COMPETITION TRIBUNAL
TRIBUNAL DE LA CONCURRENCE

File No. / No. du dossier CT-94/03
Director v Tele Direct
Exhibit No. / No. de la pièce
Filed on / Déposée le 1995/10/30; 9:39
Registrar / Greffier

Director

CT-94/03

COMPETITION TRIBUNAL
TRIBUNAL DE LA CONCURRENCE
PRODUIT
AUG / AOUT 31 1995
REGISTRAR — REGISTRAIRE
OTTAWA, ONT. #162

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

REBUTTAL AFFIDAVIT OF MARGARET E. SLADE

I, Margaret E. Slade, of the City of Vancouver, in the Province of British Columbia, MAKE OATH AND SAY:

1. On August 15, 1995, I sworn an affidavit in this matter attaching a report prepared for the Director of Investigation and Research dealing with tied selling an other matters.

2. Attached hereto and marked as Exhibit "A" is a report prepared in rebuttal to the reports prepared by Professors Trebilcock and Willig on behalf of the Respondents. The contents of Exhibit "A" and the findings and opinions expressed therein are true to the best of my knowledge, information and belief.

3. I make this affidavit pursuant to Rule 47(2) of the Competition Tribunal Rules.

SWORN before me, at the City of Vancouver, in the Province of British Columbia, this 28th day of August, 1995.

A Commissioner, etc.

ROSARIO V. KUHRT
Notary Public
#214 - 1956 W. Broadway
Vancouver, B.C.
V6J 1Z2

Margaret E. Slade

Exhibit A

Response to the Affidavit of Professor Trebilcock

In what follows, I discuss what I consider to be some of the main points that Professor Trebilcock makes in his affidavit. These are that:

- There are informational externalities and other market failures in directory advertising that cause advertising agencies to undersell the medium. As a consequence, if the services market were opened up, advertisers and directory users would be worse off.
- Market power is irrelevant for the make-or-buy decision, and no 'sinister' explanations that appear in the economics literature on tying are relevant for this market.

In discussing these points, I provide an explanation for Professor Trebilcock's "central facts" that I believe is more compelling than the one that he provides.

1. Informational Externalities and Market Failures in Directory-Advertising

Professor Trebilcock and I agree that there are informational externalities and other market failures in the directory-advertising market. We disagree, however, about the nature and effects of these externalities.

Professor Trebilcock claims that: Agencies will not exert sufficient effort in obtaining new accounts since they cannot recoup their sales effort. In addition, agencies will undersell existing accounts due to a completeness externality (i.e., the benefit of having a comprehensive directory). Furthermore, there is "a positive externality to all advertisers from the placement of an advertisement by an individual advertiser." (¶ 18) Since advertisers cannot internalize this externality, they will under advertise. He believes that the combination of these factors results in "perverse incentives to undersell the quantity or quality of advertising." (¶37) Finally, he claims that Tele-Direct can internalize these externalities.

I agree that there is an informational externality in directory advertising. However, this externality leads Tele-Direct to oversell the medium. In addition, the 'prisoners' dilemma' nature of advertising in a directory results in a negative externality that exacerbates over investment. Finally, although independent agencies cannot completely internalize these externalities, they are less prone to overselling.

1a: Recouping Sales Efforts

Professor Trebilcock claims that an independent agency has few incentives to approach new customers because a sales person does not receive payment for a sales pitch that does not result in a sale. In his words, "resources invested in the selling function will be unrecouped," (¶ 13) and underselling will result.

This view of selling is at variance with the experience of other industries, competitive or otherwise, where it is common to employ independent-selling agents who work on commission. For example, many people sell newspapers and magazines door to door or by telephone. In addition, real-estate agents actively promote their properties through, for example, targeted mailings and door-to-door flyers. Competition for sales in these markets is vigorous, in spite of the fact that sellers are not paid for sales pitches that do not result in sales. Moreover, sellers are not granted exclusive franchises or territories. I therefore find his claim that agencies invest too few resources in obtaining new accounts to be unpersuasive.

1b: Under or Overselling?

Professor Trebilcock claims that as a directory becomes more comprehensive, it becomes more valuable to advertisers and consumers, and that only Tele-Direct, who supplies all space in the directory, can internalize this 'completeness' externality. The result is underselling on the part of agencies and optimal selling effort on the part of Tele-Direct.

