The Competitive Challenges Facing Book Publishers In Canada

Prepared for
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EXECUTIVE SUMMARY

This study reviews the competitive challenges facing the Canadian-owned book publishing industry. More specifically, the report highlights some of the limitations of public policies designed both to support Canadian ownership and to promote Canadian authors and some of the structural problems which have emerged in the industry – particularly the long-run picture of poor profits and inadequate capitalization.

A second report will provide a needs analysis for the industry and recommend a new set of policies designed to deal with some of these competitive stresses.

Over the past thirty years, the federal government developed a set of policies that enabled the Canadian-owned book publishers to survive in difficult competitive circumstances. Provincial government policies, particularly in Quebec, also helped support the Canadian-owned publishing sector. However, in many ways, today's Canadian-owned industry is not the same as the one which existed 30 years ago. The competitive challenges also have changed.

There are a number of competitive problems facing Canadian book publishers:

- In the English-language book publishing market in Canada book prices are essentially determined by US-based companies through their Canadian subsidiaries. US books enter the Canadian market freely and essentially set the average price for books in this country.

- In the French-language book publishing market the principal competitive problem is the overwhelming share of the market controlled by foreign, primarily French, publishers. These large companies are able to acquire the world French-language rights to US books and others and so are able to dominate the Quebec market for French-language books.

- In both language markets, the Canadian-owned firms are typically much smaller than their multinational competitors operating in Canada, and this limits Canadian-owned firms' opportunities for economies of scale in book production, marketing and distribution. In plain words, the Canadian-owned sector faces higher cost structures and price ceilings.

- The Canadian-owned firms lack the financial resources to compete against the large multinationals in the bidding wars for successful Canadian authors.

- The growth of Chapters has greatly tilted the bargaining advantage towards the retail distributors, leading to significant price discounts and increased pressures on operating margins for the Canadian book publishers.

The Federal Government currently supports the publication and dissemination of Canadian books through three separate and distinct programs. Our analysis suggests that these three programs have helped to level the playing for the Canadian book publishing industry. Indeed, there is little doubt that government policies have helped the industry mature, and in the process, showcase Canadian writers not only within Canada but also abroad. But government cutbacks in the mid 1990s also jeopardized the industry. Thus, not only is the aggregate level of government support an issue, but also the stability of this support from year to year.

Federal government grants essentially bridge some of the cost and competitive gaps facing the smaller Canadian-owned firms relative to their multinational competitors. But policies designed to support Canadian ownership of publishers and promote Canadian authors do not, at the margin, encourage the necessary structural changes required for a financially viable and competitive Canadian-owned book publishing industry.

The nature of book publishing and confidentiality are such that we were not able to develop any direct statistics on two important competitive issues affecting Canadian publishers: the full extent of the underlying cost advantage foreign branch plant publishers have compared to their Canadian-owned counterparts, as well as the cost advantage foreign-owned firms are able to derive through the use of transfer pricing to minimize their income taxes. Both cost competitive issues are clearly important.

Canadian-owned firms accounted for 96% of all book publishers in Canada in 1996-97 and 75% of the exclusive agents. All the Canadian-owned firms generated 65% of industry revenues. The foreign firms are much larger than their Canadian counterparts. The English-language foreign firms had average revenues of $22.7 million in 1996-97 compared to average revenues of only $2.7 million for the Canadian, English-language firms. The foreign, French-language foreign firms had average revenues of $7.8 million in 1996-97 compared to average revenues of only $1.8 million for the Canadian, French-language firms. The largest publishers (51 companies with revenues in excess of $5 million) produced $1.43 billion in revenues (73%). The smaller book publishers (the 460 with revenues less than $5 million) had $240 million in revenues (12% of aggregate industry revenues).

The English-language book publishers produced $1.43 billion in sales ($4.1 million per firm and 72% of total industry revenues); and the French-language book publishers $240 million in revenues ($1.5 million per firm and 12% of total industry revenues).

