Small card dealers getting lost in shuffle

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CARD GAME

The stakes: About $600-million a year in retail sales for greeting cards and related products such as stationery and wrapping paper

The players: Hallmark Cards Canada, a subsidiary of Hallmark Cards Inc. of Kansas City, Mo., and Carlton Cards Ltd., owned by American Greetings Corp., based in Cleveland, account for more than 70 per cent of retail greeting card sales in Canada. Small publishers and distributors, including home-based craftspeople, make up the rest.

Wild cards: Consolidation in the grocery, convenience store and drugstore sectors is biting into the business of small card publishers. One card supplier is biting back, alleging that contracts between retailers and major card distributors may violate Canada's Competition Act.

Marc Bilodeau sells cheer for a living, but business is bleak.

Over the past two years, **Greeting Card People Ltd.**, the Edmonton card publisher he and his wife have owned for 10 years, has lost accounts and cut staff.

Like other small Canadian card publishers and distributors, Mr. Bilodeau is caught in a squeeze — between customers who demand better prices and selection, and two U.S.-owned competitors that dominate the Canadian greeting card market.

"This is a dog-eat-dog business," Mr. Bilodeau says. "You basically have to go out and find the accounts that are not happy, and hope you can get them."

The biggest players in his sector are Hallmark Cards Canada, a subsidiary of **Hallmark Cards Inc.** of Kansas City, Mo., and Carlton Cards Ltd., owned by **American Greetings Corp.**, based in Cleveland.

Hallmark and Carlton "probably serve over 70 per cent of the market," which is worth about $600-million a year in retail sales, says Clancy Delbarre, general manager of the Gift Packaging and Greeting Card Association of Canada.

The rest of the market is split among about 150 publishers and distributors, ranging from mid-sized distributors to home-based craftspeople.

Demand has been flat since the early nineties recession, Mr. Delbarre says, triggering fierce competition for lucrative accounts. (This year, Canadian Greeting Card Corp. and Diversified International Products Ltd., both distributors based in Ontario, went into receivership.)

Mr. Bilodeau, who publishes his own line and sells designs to other card makers, says his retail accounts now fluctuate between 300 and 400 at a time, compared with a high of 800 two years ago.

He's lost some accounts since Federated Co-operatives Ltd. of Saskatoon, which has a long-time relationship with Carlton Cards, bought Grocery People Ltd., an Edmonton wholesaler, in 1992. Grocery People supplies grocery stores in Western Canada, Ontario, Yukon and the Northwest Territories. Now store owners who used to buy cards from Mr. Bilodeau or other regional distributors can tap Federated's buying power — and stock Carlton Cards.

Consolidation in the grocery, drugstore and convenience store sectors is biting into small publishers' business. Multiunit retailers say they need the selection and service a big company can provide.

"We work hard to support small local businesses, but in some categories that's harder to do," says Wynne Powell, president of 49-store retailer London Drugs Ltd. of Richmond, B.C.

Mr. Powell says privately held London Drugs, which buys its cards from Carlton, is one of the most successful card vendors in Western Canada. "And one of the ways that comes about is absolutely fanatical devotion to microdetails."

> 'For the most part, the stores don't need anything else.'

For example, he says, stores in Richmond, home to many Chinese-speaking residents, carry a higher percentage of Chinese-language cards than stores elsewhere in British Columbia and Alberta.

Barry Katz, a director of Katz Group of Edmonton, which owns Pharma Plus Drug Marts and Rexall Drug Stores, also does business with the two major card suppliers.

Rexall deals with Hallmark, and Pharma Plus with Carlton, says Mr. Katz, whose son Daryl has in the past three years built Katz Group into a major drugstore player that has more than 400 stores.

"The only change we might consider would be going with one or the other [supplier]," he says.

Such streamlining might mean lower costs for Katz Group and greater leverage with suppliers in terms of advertising, marketing and support, he says.

It would also reflect trends in Canada's $13-billion drugstore market, where outlets are bulking up to compete for a bigger piece of a growing market.

Consolidation may pick up speed now that Montreal-based parent company Imasco Ltd. has put Shoppers Drug Mart Ltd., Canada's largest drugstore chain, up for sale.

Although it may seem inevitable for big retailers to deal exclusively with big card companies, not everybody welcomes the idea. At least one card publisher thinks such arrangements may violate Canada's Competition Act.

Terry McTavish owns and operates Vancouver-based **Pendragon Prints**, which sells a line of scenic cards under the Visible Changes label to retailers throughout British Columbia, including 30 Shoppers Drug Mart outlets.

This spring, Shoppers Drug Mart asked him to remove Visible Changes racks from its stores. Letters and E-mails were exchanged, with Mr. McTavish arguing that his cards were popular with locals and tourists. Shoppers Drug Mart maintained that Mr. McTavish's cards should never have been stocked, as the retailer had an exclusive contract with Carlton.

In response, Mr. McTavish launched a card campaign, trying to rally other independent publishers and distributors to take back what he sees as a fair share of the market.

Now he's attempting to take the issue to the federal Competition Bureau, and is assembling documents and letters for an application for inquiry.

Garth Jay, vice-president of brand marketing with Hallmark in Toronto, says the card company does not have exclusive agreements with retailers. Hallmark supplies racks and fixtures; in exchange, retailers agree to stock only Hallmark cards in those fixtures, an arrangement he says is standard in the industry.

As well, he says, some cards made by independent publishers wind up at Hallmark stores. Hallmark has 300 such outlets in Canada, of which 50 are corporate-controlled. Corporate-owned stores sell only Hallmark stock, but independent stores may carry outside lines.

Carlton Cards, which laid off 650 Canadian workers in June as part of consolidating its Canadian and U.S. operations, does not disclose details of its agreements with retailers, says Kendall Wigoda, director of corporate communications with Carlton in Toronto.

But independent publishers can sell their cards to Carlton Card's estimated 230 stores, she says.

"For the most part, the stores don't need anything else," says Ms. Wigoda, noting that Carlton has, at last count, about 36,000 cards in its various lines. "But if [store operators] want, they are free to pursue other lines."

Publishers such as Mr. Bilodeau and Mr. McTavish say that leaves them fighting for scraps at the card table. With larger retail accounts becoming the sole preserve of Hallmark and Carlton, they argue, it's tough, if not impossible, to build a strong, local business.

"To make [expansion] affordable, you have to have the volume," Mr. Bilodeau says. "And to do the volume, you have to have the sales — and we can't get them."