No. de la pièce
d on
sée le Jan. 14, 1992
Greffier [Signature]
SOUTHAM INC., LOWER MAINLAND PUBLISHING LTD.,
RIM PUBLISHING INC., YELLOW CEDAR PROPERTIES LTD.,
NORTH SHORE FREE PRESS LTD., SPECIALTY
PUBLISHER INC., ELTY PUBLICATIONS LTD.,

Respondents.

A F F I D A V I T

I, JACK MAR, of the City of White Rock, in the Province of British Columbia, MAKE OATH AND SAY:

A. PERSONAL QUALIFICATIONS

1. My private consulting business, Jack Mar & Associates, offers advertising and marketing advice for a diverse number of retail clients. I offer a result oriented, pragmatic approach to resolving clients' advertising and marketing requirements.

2. In the recent past I have consulted for Woodward's, advising its Marketing and Advertising Department on all aspects of media buying while it searched for a new Vice President of Marketing; I consulted for Flyer Force in Vancouver; and I counselled both large and small retail businesses on their advertising strategies in general, and flyer design, production and distribution in particular.

3. My career grew with Woodward's over a 37 year period. Starting from the visual art and merchandise presentation area, my responsibilities expanded to include advertising layout, media planning, sales promotion and operations management.

4. I was responsible for Advertising and Display for the Calgary area, eventually becoming Advertising and Promotions Manager for Woodward's in Alberta. These positions led me to my move to Vancouver in 1985 as Corporate Manager of Advertising and Sales Promotion, Woodward's Stores Limited.

5. My responsibilities in Vancouver included overseeing the operation of a staff of 23 - an in-house advertising department encompassing creative, production, media buying, sales promotion and public relations.

6. We continually participated in market research studies to improve operations. These studies examined topics such as:

- ° Woodward's position in the market place relative to the competition;
- ° Strengths and weakness of the company as perceived by consumers;
- ° Perception of customers of Woodward's type of advertising and media recall;

- ° The effectiveness of expenditures in major media, including newspaper ROP, radio, television, and flyers/inserts;
- ° Advertising and promotion trends in Canada and the United States.

7. My responsibilities included developing an advertising plan calendar in conjunction with merchandising divisions to best service their required promotional needs for British Columbia and Alberta.

B. RETAINER

8. I have been retained by Southam Inc. to advise on retail advertising in the Vancouver area and, in particular, on the use and distribution of preprinted material by retailers. In presenting these opinions I rely on my years of experience and observations of what retailers do in this market.

C. ADVERTISING OPTIONS IN VANCOUVER

9. I have looked at the affidavit evidence of Joya Dickson and agree that it paints an accurate picture of the advertising vehicles in the Vancouver area. I make the following additional observations.

(a) Daily Newspaper Display Ads

10. Daily newspapers provide an excellent package that is well read because it has current news and interesting specialty

sections. Because it is a paid publication, the daily newspaper is invited into the home and read.

11. This daily read factor gives advertisers the opportunity to encourage immediate response and create traffic. If used regularly, the daily paper ads constantly remind the customer of the retailers name and promotion - developing high awareness levels.

(b) Community Newspaper Display Ads

12. Some community newspapers provide an excellent environment and package for certain advertiser messages, particularly where the advertiser has a focussed geographic area in which to deliver its message. News content differs from dailies in that it focuses on localized news, community interest articles, and familiar, folksy, recognizable events. This type of paper provides opportunities to target readers within a geographic market as opposed to wasting resources on overly broad geographic coverage.

13. On the down-side, some community papers have a dubious editorial environment. Approximately 20% of the papers in MetroValley network and 30% of the papers in the VanNet network, for example, have weak editorial content. As an advertiser or a media consultant, therefore, I would not recommend buying ads in these "weak sisters".

14. Further, community papers are free hand-delivered publications and, therefore, are not perceived to be as valuable. There is no urgency to read them immediately, because they are generally published only once or twice per week. Infrequent publication also means advertisers have less flexibility as to when messages are exposed.

(c) Preprinted Inserts (Flyers)

15. Flyers have evolved rapidly over the past 20 years. Until the mid-1970's, flyers were true newspaper inserts and were either printed as a section of the newspaper or preprinted on newspaper presses and inserted into the newspaper on a specified day.

16. These early flyers suffered from three problems. First, they reached a relatively low percentage of households since they were limited to the newspaper's circulation. Second, their reproduction quality was poor. Third, they were relatively expensive since they had to be separately placed in each paper when the promotion was in effect.