The Canadian-owned firms generated $615 million in operating profits (63% of the total industry operating profits in Canada) and $38 million in pre-tax profits (51% of total pre-tax profits). The English-language firms accounted for 85% of industry gross profits and 94% of industry pre-tax profits. The foreign-owned, English-language firms accounted for 36% of the industry gross profits and 47% of the pre-tax profits.

There are many very small firms in the industry, partly due to the public policy goal of creating a diverse publishing industry that represents the various communities across Canada. Small, regionally based houses have been supported for their role in publishing new, Canadian authors and regionally significant titles. Indeed, this has been a key objective of federal financial assistance to the book publishing industry.

Grants have ensured the survival of a significant number of book publishers that have focused on developing and publishing Canadian authors and written works. In the absence of BPIDP and other grants, the BPIDP recipients in aggregate would have lost money in each of the past five years, with the total pre-tax loss, excluding the grants, peaking at $30 million in 1997-98. It is important to note, however, that without the many federal and provincial financial assistance programs, there would likely be fewer Canadian book publishers today**,** and in addition, those that would have survived may have changed their editorial focus to at least break even.

In light of the financial importance of federal and provincial grants, it is not surprising that following the cut-backs in BPIDP/PDAP funding in fiscal 1996, the profitability of Canadian book publishers that received these grants eroded dramatically. As BPIDP funding has been restored, the profitability of BPIDP recipients has also improved, although nowhere near the levels attained in 1994-95 and 1995-96.

BPIDP recipients appear to account for 44% of all titles published in 1996-97 by book publishers in Canada. Furthermore, the BPIDP recipients generated 32% of the total revenues of all book publishers in Canada in 1996-97[1].

Our research identified the following competitive disadvantages facing the Canadian firms:

- A serious scale disadvantage compared to the larger multinational firms operating in Canada. In addition, these foreign multinationals are able to engage in transfer pricing to reduce their overall tax liabilities. Hence, Canadian publishers who are profitable may face higher average income tax rates than their large foreign competitors.

- Inadequate capitalization of many Canadian book publishers. This is a longer run problem that has plagued Canadian industry. The support programs available have helped the industry to remain on the plus side of the financial ledger, but the industry has not generated sufficient retained earnings on its own, nor is outside investor capital easily attracted to an industry with a lengthy record of weak profits.

- The ability of the Canadian-owned book publishers to attract Canadian authors with potential may be declining. This is more a problem for the English-language sector. The bidding market for the publishing rights for promising Canadian authors is hot, and there is little doubt that Canadian-owned firms find it difficult to hold on to their most promising authors.

- The merger and acquisition wave at both the retail and producer levels creates both new threats and new opportunities. Canadian-based publishers face major structural and technological changes at both ends of the production and distribution system. In particular, Chapters, the largest book retailer in Canada has created its own national wholesaler (Pegasus). Pegasus will be supplying all of the Chapters' outlets and will be able to extract additional price concessions from Canadian publishers. When the federal government approved the Smith-Coles merger (March 1995), there was a three-year standstill agreement on contracts with the publishers. The three-year undertaking has ended, so Chapters and its subsidiaries are free to renegotiate the contractual terms with publishers.

- Consolidation of the Canadian-owned book publishing industry is not occurring although there has been consolidation in several functional areas, with some of the larger publishers providing services to the smaller publishers. Our report demonstrates that there are economies of scale in the Canadian-owned segment of the book publishing industry. Larger firms for both language groups have lower total operating costs as a percentage of total revenues excluding all government grants. Larger firms also report relatively higher pre-tax profits excluding the government grants than smaller firms. The BPIDP grant program does not encourage consolidation. Indeed, under current policies, a larger, consolidated firm would

1 These percentages were derived using two different data sources – Statistics Canada and data compiled from the Department of Canadian Heritage BPIDP application forms. Thus, the data sets are not directly comparable, as Statistics Canada data includes all book publishers operating in Canada (Canadian and foreign), while the BPIDP data is limited only to beneficiaries of the program. As well, the reference period for Statistics Canada and the BPIDP is different.

see its total grants shrink despite the fact that it might reap improved economies of scale and scope via mergers. In addition, the ability to attract entrepreneurs and risk capital has become a core feature of the competitive problem.