I believe that any possible tendency to undersell is overwhelmed by two systematic factors: the first of these leads Tele-Direct, and to a lesser extent the agencies, to oversell, whereas the second leads advertisers to over advertise. The result can be excessive advertising. In this subsection, I describe overselling by Tele-Direct. Over advertising is dealt with in the following subsection.

From my point of view, the important informational externality stems from a lack of information on the part of many local advertisers about the effectiveness of their directory-advertising dollars.[1] Buyer and seller information differs in this market. In particular, many buyers find that performing independent-marketing studies that evaluate the effectiveness of their directory-advertising expenditures is not worthwhile. Moreover, due to the complexity of the pricing structure, advertisers might not realize what features are available or to what extent they incur extra charges. When a Tele-Direct salesperson tells such an advertiser that, for example, it would be wise to place a larger ad or one that is more colourful, the client might comply while at the same time feeling uncomfortable about compliance due to lack of information.

Tele-Direct, in contrast, has good information concerning the value of Yellow-Pages expenditures but does not have the incentive to reveal it. There are two reasons that could lead them to exaggerated claims. The simplest reason is that selling Yellow-Pages advertising is highly profitable. When sales increase, therefore, the increased revenue is greater than the increased cost. Profits are thus higher when effectiveness is exaggerated, and a tendency to over promote the medium can result.

There is, moreover, a reason why Tele-Direct might want to over promote to the point of expanding sales beyond the profit-maximizing level. Although it is standard in the microeconomics literature to assume that firm managers maximize profit, much has been written about the possibility that they can also have other objectives. In particular, when managers are not owners, they do not receive the firm's profits, which accrue to the shareholders. When ownership and control are divorced, therefore, it is common to assume that profit maximization is only one of management's goals. The others can include revenue or growth maximization.[2]

Tele-Direct, through its parent, BCE, is a publicly traded firm, and its managers are not its owners. Furthermore, BCE and its affiliates are the sole

---

[1] By 'local' I mean advertisers whose accounts are currently not commissionable and who therefore find it uneconomical to use agencies.

[2] For early statements of this problem, see Williamson, O.E. (1963) "Managerial Discretion and Business Behavior," American Economic Review, 53: 1032-1057, Marris, R. (1963) "A Model of the Managerial Enterprise," Quarterly Journal of Economics, 77: 185-209, and Baumol, W. (1962) "On the Theory of Expansion of the Firm," American Economic Review, 52: 1078-1087.,"

holders of Tele-Direct shares. There is thus a two-fold divorce of ownership and control, since individual investors only hold shares in Tele-Direct through its parent. It is therefore likely that profit maximization is not management's only objective. In particular, there is evidence that the growth of sales revenue is important to the company.

Tele-Direct's sales force is paid on commission, and commissions are higher for increasing sales revenue than for servicing accounts that do not grow. Moreover, the sales force is given the mandate to contact all subscribers every year to see if they wish to open new accounts or to increase the size of existing accounts. Tele-Direct describes this practice as an independent company goal. In particular, their response to the application states that "Tele-Direct has made a core-business decision to contact every potential customer in its publication area, whether or not that customer appears to be a good business prospect or not. Thus, Tele-Direct must maintain an internal-sales force and incur significant fixed costs." (¶ 26)

According to Professor Willig, the success rate for approaching nonadvertisers is only 5 percent. (¶ 19) In other words, a high cost is incurred for a very limited benefit. Furthermore, it is difficult to believe that an advertiser who has, for example, been contacted every year for the past 10 years is unaware of the possibility of, or potential for, Yellow-Pages advertising. The situation is analogous to home owners being approached every year by real-estate agents who remind them that it is possible to sell their houses.

Tele-Direct's (as well as Professor Trebilcock's) justification for this practice is that it seeks to make its directories more complete. However, within a market area, Yellow-Pages directories are *always* complete. Indeed, all establishments that subscribe to commercial-telephone lines appear in the directory, independently of whether they purchase an ad. Moreover, all households and commercial establishments that subscribe to the telephone receive a directory. As Professor Willig states "Directory advertising appears in the same book as the basic light face listing. Thus, a consumer can turn to a directory knowing that all business phone service subscribers within the telephone exchanges served by that book are included." (¶ 44)

The importance of revenue or sales growth, and thus the tendency to oversell, is likely to be compounded by the fact that Tele-Direct must turn its entire profit over to Bell Canada in the form of dividends. The benefits of

being highly profitable are therefore somewhat diminished, since profits are simply included in Bell Canada's income for the purpose of calculating its regulated rate of return.