17. In the mid-70's flyer advertisers moved to non-newspaper printers. This solved each of these problems. The problem of poor reach was solved by using an alternative flyer distribution system either to supplement or replace distribution in the dailies. The reproduction quality of preprints from outside printers is superb. Finally, economics of scale can be captured in outside preprint production because one printer could print inserts for a number of newspapers.

18. The advantages of flyers can include: better production control, lower production costs and the ability to target accurately the households to which advertising is sent. Flyers can be creative, colorful, visually exciting and can contain all the detailed information required to create buying interest in the reader. Distribution costs are reasonable; advertisers can choose among a number of distribution means for the most efficient method to target their customers. They can choose distribution by selecting grouped postal codes and

inserting their flyer into the daily papers, by selecting specific small areas called forward sortation areas and inserting their flyer into community papers and, by selecting specific postal walks and delivering their flyer via Ad Mail or in some areas by selecting certain households and having independent distributors hand deliver door-to-door.

19. Disadvantages associated with flyer advertising include:

- * because flyers appeal to established customers for shopping news value, they have limited ability to capture new business.
- * non-interested readers will likely discard flyers out of hand making chance consumption unlikely.
- * production lead times and turn around times are long and changes are costly thus inhibiting flexibility to change for competitive reasons;
- * flyer advertising is only as good as the distribution; therefore, distribution must be carefully monitored.

20. Flyers are not considered a high frequency advertising medium due to high production costs. Smaller retailers would be limited to distributing flyers on a seasonal basis or to promote special events. Additionally, if you are a small retailer and printing runs are not high, the production cost to media ratio escalates out of reasonable proportion. Even major retailers, such as Woodward's, can only make one impression per week using flyers; however, that impression may be very strong. Other media, such as radio and display ads in daily newspapers, are able to make many more impressions per week.

21. Distribution services have improved with the increased level of flyer usage. Currently, all major flyer distribution systems (i.e., daily newspapers, community newspapers, Ad Mail and independent flyer delivery) offer selective targetting so that an advertiser can focus in on its primary and secondary target customers.

22. Flyer Force was able to supplement daily inserts so that the total service package approximated total market coverage. With the demise of Flyer Force, however, the competitiveness of each daily as a flyer delivery system for major retailers has suffered, since those retailers now must use both dailies and possibly alternate delivery systems to bring the reach up to acceptable levels. This leads to duplicated delivery to some households, adding to the retailer's costs and potentially annoying customers.

23. At the same time, the Post Office, through its Ad Mail services, has become much more competitive in flyer distribution. It offers bonded personnel who have access to mailboxes, even in controlled access apartments. This gives Ad Mail a significant advantage over community newspapers and independents, who must dump their material in the lobbies of controlled access buildings. Further, Ad Mail's pricing is quite competitive.

24. The relative strength of community newspapers may not be as important when considering flyer delivery as it is when considering ROP ads. The advertiser's principal concern is with the integrity of a flyer distribution system. The newspaper environment provides additional assurance that a flyer will get into a consumer's hands, regardless of the readership of the newspaper contents. The only benefit for a strong community paper is that at least some customers are likely to complain if they don't receive a paper.

25. Door-to-door distribution is also widely available from a number of smaller independent distributors throughout the Lower Mainland. These distributors are flexible in their delivery times and offer very competitive rates. This would make them very attractive to smaller cost-conscious retailers with small trade zones who can personally monitor the quality of delivery with relative ease. Major retailers with larger trading zones (such as Woodward's) cannot monitor delivery as easily; consequently, they tend to look to deliver systems whose independent verification methods lead them credibly (i.e., newspapers and Ad Mail).

26. Independent door-to-door flyer delivery companies can become significant competitors, even for major retailers like Woodward's, if they could demonstrate credible delivery by doing the following:

- (1) hiring only bonded, adult delivery persons;
- (2) ensuring apartment access, at least to lobbies;
and
- (3) implementing a program of random delivery checks.

27. All of the available distribution systems are quite competitive in their pricing. In preparing for this Affidavit, for example, I telephoned representatives from each of the systems and asked for quotes on the North Shore and the City of Vancouver. I attach the published rate cards as Exhibit "A" to this Affidavit.