- There appears to be a succession issue. Foreign ownership and control properly continue to be important issues for book publishing policy in Canada. But with limits on foreign ownership, the owners of the Canadian-controlled firms do not have as easy an exit strategy for their retirement. This leaves something of a “succession problem” to deal with. Indeed, our analysis suggests that the ownership and succession problems facing Canadian-owned firms and the problem of attracting new equity capital are in effect the same problem. As noted, attracting outside capital to this industry is difficult. The preferred solution is to maintain ownership in Canadian hands in order to ensure the promotion of Canadian authors. Consequently, the owners would prefer to sell their business to their own employees. But the IPO/venture capital funds route, which is often used in competitive, healthy circumstances, is simply unavailable to these owners. Either the investments are deemed to be too small to warrant outside investor interest or the longer-term profitability of the firms is simply too unpredictable.

Clearly, what is needed are programs to deepen the capital base of the Canadian-owned book publishers and to encourage some needed consolidation among Canadian-owned firms so that they may reap more economies of scale and scope. These programs will be discussed in the next paper submitted to the Department of Canadian Heritage (DCH).

1. INTRODUCTION

A. Overview

The primary objective behind the government's support of the Canadian book publishing industry has been to ensure the creation, publication and dissemination of Canadian books. An underlying premise has been that this is best achieved through a Canadian-owned and controlled book-publishing sector which is economically and financially strong.

As pointed out in "Evaluation of the Book Publishing Industry Development Program"[2]:

"It should be noted at the outset, however, that the soul of the industry has been individual Canadian publishers driven by cultural values and a vision for Canadian books that has less to do with industrial or financial success than with a belief in Canadian culture and the imperative of grounding that culture in literature. Thus, the overriding motivation, for what has become a significant industry, is the nature and content of the books produced. In recent years, book publishing in this country has acquired industrial significance, but for many people who drive the industry there is a passionate commitment to culture that, with government help, continues to exert a major influence on business decisions."

Over the past 30 years, the Canadian government has developed a set of policies that enabled the Canadian-owned book publishers to survive in an otherwise difficult competitive and economic environment. The Department of Canadian Heritage currently supports the book publishing industry through a series of measures intended to stimulate the production of Canadian authored books, and to ensure the continued viability of a Canadian-controlled, book-publishing sector. That the Canadian-owned book publishing industry has matured and survived in a difficult marketplace is testimony both to the tenacity of the industry and to the public sector support facilities that have evolved over the years.

There are a number of policy instruments through which the federal government achieves its objectives for the industry, including the following:

- Direct financial assistance through the Book Publishing Industry Development Program, including the Association for the Export of Canadian Books, the Block Grants Program administered by the Canada Council and the Aid to Scholarly Publishing Program administered by the Social Sciences and Humanities Research Council of Canada. This short-term funding is intended to offset the high cost of operating in the Canadian market.

- Debt financing is provided in conjunction with the Royal Bank of Canada through the Loan Program for Book Publishers. The loan program is intended to increase publishers' access to capital and to educate banks on the nature of the assets associated with publishing.

- Protection of intellectual property through parallel importation provisions in the Copyright Act.

2 Corporate Review Branch, DCH, August 1998, p.9.

- Limitation of new investments in the book trade to Canadian-controlled ventures or to investments that are of net benefit to the Canadian-controlled industry through the administration of the Foreign Investment Guidelines for the Book Trade.

- Support to entrepreneurs working in the book publishing industry or other cultural sectors including sound recording, film and video production through the Cultural Industries Development Fund.[3]

Collectively these programs help to level the playing field for Canadian publishers and Canadian-authored books. They perform several useful functions: offsetting to a degree the competitive economic advantages of imported books and foreign-controlled publishers; allowing Canadian books to be more competitively priced; facilitating publication of a far broader range of Canadian reading materials than our small market would otherwise permit; contributing to expanding the audience for Canadian books at home and abroad by supplementing publishers' expenditures on domestic and export marketing.