Finally, the premium that Tele-Direct seems to put on growth is apt to reinforce its reluctance to give up any portion of its services market, as in so doing it might shrink to a more reasonable size.

Professor Trebilcock interprets the high growth rates in directory advertising as evidence of competition in this market. Indeed, he states that "the substantial growth in yellow pages advertising in recent years relative to other media is inconsistent with claims of monopolization in either market which would normally entail higher prices and reduced output." (¶ 36) He seems to imply that monopoly is associated with continual price increases or that, at constant prices, a monopolist faces a shrinking demand. In fact, what we observe is an outward shift in the demand for directory advertising that has little to do with price changes.

There are two reasons why increasing the role of advertising agencies in this market would lessen the problems that I have described. First, and most important, if the number of suppliers of advertising services were to grow, the availability of information would increase. In particular, advertisers that are currently classified as local would no longer have to rely on Tele-Direct as the sole source of information concerning the effectiveness of their directory-advertising dollars. In addition, if they were dissatisfied with the information that was provided by one agency, they would have the opportunity to choose another.

Second, advertising agencies should be less prone to overselling than Tele-Direct. To illustrate, it is useful to compare the motivation of internal and external salespeople. An internal salesperson has two goals. First, he wants to sell more ads, since he is paid on commission. Second, he wants to satisfy his employer or principal, Tele-Direct. Tele-Direct, however, also wants to sell more ads. An external salesperson has the same two goals: he wants to sell more ads and to please his principal. The difference is that the outside agent's principal is the advertiser, not the publisher, and the advertiser's goal is to receive balanced advice on the best way to spend her advertising dollars. The end result is that the tendency towards over promotion of Yellow-Pages advertising is lessened in the second situation, and the customer is better served because she receives better information.

Finally, general-advertising agencies have even less reason to over promote directory advertising, since revenue from this medium is apt to be only a small proportion of their total.

1c: Advertising as a Prisoners' Dilemma

Professor Trebilcock claims that each advertiser benefits when a rival places an ad in a directory and that there is therefore a (positive) network externality that leads firms to under advertise. As he states it, "Advertisers themselves also fail to realize the full benefit of their effect on completeness; the value added from the placement of their advertisement is realized by all advertisers, not just the advertiser itself." (¶20)

I believe that the contrary is true, that most directory advertising suffers from a common problem that is known in the economics literature as the prisoners' dilemma. The prisoners' dilemma leads to a negative externality and to over advertising.

Briefly stated, the prisoners' dilemma is as follows. Consider two decision makers that must take an action. Each one benefits unilaterally from taking the action. However, when both take the action, both are worse off. Examples include capacity expansion to increase market share and fishing from a common pool. When there are negative externalities, as with the above examples, the result is over investment (e.g., in capacity or fishing). Moreover, if the parties could write binding contracts, they could commit not to over invest, the problem would be alleviated, and all would be better off. Usually, however, such contracts are not feasible.

Advertising has two general effects: it can increase overall market demand, and it can increase the market share of the firm that advertises. When the first effect dominates, the externality or spillover is positive, and individual firms have a tendency to under invest. This is apt to be the case with products that are very homogenous such as agricultural commodities. For this reason, we usually observe that advertising of commodities is undertaken by marketing boards or trade associations that can internalize the positive externality.

The situation is apt to be very different with directory advertising, partly because it is directional and partly because directory ads usually publicize firms and commercial establishments more than products. In other words, since directory ads cater to customers who have already decided to

make a purchase, they are not likely to have a substantial impact on the total demand for broad classes of products or on the total volume of trade at commercial establishments. Furthermore, the volume of trade is more likely to increase when products are effectively advertised than when firm locations are publicized. The market-share effect is therefore apt to dominate the market-expansion effect. When this is the case, there is a negative externality associated with advertising, and firms over invest. This externality arises because one firm gains at the expense of its rivals.

For example, suppose that all taxicab companies place quarter-page ads in a directory, and that one firm unilaterally decides to increase the size of its ad to one-half page. The firm that increases will probably receive more calls as a consequence. However, when all of this company's rivals follow and place half-page ads, there is unlikely to be a large impact on the total demand for taxis. Advertising expenditures will increase, but there will be little benefit to the advertising firms. In other words, the firms face a prisoners' dilemma.