28. I received the following quotes for a hypothetical distribution of 28,000 flyers in selected areas throughout the North Shore and the City of Vancouver:

Maple Leaf Flyer Distributor (independent)

CPM: \$40.00

Van Net Insertion (North Shore News and Courier)

CPM: \$60.00 (NSN); \$45.00 (C)

Metro Valley Insertion (West Ender and North Shore News)

CPM: \$60.00 (NSN); \$45.00 (WE);

Ad Mail

CPM: \$66.00

Sun/Province

CPM: unavailable for less than 40,000 minimum
in each paper

29. I was informed by the insert manager at Pacific Press that it would accept 28,000 inserts into either the Province or the Vancouver Sun, provided that the insert day was one of the papers' low traffic days (i.e., Monday, Tuesday or Thursday). Otherwise, the minimum insertion number had to be 40,000 per paper. He would accept approximately 35,000 inserts per paper, provided both papers were purchased.

30. While some retailers might be able to live with Monday/Tuesday/Thursday delivery, most would not be content with only a single daily insert because of the poor reach of either paper when considered separately. Consequently, for small [and medium?] retailers, the dailies do not offer a competitive form of flyer delivery.

31. Coming from a background as a flyer purchaser for a major retailer, I rank the current flyer delivery systems as follows:

- (1) Ad Mail;
- (2) Community Newspapers;
- (3) Daily Newspapers; and
- (4) Independents.

32. I tend to view daily newspapers and independents as comparatively weaker competitors; the former because of their limited reach and the latter because of concerns about the integrity of delivery. I do recognize, however, that there are many dedicated users of each.

(d) Direct Mail

33. Direct mail is a form of advertising that tends to be well suited to small local retail businesses which should be considering narrow market reach. There are many forms of direct mail, including envelope packs, coupon booklets, loose packs, unaddressed mail (i.e., Ad Mail) and personalized mail. The cost of direct mail distribution can be reasonable, depending on packaging and production. Messages can vary from detailed information copy, to short creative messages, to discounting sale promotions and other incentives.

34. A small local retailer can switch easily from community newspaper display advertising to coupon promotions in a direct mail package. Subway, the restaurant chain, found that direct mail was more effective than community newspaper advertisements. Similarly, Fair Carpet Services, a licensee of Woodward's which offers carpet cleaning services in the entire VMA, found that direct mail produced results superior to those achieved through the use of small daily ROP advertisements.

35. Some of the limitations of direct mail include the relative inflexibility to turn-around changes, the clutter within a collective package, and the high cost of personalized

mail. Additionally, direct mail is only as good as the distribution. One must carefully monitor distribution area selection and method of delivery. The recent explosion of direct mail usage indicates that direct mail marketers have addressed these concerns relatively effectively.

D. DESIGNING A FLYER/INSERT CAMPAIGN

36. When I design a flyer campaign, I take into account the following considerations:

- ° type of retail operation
- ° target markets
- ° budget available
- ° frequency required to establish a position in market place
- ° advertising activities of the retailer's major competition

37. Of course any flyer campaign must be considered in light of an advertiser's overall media plan.

E. EFFECT OF PRICE INCREASES

38. At Woodward's, we would generally not accept any relative price increases in any media. Few businesses, if any, have the option of passing on added costs. Therefore, cost increases meant adjustments as opposed to increased advertising budgets. During my time at Woodward's, whenever unreasonable cost increases occurred, the immediate reaction was to explore alternate media. In many cases, major shifts of advertising dollars were made to other media and plan calendars were revised. Woodward's is not unique in this regard. In my

opinion, the advertising industry provides its own policing of costs. Should any medium raise its prices relative to other media by more than 5%, enough advertisers will look to, and be able to shift to, other alternatives so that the price increase will be self-defeating.

39. It follows, then, that a 10% increase in community newspaper display advertising rates would be totally unacceptable if all other forms of advertising remained constant. Many advertisers would look to other forms of advertising.

40. This also applies to daily newspaper display advertising rates. Woodward's became a major flyer advertiser partly because of ever-increasing daily ROP advertising costs. Our market studies indicated costs were increasing yet household reach and circulation remained constant; further, readership was growing older and the quality of reproduction was questionable. Flyers were efficient to distribute to desired targeted households, were controllable in quality of production and presentation and served to present detailed, colourful shopping news at a reasonable cost.

F. CHANGES AT WOODWARD'S

41. In the years I was with Woodward's, we were constantly seeking the perfect mix and balance of media use and creative approaches. At one point we (Woodward's) were predominantly daily newspaper ROP advertisers with strong support from radio and T.V.; flyers were only a small portion of the budget. Our research at that time indicated we were missing the strength of flyers and that radio was too fragmented. Adjustments were made to the media mix to include some flyers and to drop radio - maintaining strength in dailies (ROP) and television.