But funding has at times been a source of tension, and the Association of Canadian Publishers has pointed out that the sudden cutbacks of financial support by the Department of Canadian Heritage (DCH) after the 1995 federal budget dramatically hurt the financial position of Canadian publishers.

In addition to funding uncertainties, there are several technological, structural and competitive changes taking place that have critical repercussions for Canadian book publishers. Among the major changes taking place in the Canadian book publishing industry are the following: the consolidation of retail outlets into mega-stores controlled by a very small number of companies[4], the introduction of electronic markets through the Internet, and a reduction in institutional purchasing of books. Internet distribution and consolidation of retail distribution are putting more pressure on publishers to offer greater discounts to the distributors. At the same time, costs for distributing their books in the US market are increasing, thus creating financial barriers to entering into and expanding in the important US market.

And Canadian book publishers continue to be at a disadvantage in the Canadian marketplace relative to their US competitors. The research and development costs[5] of US companies are covered by sales in the US market. Hence books sold in Canada and elsewhere are run-on copies (added to the publishers' US print runs) that do not need to recover the research and development (R&D) costs. For Canadian publishers, these R&D costs are just as expensive, but they must be amortized over much smaller aggregate sales volumes. Consequently, US books can be sold at relatively low prices in the Canadian market and still be profitable for their publishers. In order to compete, Canadian books must be priced competitively with US books. But at these levels, most books are unprofitable.

B. Objectives of the Report

In many ways, today's Canadian-owned industry is not the same as the one which existed 30 years ago. There is little doubt that government policies have helped the industry mature, but serious

3 This fund was created by Canadian Heritage and is administered by the Business Development Bank of Canada. It provides a range of financial services, including term loans.

4 Chapters and Indigo being by far the two most dominant.

5 These costs consist of author's advance, editorial and design work, typesetting, plate making and other one-time expenses.

competitive problems persist. This study will evaluate the Canadian-controlled book-publishing sector in terms of its ability to compete in the Canadian market, which is currently populated by both Canadian- and foreign-controlled firms. The key objectives of the study are to reveal the competitive strengths and weaknesses of the Canadian book publishers; and any impediments existing in the environment that affect the sector's ability to compete.

Some of the key questions that this study will address are the following:

- How well are Canadian book publishers doing financially?
- What are the determinants of competitiveness in the book publishing industry?
- What are the key threats to the survival of Canadian book publishers?
- Does the development of new distribution channels via the Internet create opportunities for book publishers or threaten their existence? What is needed to take advantage of these new developments or to stave off any competitive the threats?
- Is the publishing industry sufficiently flexible to be able to roll with future shocks – the business cycle, grant shocks, new technological developments?

This report will form the basis for a future study, which will set out to identify any weaknesses, or gaps that might be filled through changes to support measures currently in place.

2. STRUCTURAL CHARACTERISTICS OF THE CANADIAN BOOK PUBLISHING INDUSTRY

A. Overview of the Industry

To understand the structure of the book publishing in Canada, it is important to note that the market consists of a number of different segments and firms differ greatly in size and corporate structure. Books are classified as textbooks, trade books (paper-back and hard covers), children's books, scholarly and reference books, and professional and technical books. The market, in turn, is also segmented into English-language and French-language books.

Book publishers sell their products to book stores, through specialized agents, and through their own sales representatives. The structure of the distribution network and the relative importance of the book stores, sales representatives and specialized agents have changed during the past decade, especially the last few years of the decade. For example, there have been some important mergers among the book stores in Canada, and this no doubt affects the financial performance of the Canadian publishers.

The book publishing industry in Canada has always been susceptible to a number of pressures. With the introduction and growth of the Internet and the changing structure of distribution, the difficulty in achieving Canadian cultural policy objectives in this field has probably intensified.

At the end of the first quarter of 1997, there were 511 book publishers and 51 exclusive agents operating in Canada (Table 1). There were 386 English-language publishers and agents (69% of total – 351 publishers and 35 exclusive agents) and 176 French-language publishers and agents (160 publishers and 16 exclusive agents).