In the above example, advertisers suffer when their competitors *increase the size* of their ads. Advertisers can also suffer when *too many* competitors advertise in the directory. For example, in describing an ad in the Cape Bretton Post that was designed to attract newspaper advertising, Professor Willig states that "Specifically, the advertisement claims that the Yellow Pages advertisements are sandwiched in among numerous other competitors and that it is unlikely that anyone will see the ads." (¶ 30)

1d: The Effect on the Consumer

We must consider, however, whether consumers benefit from larger and more numerous ads. To continue with the taxicab example, suppose that all companies were to decide to double their expenditures on directory advertising by, for example, purchasing larger ads or adding colour. The benefit to consumers would be minimal. Since each firm's name, address, telephone number, and line of business can be found in the free listings, the principal role of advertisement size and colour in the taxicab industry, as well as in many others, is to signal firm relative size. Consumers obtain this information, however, from the *relative*, not the *absolute* size and colourfulness of the ads.

After a point, a larger number of ads can also be counter productive from the consumer's point of view. There is such a thing as too much advertising, and very large directories are difficult to use. Furthermore, there is a tradeoff between scoping and completeness. Presumably Tele-Direct recognized this tradeoff when it decided to have several directory sections in the Halton Peel area, each of which contains local information and is clearly less comprehensive than one large Yellow-Pages directory would be.

I do not wish to imply that advertising in telephone directories is a useless activity with no benefit to consumers. To the contrary, directories contain much information that cannot be found in the free listings. For example, ads that are placed under the 'restaurants' heading often state the type of food that is served, whether carry out is available, the days of the week when the restaurant is open, and so forth, which is information that consumers value. Nevertheless, there are systematic tendencies of the prisoners'-dilemma sort that can lead firms to over advertise. Moreover, this over-investment tendency is exacerbated by the over-selling situation.

1e: Discounting

Professor Trebilcock claims that the agencies' practice of granting advertisers discounts off their commissions undermines their incentives to provide the optimal level of service. His analysis runs as follows: Given that there is a completeness externality, the social-marginal benefit of greater sales and service effort exceeds the private-marginal benefit. Since discounting will occur until the marginal cost of service provision equals the private-marginal benefit, too little service will be provided.

This entire argument hinges on the existence of a completeness externality; otherwise social benefits do not exceed private benefits. I have argued, however, that the completeness externality is of minimal importance, and, if anything, the social benefits of selling effort are lower than the private benefits. I therefore believe that when we observe discounting, it is evidence that agencies compete vigorously with one another for accounts, which is a healthy sign.

1f: Discriminating Between Explanations

Professor Trebilcock and I disagree about the nature of externalities and market failures in directory advertising. Our descriptions conflict, and it is imperative to determine which best characterizes the industry. Additional evidence supports my position over his.

If Professor Trebilcock's account is accurate, one would expect to find that advertisers are prone to complain that advertising agencies (other than consultants) provide them with too little information, that they are not very anxious to sell services, and that they tend to advocate smaller, less expensive ads.[1] Moreover, we would expect to hear complaints that the value of the directory is diminished as a consequence. If my account is accurate, in contrast, we should find that advertisers complain that Tele-Direct oversells ads and that it withholds information, such as the fact that borders incur an additional charge, that would be useful to advertisers. The impression that I received from the customers that I interviewed and from the written record of interviews supports the latter description.

2. Market Power and the Make-or-Buy Decision

Professor Trebilcock claims that Tele-Direct minimizes the sum of production and transactions costs of producing directory ads, that cost-minimization and buyer preferences determine its make-or-buy decisions, and that no 'sinister' explanations for tying hold in this market.

I believe that his treatment of monopoly and the make-or-buy decision is somewhat simplistic, and that one of his so-called sinister explanations, the leverage theory, is relevant to tying in directory advertising. Specifically, when a monopolist controls the supply of one input, it can have an incentive to tie other inputs.