42. Television then began to increase prices and introduced complex grid pricing. At the same time production costs for television commercials increased. That resulted in a decision to drop television and shift resources to a stronger flyer program, resulting in a mix consisting of daily ROP advertising and flyers with radio support. Television only to be used for special campaigns and flights. During the mid-1980's, dailies ROP advertising cost increases could no longer be justified: prices continued to increase in the face of static circulation, increasing the effective CPM. We again shifted our resources, substantially cutting back our dailies ROP advertising, strengthening our flyers program and reintroducing television. Hence, Woodward's media mix shifted to predominantly flyers, supported by daily ROP, radio and television. We used newspapers for our primary flyer distributors. When we used the daily newspapers, we supplemented them with Floyer Force. We also used independent door-to-door delivery to a certain extent.

43. About the time period that I retired from the company, Woodward's shifted the distribution of its flyers to Ad Mail from the dailies. To my knowledge it continues to use Ad Mail as its flyer distributor.

44. At its peak, Woodward's sent out 1.1 - 1.2 M flyers per distribution, with 40 - 45 distributions per year (in two provinces). In the Lower Mainland, this amounted to 500,000 per distribution. Woodward's would have been in the top 10 largest flyer distributors in the Lower Mainland.

45. By the time it was switched to Ad Mail, total 2 provinces distribution was targetted to drop by approximately 22%. Even if a proportionate decrease were made in the VMA, each distribution would involve almost 400,000 flyers, for an annual total of over 16 million flyers. At \$0.03 per flyer (which is probably low), Woodward's alone would account for \$480,000 of annual revenue which Ad Mail gained from the newspapers.

45. Woodward's is also seriously considering, and to a certain extent is implementing, a move back to daily ROP because of its increased flexibility and its perceived advantage in producing immediate results. Concern has developed over the effectiveness of flyers; thus, even at current prices the situation is unstable. If relative prices were to change, in my opinion there would be a significant movement to the medium which did not raise its price.

46. My knowledge of Woodward's competitors' advertising activities causes me to believe that Woodward's is not atypical in its experiences.

SWORN BEFORE ME at the City)
of Vancouver, British Columbia,)
this 16th day of August, 1991)
Wayne Hunter)
A Commissioner for Taking)
Affidavits for British Columbia)

Jack Mar
JACK MAR

This is Exhibit " A " referred to in the
affidavit of JACK MAR
sworn before me this 16th day of Aug. 1991

George Hunter
A Commissioner for taking Affidavits
for British Columbia



**UNADDRESSED ADMAIL
BASE SINGLE MAILINGS RATES
EFFECTIVE JULY 2ND, 1991**

RESIDENTIAL RATES (Volume)	Premium			Economy		
	Up to 50 g per piece	Over 50 g per piece	+ per kg	Up to 50 g per piece	Over 50 g per piece	+ per kg
Up to 5,000	9.0¢	5.7¢	66¢	8.5¢	5.4¢	62¢
5,001 - 10,000	8.0	5.2	56	7.0	4.5	50
10,001 - 20,000	7.8	5.1	54	6.8	4.4	48
20,001 - 30,000	7.6	5.0	52	6.6	4.3	46
30,001 - 40,000	7.4	4.9	50	6.4	4.2	44
40,001 - 100,000	7.2	4.7	50	6.2	4.1	42
SINGLE SHEET	N/A	N/A	N/A	5.3	N/A	N/A
SAMPLE RATES up to 100,000	13.5	10.0	70	12.5	9.0	70
BUSINESS RATES	9.9	6.5	68	N/A	N/A	N/A

**CHANGES TO UNADDRESSED ADMAIL
RESIDENTIAL VOLUME RATES
EFFECTIVE JULY 2, 1991**

- Single Sheet - Economy (non-standard) only
- No Contract Required
 - Flat rate of 5.3 cents

- Total Annual Volume Commitment
- Contract Required
 - 100 Gram Weight Limit

Annual Volume Commitment	Premium			Economy		
	Up to 50 g per piece	Over 50 g per piece	+ per kg	Up to 50 g per piece	Over 50 g per piece	+ per kg
*100,000	6.8¢	4.6¢	44¢	5.8¢	3.9¢	38¢
*250,000	6.6	4.4	44	5.6	3.7	38
500,000	6.4	4.2	44	4.8	3.0	36
1,000,000	6.2	4.1	42	4.7	2.9	36
2,500,000	6.1	4.0	42	4.5	2.8	34
5,000,000	6.0	3.9	42	4.4	2.7	34
7,500,000	5.9	3.9	40	4.3	2.6	34
10,000,000	5.8	3.8	40	4.2	2.5	34
20,000,000	5.7	3.7	40	4.1	2.5	32
30,000,000	5.6	3.7	38	4.0	2.4	32
50,000,000	5.5	3.6	38	3.9	2.3	32
75,000,000	5.4	3.5	38	3.8	2.3	30
100,000,000	5.3	3.5	36	3.7	2.2	30
125,000,000	5.2	3.4	36	3.6	2.1	30