Most were Canadian-owned (94% of the total number – 96% of the book publishers, 75% of the exclusive agents) and the number of Canadian book publishers and exclusive agents increased 54% in total[6] from 334 in 1994-95 to 529 in 1996-97.

There were 11,400 titles published in 1996-97 (Tables 1 and 2). Almost 10,000 titles (88% of total) were published by the Canadian-owned publishers and agents. Fewer than 8,100 titles (71%) were published by the English-language publishers and agents and slightly more than 3,300 were published by the French-language publishers;

Of the titles published in 1996-97, 2,401 were textbooks (21% of the total), 4,984 were trade books (44%), 2,029 were professional and technical books (18%) 1,037 were children's books (9%) and 949 were scholarly and reference books (8%). Canadians authored 75% of the books – the highest proportion of Canadian-authored books included textbooks (93%) and professional and technical books (99%).

The revenues of the book publishers and exclusive agents in Canada totaled $1.97 billion in 1996-97 (Table 1). Book publishers generated $1.67 billion of the total revenues (85%), while the exclusive agents generated the remaining $305 million. The largest 51 publishers (those with revenues in excess of $5 million) produced $1.43 billion in revenues (73%). For these largest book publishers,

6 The number of book publishers increased by 60%, while the number of agents increased by only 36%.

$931 million in revenues were derived from the sale of their own titles (65% of their total revenues and 84% of total industry sales of own titles) and $466 million from exclusive agency (59% of total exclusive agency sales). The smaller book publishers (the 460 with revenues less than $5 million) had $240 million in revenues (12% of aggregate industry revenues), with $180 million generated by sales of their own titles.

TABLE 1: Book Publishers in Canada,
Selected Financial ($ millions) and Other Indicators, 1994-95 and 1996-97

	French Foreign	***French Canadian***	***English Foreign***	***English Canadian***
No. of Firms				
1994-95	3	130	29	204
1996-97	4	172	29	357
Titles Published				
1994-95	66	3,018	1,470	6,066
1996-97	67	3,255	1,340	6,738
Total Revenues				
1994-95	$31.9	$310.0	$628.7	$889.0
1996-97	$31.2	$311.5	$659.2	$970.2
Revenues per Firm				
1994-95	10.6	2.4	21.7	4.4
1996-97	7.8	1.8	22.7	2.7
Gross Profits				
1994-95	12.7	133.7	324.4	464.0
1996-97	12.3	130.8	347.8	484.3
EBT				
1994-95	2.0	22.0	22.8	77.5
1996-97	0.9	4.2	35.1	34.0
Oper. Margin				
1994-95	39.9%	43.1%	51.6%	52.2%
1996-97	39.3%	42.0%	52.8%	49.9%
EBT/Revenues				
1994-95	6.3	7.1	3.6	8.7
1996-97	3.0	1.3	5.5	3.5

Sources: Statistics Canada, 87-004XPB and Statistics Canada, special analysis (July 1999)[7]

The English-language firms generated $1.63 billion in revenues (82% of the total revenues), compared to the $343 million in revenues for the French-language firms. The 351 English-language book publishers produced $1.43 billion in sales ($4.1 million per firm and 72% of total industry revenues); the 35 English-language exclusive agents had $203 million in revenues ($5.8 million per firm and 10% of total industry revenues); the 160 French-language book publishers had $240 million

7 The actual growth rate is smaller since Statistics Canada began to include the smallest group of publishers, those with revenues of less than $50,000 in 1996-97. In previous years, this group of publishers was excluded from the Statistics Canada data. Consequently, comparisons with previous years will be affected, most significantly with respect to the number of firms. The aggregate size of these companies should be relatively small and so should not affect other comparisons in any significant manner.

in revenues ($1.5 million per firm and 12% of total industry revenues); and the 16 French-language exclusive agents produced $103 million in sales ($6.4 million per firm and 5% of total industry revenues). The Canadian firms generated $1.28 billion in revenues (65%).