Professor Trebilcock attacks the leverage theory on the grounds that a monopolist cannot earn higher profit by extending its power into a competitive market. His relies on a special case of the leverage theory in

1 I distinguish specialist agencies or CMRs from consultants that are paid on the basis of cost reduction. Professor Trebilcock states that "CMR's face an incentive to convince the advertiser that a less expensive package (e.g. smaller size, less colour, fewer directories, etc.) is equally useful as an advertising tool" (¶ 21).

which the customer must have the tying good, and the two inputs are used in fixed proportions. Under his assumptions, the maximum that the monopolist can gain by selling one unit of each input to a customer is the monopoly price of the tying good plus the competitive price of the tied good. For example, he states that "for a monopolist, it is preferable that the second good be sold at a competitive price." (¶ 31)

An example should suffice to demonstrate that, in other circumstances, leveraging can work. Consider the following. Farm workers in an isolated community are unionized. In order to harvest, farmers require some workers. However, they can substitute harvesting machines for labour. If the union chooses the monopoly-wage level, it will accelerate the trend towards mechanized harvesting. Should the union force farmers who employ farm labour to rent harvesting machines from it as well (i.e., should it tie the two inputs?) Suppose that it does. The high union wage will increase the demand for machines, and the union will be able to realize a profit by raising the machine-rental rate above marginal cost. The higher rental rate will in turn increase the demand for labour, and the union will be able to realize a profit by raising the wage rate. This process will continue until the joint-profit maximizing wage and rental rates are reached. Moreover, *the prices of both inputs will be higher than when they are separately supplied, and union profits will rise as a consequence.*

As my example demonstrates, the simple story that is often used to discredit the leverage theory of tying relies on a number of assumptions that may not hold in practice. Specifically, it assumes that demands for the two inputs are independent or that the inputs are used in fixed proportions, that the tied-good market has a competitive constant-returns-to-scale structure, that tying does not affect the structure of the tied market (in other words, the monopolist does not foreclose supply in this market), and finally, that buyer information and motivation are perfect.

When some of the above assumptions fail to hold, leveraging is possible and tying can be privately profitable but socially inefficient.[1] The key

---

[1] There is a large literature on the profitability of tying by firms with market power. For example, for an early view see Burstein, M. (1960) "The Economics of Tie-In Sales," Review of Economics and Statistics, 42: 68-73, and for more recent views see Carbajo, J., de Meza, D., and Seidman, D. (1990) "A Strategic Motive for Commodity Bundling," Journal of Industrial Economics 38: 283-298, Whinston, M. (1990) "Tying Foreclosure, and Exclusion," American Economic Review, 80: 837-859, Seidman, D. (1991) "Bundling as a Facilitating Device: A

factor that was relaxed in my example is fixed-proportions usage. Indeed, for a given level of output, machines can be substituted for labour. Professor Trebilcock claims that "the bundle of services and space has a set profit-maximizing price, and any price increases in advertising services will lower overall profit unless the price for the space drops to compensate." (¶ 33) In other words, he implicitly assumes that space and services are used in fixed proportions.[1]

I believe that, holding output or advertising messages constant, services can often be substituted for space. For example, it is possible to achieve the same impact by using a large ad or one that is cleverly designed. In addition, astute targeting of the 'right' directories can substitute for purchasing space in a larger group of directories. More generally, an agency that provides service can often advise on ways to cut expenditure on space while maintaining the same level of advertising impact. In addition, it might even suggest ways of obtaining a higher impact from lower expenditure by, for example, substituting white knockout for colour.

Proportions also vary when the level of advertising messages is varied. For example, Professor Trebilcock states that "for smaller advertisers, the cost of providing advertising overwhelmingly comprises space and selling effort rather than advisory services. ... The OFT also found that direct sales cost on smaller accounts are up to four times greater than direct sales costs on national accounts as a proportion of revenue." (¶ 17) Although I do not necessarily believe these numbers, it is clear that they imply variable-proportions-input usage as output varies.

The case in which a monopolist is indifferent concerning tying is very special. Furthermore, the issue of when tying is privately profitable but socially inefficient is complex. Nevertheless, tying is more apt to be harmful when the firm that practices tying has substantial market power in the tying market, when tying forecloses a substantial fraction of the tied market, when tying does not eliminate inefficiencies in production and distribution, and/or when buyer and seller information differs.

Reinterpretation of the Leverage Theory," Economica, 58: 491, and Mathewson, F. and Winter, R. (1992) "Tied Sales and Leverage," University of Toronto mimeo.

1 Professor Trebilcock also says that the Director claims that the two inputs are consumed in fixed proportions. Specifically, he says "the tying and tied goods are consumed in fixed proportions such as is alleged by the Director here." (¶34) However, this, is a misinterpretation of the Director's claims.

I have argued in my report that the firm that practices tying, Tele-Direct, has substantial market power in the tying market. Indeed, it has a virtual monopoly. Furthermore, tying, by creating barriers to entry into the local market, forecloses a substantial fraction of the tied market, approximately ninety percent.