Transportation fee: \$.004 per piece up to 100 g
+ .002 per piece per 50 g increment up to 500 g

* New Annual Volume Commitment.

**UNADDRESSED ADMAIL
RATE CHANGES AS OF JULY 2ND, 1991**

Total Annual Volume Commitment	Current Premium Rate (Standard Items) (Effective July 2nd, 1990)			Current Economy Rate (Non-Standard Items) (Effective July 2nd, 1990)		
	Up to 50 g	Over 50 g to 100 g		Up to 50 g	Over 50 g to 100 g	
2,500,000	5.7 ¢	3.9 ¢	36 ¢	4.4 ¢	3.0 ¢	28 ¢
5,000,000	5.6 ¢	3.9 ¢	34 ¢	4.3 ¢	2.9 ¢	28 ¢

transportation fee: 0.4 ¢ per item up to 100 grams

Total Annual Volume Commitment	NEW Premium Rate (Standard Items) (Effective July 2nd, 1991)			NEW Economy Rate (Non-Standard Items) (Effective July 2nd, 1991)		
	Up to 50 g	Over 50 g to 100 g		Up to 50 g	Over 50 g to 100 g	
2,500,000	6.1 ¢	4.0	42 ¢	4.5 ¢	2.8	34 ¢
5,000,000	6.0 ¢	3.9	42 ¢	4.4 ¢	2.7	34 ¢

transportation fee: 0.4 ¢ per item up to 100 grams



Maple Leaf Flyer Distributors Inc.

Dear Advertisers:

Maple Leaf Flyer Distributors Inc. is perhaps one of the largest companies in Greater Vancouver engaged in the distribution of flyers and other advertising materials. Our clients range from large commercial department stores to small restaurants.

If your organization is interested in distribution of flyers or advertising materials, please consider our company:

Maple Leaf Flyer Distributors Inc.

Some of the advantages of using our company are:

- up to 150 employees are available to deliver any advertising materials.
- we own our own vans.
- all our vans are supervised and are radio controlled.
- **references are available on request.**

We also believe that we have the most competitive rates for mail box delivery. For example:

\$40.00 per 1000
(Minimum 5000)

We service the entire Lower Mainland. Call us today for personalized service.

VANCOUVER: 321-4722 (24 hrs.)
RICHMOND: 273-7845 (24 hrs.)

We Deliver and That's a Guarantee!!

VANCOUVER SUN OR PROVINCE
PRE-PRINTED RETAIL INSERT RATES*
EFFECTIVE 1991

<u>PAGES</u>	<u>1 - 6</u>	<u>7 - 11</u>	<u>12 - 23</u>	<u>24-39</u>	<u>40+</u>
	<u>TIMES</u>	<u>TIMES</u>	<u>TIMES</u>	<u>TIMES</u>	<u>TIMES</u>
under 8/tab (under 4 full)	46.00	46.00	46.00	46.00	46.00
8-20 tab (4-10 full)	60.00	55.00	53.50	52.00	50.00
21-36 tab (11-18 full)	62.00	57.00	55.50	54.00	50.00
37-48 tab (19-24 full)	64.00	59.00	57.50	56.00	50.00

Over 48 tabloid or 24 broadsheet pages add \$2.00M for each 4 tabloid or 2 broadsheet pages.

INSERT SIZE

The number of tabloid pages will be determined by exact measurement as listed below:

Any page less than 100 square inches is a mini-tabloid page. 2 mini-tabloid pages = 1 tab page

Any page greater than 100 square inches and less than 200 square inches is a tabloid page.

Any page greater than 200 square inches is broadsheet i.e. 1 broadsheet page = 2 tabloid pages

SPECIAL DISCOUNTS

The following discounts will apply to insert users utilizing distribution as follows:

Sun or Province total distribution 10% discount

Sun or Province full C.M.A. distribution 5% discount

NOTE: All Sun and Province inserts will be credited to the volume ROP contracts respectively on a pro-rated basis, excluding any rebate.