TABLE 2: Titles Published by Commercial Category, 1994-95 and 1996-97

	94-95 Number	***96-97 Number***	***94-95 Can.-authored share***	***96-97 Can.-authored share***
Textbooks				
ELHI	1,437	1,478	95%	95%
Postsecondary	1,033	923	86%	89%
Total	2,470	2,401	91%	93%
Tradebooks				
Mass-market paperbacks	1,841	1,862	18%	13%
Trade paperbacks	2,664	2,441	83%	85%
Trade hardcovers	1,033	681	57%	72%
Total	5,538	4,984	57%	56%
Other				
Scholarly	469	563	91%	93%
Reference	259	386	63%	76%
Professional & technical	1,884	2,029	100%	99%
Total	2,612	2,978	94%	95%
Total	10,620	11,400	74%	75%

Source: See Table 1.

The English-language foreign firms accounted for $659 million (33%) of the total revenues for the industry, the French-language foreign firms generated only $31 million in revenues.

The foreign firms are much larger than their Canadian counterparts (Table 1). The English-language foreign firms had average revenues of $22.7 million in 1996-97 compared to average revenues of only $2.7 million for the Canadian, English-language firms. The foreign, French-language foreign firms had average revenues of $7.8 million in 1996-97 compared to average revenues of only $1.8 million for the Canadian, French-language firms. Only the foreign, English-language firms increased in revenue size between 1994-95 and 1996-97; the three other groups – English Canadian-owned, French Canadian-owned and French foreign-owned – declined in size despite an increase in their numbers[8].

Net sales in Canada totaled $1.5 billion in 1996-97; exports and other foreign sales generated an additional $383 million in net sales (Table 3). Of the $1.5 billion in net sales in Canada, sales of own titles accounted for $652 million (44%) and exclusive agency sales accounted for the remaining 56% ($844 million). English-language book publishers generated $1.2 billion in net sales in Canada (80% of the total), $491 million of the sales of own titles (75% of sales of own titles) and $701 million of exclusive agency sales (83% of these aggregate sales). The Canadian-controlled firms accounted for $821 million (55%) of the net sales, $427 million (65%) of the sales of own titles and $394 million (47%) of exclusive agency sales.

8 See preceding footnote.

Net domestic sales of textbooks approached $500 million (sales of own titles by publishing firms accounted for 51% of these sales); domestic sales of tradebooks were almost $600 million (sales of own titles accounted for only 26%); and sales in Canada of other books were just under $300 million (with sales of own titles accounting for 75%). Canadian-authored books accounted for 50% of the domestic sales of textbooks, 64% of the Canadian sales of other books, and only 29% of the net domestic sales of tradebooks.

The gross profits of all book publishers and exclusive agents in Canada exceeded $975 million in 1996-97, but the earnings before taxes (EBT) totaled only $74 million (Table 1). The Canadian-owned firms generated $615 million in operating profits (63% of the total) and $38 million in pre-tax profits (51% of total EBT). The English-language firms accounted for 85% ($832 million) of gross profits and 94% of pre-tax profits ($70 million). The foreign, English-language firms accounted for 36% of the gross profits and 47% of the pre-tax profits. The French-language Canadian firms accounted for $131 million (13%) of gross total profits and only $4 million (5%) of pre-tax profits.

TABLE 3: Net Sales in Canada and Exports of Publishing Firms and Exclusive Agents, by Commercial Category, 1994-95 and 1996-97 ($ Millions)

	94-95 Canada	***96-97 Canada***	***94-95 Exports***	***96-97 Exports***
Textbooks				
ELHI	$249.6	$288.2	$7.0	$10.5
Postsecondary	$183.4	$205.7	$3.8	$4.4
Total	$433.0	$493.9	$10.8	$14.9
Tradebooks				
Mass-market paperbacks	$165.2	$131.3	$3.3	$1.7
Trade paperbacks	$299.0	$272.9	$35.7	$31.0
Trade hardcovers	$207.9	$191.1	$45.7	$36.0
Total	$672.1	$595.3	$84.7	$68.8
Other				
Scholarly	$10.7	$11.5	$4.1	$4.3
Reference	$137.3	$127.4	$3.2	$7.1
Professional & technical	$156.6	$147.4	$7.5	$6.6
Total	$304.5	$316.4	$14.8	$17.9
Total	$1,409.7	$1,496.0	$110.3	$106.4

Sources: See Table 1.

