

# Limits to Growth in the Direct Market

## Mel's Preface

Back in 1996 I developed this material for Pro Con, which was part of the Wonder-Con show in Oakland, California. I believe this would be a good starting point for our discussion in San Diego. I have modified it in spots to reflect changes in the last eight years, and to correct some typographic error.

I don't intend that this be the definitive statement on what the industry's limits to growth area, nor to suggest that these are the only solutions to the limits I identified. Your input is important and valued. I look forward to an interesting discussion.

If you have comments or additions that you'd like me to distribute before the meeting via e-mail, send them in to me. Otherwise, see in in San Diego!

Best wishes,  
Mel Thompson

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## Introduction

All of the marketing research which we've carried out over the last ten years indicates that there's a substantial, untapped market for a wide variety of comics products in North America. We believe that potentially the 2004 Direct Market could conservatively double or even triple its current volume if a number of key limitations to growth were removed.

My profession is that of industry observer and analyst, and I've identified a number of issues which I believe need to be solved if that potential is to be realized.

Since 1994 the entire comics industry has gone through a paradigm shift in which almost all of the old, traditional ways of doing things have ceased to be as effective as they once were.

The characteristics of industries which go through a paradigm shift is confusion, loss of profits, and pain. At the same time there are also tremendous opportunities for the intelligent and nimble minority who perceive what's going on and adjust to deal with changing conditions.

## Industry-Wide Limitations

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There is a near-total lack of information on industry norms:

- No public professional information on customer base.
- No public professional information on retailer performance norms.
- No public professional information on composition of retailer community.
- No national trade association for retailers
- Industry is still making transition from "Collector-based" to "Reader-based" model. A change in emphasis from profiting from conditions of scarcity (such as issue #1-8 of Valiant's titles) to profiting from repeat business based on reordered merchandise is still difficult for many participants to accept.

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## Current-Consumer Limitations

Among current comics specialty consumers we see four important limitations:

- Significant loss of the under-18 marketplace market

- Graying of traditional consumer base and shifts in taste and preference
- Changes in buying habits with increased prices
- Perception of not getting sufficient value for money

### **General Consumer Limitations**

Among the general consumer populace, there are some major limitations:

- Lack of awareness of existence of products for adults
- Unattractive nature of majority of comics retail shops when they actually find and come to a comics shop
- Lack of nearby (within three mile driving distance) specialty comics retailer in a readily visible location

### **Major Publishers Limitations**

- Obsessed with the continuous universe concept resulting in products that are difficult for new readers to become involved with
- Tend to ignore publishing opportunities in old product and are overly focused on advance-order products (*This is slowly beginning to change with the growth of the Graphic Novel market, but the emphasis is still on new products*)
- Overly focused on short-term, me-too actions

### **Minor Publishers Limitations**

- Under-capitalized
- Unable to reach consumer market
- Unable to reach majority of retailer market
- Irregularity of publication
- Don't focus marketing on key retailer

“gatekeepers”

### **Distributor Limitations**

- Still pursuing an outmoded monopolistic "one source for retailers" strategy
- Still largely locked into "fast freight forwarding" mentality
- Slow and incomplete implementation of Electronic Data Interchange (EDI)
- Still focused on solicitation-print-ship model rather than conventional distribution model

'No Return' System doesn't work any more. The original thesis of the "advance order/no return" comics ordering system was that retailers were rewarded with large comics discounts for assuming the risk of ordering 60 days in advance! Retailers are still ordering 50-60 days in advance but have significantly lower discounts and additional expenses in freight charges and administrative overhead.

Distributor discounts and terms for accounts do not encourage growth of large stores. Apart from Tuesday delivery for accounts of \$480,000+, Diamond Comic Distributors does little to encourage growth of large retailers.

### **Retailers Limitations**

- Gross lack of professionalism in majority of comics "retailers"
- Inability or unwillingness to adjust to new business conditions
- Inability to compete against the developing group of new comics retailers
- Preponderance of "lifestyle" retailers vs. professional business-people
- Lack of capitalization

- Lack of administrative skills
- Lack of time

There used to be "one right way" to do comics retailing, etc. There are now multiple "right ways" or niches which retailers can successfully follow.

Comics retailing was traditionally learned by an "apprenticeship" system and emphasized product knowledge. Successful comics retailing now demands a significant level of professional business knowledge in addition to having access to product knowledge.

### **Some Solutions for the Industry**

In general, the comics industry as a whole is characterized by unprofessional management, lack of capitalization, lack of positive public exposure, a lack of any industry-wide cooperation and a near-total lack of information about the size, health and characteristics of the entire market.

Many of the industry's "leading" companies are still following the same strategies which worked "once upon a time", instead of recognizing that the entire marketplace is changing and that their strategies need to change with it. The following paragraphs outline some possible solutions for the industry's problems.

### **Some Solutions for Publishers**

Small publishers could achieve critical mass in terms of resources by grouping under the banner of one or more umbrella marketing organizations which would handle marketing, promotion, billing, etc. for them on a turnkey basis.

Larry Marder of Image seemed to be heading in that direction by the back door, although Image's internal problems killed off any chance of that happening. Cold Cut or FM International as distributors could evolve in this direction for their independent publishing accounts but suffer from lack of management time and capital.