There is little evidence that tying eliminates inefficiencies in production and distribution of Yellow-Pages directories. For example, Tele-Direct has not produced persuasive evidence that there are economies of scale in the provision of advertising services,[1] or that there are economies of scope (i.e., multiproduct economies) between the provision of space and services. Nevertheless, we can suppose a counter factual – that there are substantial economies of scale and scope in directory advertising.

If this were the case, Tele-Direct would be the low-cost supplier, customers with currently commissionable accounts would prefer Tele-Direct because it would provide better service at lower cost, and customers with accounts that became commissionable would not switch to agencies for the same reason. However, we observe just the opposite – most customers with commissionable accounts prefer outside agencies, and many whose accounts are not currently commissionable might switch if given the chance. The evidence, therefore, does not support the counter factual.

Finally, in section 1, I argue that buyer and seller information differs in the directory-advertising market. The four conditions under which tying is more apt to be harmful are therefore satisfied.

3. Professor Trebilcock's "Central Facts"

In the preceding two sections, I have provided a description of the industry that explains Professor Trebilcock's first three facts. In particular, whereas he states that "My analysis leads me to conclude that TD contracts out the selling and advertising functions when it is efficient (large national accounts) and undertakes them internally when it is not efficient to do so (other accounts). (¶37) I believe, in contrast, that Tele-Direct contracts out the

1 Professor Trebilcock claims that economies arise due to its need to approach all potential advertisers. However, this is a private (non-profit-maximizing) decision and not a social mandate. Moreover, larger more lucrative accounts must subsidize this practice.

services function when it is expedient and performs it internally otherwise.

I have discussed two reasons why Tele-Direct might choose a boundary that is too tight (i.e., why the commissionable market might be too small). These are the sales-growth or overselling motive and the market-power-tying motive. There are also reasons why Tele-Direct might choose not to supply the entire services market (i.e., why it would choose to pay a commission on some accounts). Many of these reasons, however, have little to do with efficiency or cost minimization. For example, national advertisers might have superior bargaining power that could be due to, or enhanced by, dealing with many publishers located in many geographical regions and/or by dealing with many media in each region. Tele-Direct could find it too costly to displease these buyers and might decide to let them choose their own supplier of services.[1]

Fact D remains. Professor Trebilcock claims that other publishers are organized in a manner that is similar to Tele-Direct. Moreover, in his analysis of this fact, he shows that US directory publishers, whether telephone affiliated or independent, employ an internal-sales force. He does not show, however, what fraction of directory-advertising services is supplied by agencies in the US. Although there is no definitive calculation of US agency market share, estimates put a lower bound on this fraction of 13.4 percent, which is considerably higher than in Canada.

Moreover, the Director does not plan to divest Tele-Direct of its selling division nor does he claim that, if the application is successful, Tele-Direct will lose its entire advertising-services market. Tele-Direct handles an entire spectrum of accounts that range from very small, e.g., a bold listing in a single directory to very large, e.g., an account of a multinational firm that purchases a variety of types of ads in directories that are published in several countries. Moreover, as one moves from small and simple to large and complex ads, it becomes increasingly less efficient for Tele-Direct to service the ads. If the boundary between commissionable and noncommissionable accounts were determined by market forces, it is unlikely that Tele-Direct would cease to provide services. The fact that Tele-Direct would remain in the market,

1 For corroboration that it is common for sellers in tying cases to discriminate among buyers by not imposing the tie against large or more sophisticated buyers, see Grimes, W. (1994) "Antitrust Tie-In Analysis After Kodak: Understanding the Role of Market Imperfections," Antitrust Law Journal, 62: 263-325.

however, does not mean that the current boundary is efficient or that it is based on advertiser needs.

Finally, whereas the US experience is relevant to the situation in Canada, the Canadian experience is much more important. In Canada, the two most important independent publishers are Southam, which operates as Dial Source PLUS in Sault Ste. Marie, and White Directories, which publishes three books in the Niagara Peninsula.

Dial Source pays a 25-percent commission on all national advertisements that go through the CMR/YPPA system. In addition, it pays the same commission to any agency, CMR or otherwise, for regional accounts, which are defined as accounts that advertise in Sault Ste. Marie and in *any other market*. White Directories, in contrast, pays a 25-percent commission on *any advertising* that is brought in by a CMR.