Both large and small publishers need to identify larger retailers and focus co-op and other marketing on these companies. Given that promotional resources are limited and that 20% of the retail stores represent 50% of all sales it's a waste of scarce resources to do otherwise. Small comics shops are only able to expand the market slowly.

Properly managed multi-store chain operations can reach out to the largely untouched consumer community in a relatively short period of time - relying on the small-store retailer base will result in the comics marketplace taking another twenty years to achieve any significant growth.

### **Some Solutions for Retailers**

If small comics shops are to survive and prosper they will need to ally themselves with a distributor who can provide services to them besides basic access to products. The hardware store industry offers comics retailers a good model to follow.

Independent hardware stores become Ace Hardware members, pay an annual fee for membership and receive a wide range of benefits; including national, regional and local advertising, just-in-time access to merchandise, special purchases tied to monthly promotions and access to low-cost professional services.

This sort of alliance would allow small, independent shops to compete on a more level basis with the larger comics retail companies which are evolving.

Another route would be the development of an efficient franchise model for existing and current comics retailers. In the past comics franchise operations have largely been scams to peddle back

issues at inflated prices rather than effective business operations.

Small stores with gross sales less than \$250,000 could be particularly well-served by a franchise

approach if it provided them with improved merchandise discounts, effective ordering tools and automated management analysis with performance ratios, etc..

Larger comics retail companies need to professionalize their existing operations, and expand to cover their metropolitan market areas once they have rationalized their operating systems. In this way they can gain sufficient size to be competitive in the coming competitive environment.

Existing multi-store comics retailers need to grow to \$3.5-4.0m in annual sales to support the business organization that they will need to compete, or should downsize and follow the "one big store" concept. The "in-between" operation with multiple low-volume stores is not economically efficient nor profitable.

Comics retailers in general need to understand that just as there is no longer any such thing as the "typical" comics collector, there also isn't any such thing as the "typical" comics store.

Instead there are at least six major niches that are evolving, and all of them can work:

1. The small "independent store" in a low-cost, destination location. This would be a good candidate for either co-op or franchise membership.
2. The larger "big store" with a very broad range of destination merchandise.
3. The back issue specialist in a low-cost, destination location.
4. The multiple-store outlet located in a strong strip center location (or equivalent).
5. The mass-market comics boutique inside a strong mainstream parent store.
6. The mass-market/pop culture comics shop

located in regional malls or extremely strong strip centers.

### **Some Solutions for Distributors**

The distribution community needs to focus on developing its smaller retail accounts, as they may very well not have access to the business of the larger retail entities which are forming, regardless of "exclusive" agreements or not.

This means switching their mode of business from "fast-freight forwarding" to providing a broad range of merchandise at competitive prices and discounts with modern trade terms.

This also means providing marketing and promotional services to accounts on a fee basis - Diamond's Store Locator Service is a start in this direction.

Revising discount rates and terms to reward prompt-paying, larger accounts will help grow the market and improve their own volume.

Emphasizing and improving EDI as well as providing useful product information

### **Some Consumer Solutions**

If the industry provides interesting, affordable product in accessible, attractive stores on a regular basis, "they will come".

Promotions such as "Free Comic Book Day" are an excellent start as a way to encourage grass-roots awareness of comics products.

The rapid increase of consumer awareness and interest in manga offers specialty comics retailers an unparalleled opportunity to reach consumers who would have never entered a comics store before.

### **Overcoming Some of the Obstacles**

- Under-capitalization and small company size could slowly disappear as problems through natural evolution if a large (\$20 million annual

sales volume/12-15 stores) and profitable comics retail chain comes into being.

*(This could be all corporate-owned, a co-op consisting of multiple smaller companies, or a combination of company-owned and franchise units).*

Regardless of its marketing model, we firmly believe that once there's a successful comics retail entity of this type there'll be a series of copy-cat retail companies from outside the comics industry. The USA is characterized by having a large pool of available capital and aggressive entrepreneurs who will jump into a new opportunity once they recognize it.

Within five years of the initial pioneer being recognized by the investment community, I believe there could at least five relatively successful competitors of equal size. This would galvanize the comics industry, forcing change upon every component of the industry.

- Encourage comics retailer trade associations.
- Insist on all comics having bar codes.
- Offer significant advantages to retailers who submit orders electronically.
- Design and implement industry-wide standards for Electronic Data Interchange (EDI).
- Consider following the hardware industry model typified by "Ace Hardware" or "Trustworthy Hardware", where member stores are independent, owner-operated units that are members of a buying co-op named "Ace Hardware" or "Trustworthy Hardware" or "Capital City Comics".
- Develop a two-tier or three-tier pricing scheme. Have a higher discount for non-returnable books ordered in advance of publication, a much lower discount for books ordered on a returnable basis. Other discounts could be based on number of units per title ordered, or based on

early payment of bills, etc.

- Have publishers remember that they are publishers and use retailers/consumer information to mine their archives for products based on old material which can be published as re-orderable merchandise.
- Larger publishers should establish (or improve) sales forces. Sales forces should focus on "key accounts" while small accounts can be dealt with through tele-marketing programs.

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