Only the English-language firms increased their pre-tax profits (by 54%) between 1994-95 and 1996-97. As a result their share of pre-tax profits increased from 18% to 47% – the pre-tax profits of the Canadian, English-language firms fell by 56% between 1994-95 and 1996-97 and the pre-tax profits of the Canadian, French-language firms declined by 81%.

The English-language firms had higher operating margins (defined as the ratio of gross profits to total revenues) than the French-language firms (Table 1). The foreign, English-language firms had an average operating margin of 53% – three percentage points higher than the average margin of 50% for the Canadian, English-language firms. The foreign, French-language firms had an average operating margin of 39% – three percentage points lower than the average margin of 42% for the Canadian, French-language firms.

Only the foreign, English-language firms had higher operating margins in 1996-97 than in 1994-95 – interestingly, in 1994-95 the Canadian, English-language firms had a marginally higher average operating margin than their foreign counterparts[9].

The higher operating margins for the English-language firms, and in particular the foreign, English-language firms translated into higher pre-tax profit margins as well (Tables 1 and 4). The pre-tax profit margins (defined as the ratio of EBT to total revenues) for the foreign, English-language firms increased from an average of 3.6% in 1994-95 to an average of 5.5% in 1996-97. The pre-tax profit margins for the Canadian, English-language firms dropped sharply from an average of 8.7% in 1994-95 to an average of 3.5% in 1996-97. The pre-tax profit margins for the Canadian, French-language firms decreased even more sharply from an average of 7.1% in 1994-95 to an average of 1.3% in 1996-97.

Only 50% of all English-language firms had a profit in 1996-97. Only 50% of Canadian-controlled firms had a profit in 1996-97 in comparison to 64% of foreign-controlled firms – in 1994-95, 74% of Canadian-controlled firms had a profit, while only 53% of foreign-owned firms had a profit in that year. The very low pre-tax margins of the foreign-controlled publishers operating in Canada may be produced by transfer pricing decisions whose objective it is to reduce reported profits in the higher tax country – Canada.

TABLE 4: Profitability of Book Publishers in Canada, 1992-93 to 1996-97

	92-93	***94-95***	***96-97***
English-Language Firms			
Gross margin (%)	54.7%	52.0%	51.1%
EBT margin (%)	4.2	6.6	4.3
% of firms with a profit	54.8	69.5	50.3
French-Language Firms			
Gross margin (%)	40.2	42.8	41.7
EBT margin (%)	3.5	7.0	1.5
% of firms with a profit	63.2	75.9	51.1
Canadian-controlled Firms			
Gross margin (%)	51.8	49.9	48.0
EBT margin (%)	5.1	8.3	3.0
% of firms with a profit	59.6	73.7	49.7
Foreign-controlled Firms			
Gross margin (%)	51.6	51.0	52.1
EBT margin (%)	2.3	3.8	5.4
% of firms with a profit	43.2	53.1	63.6

Sources: See Table 1.

The book publishers appear to be more profitable than the exclusive agents, with the English-language publishers being more profitable than their French-language counterparts (Table 5). Both the English-language and French-language exclusive agents lost money in 1996-97.

9 The change in the Statistics Canada data series should not have any significant effect on these comparisons – see footnote 7 above.

Among the book publishers, the largest companies were the most profitable. Indeed, with the exception of the small, French-language publishers (revenues less than $1 million), only the largest book publishers had positive earnings on average. The French-language publishers with more than $5 million in revenues had a higher pre-tax profit margin than the English-language publishers in this size category.

Overall, approximately 50% of all book publishers and exclusive agents had a profit in 1996-97. Between 68% and 69% of the larger English-language book publishers (revenues in excess of $1 million) had profits. Only 44% of the smallest English-language publishers recorded a profit. There is a strong positive correlation between the percentage of all firms with a profit and average firm size for both the French-language and English-language publishers, lending some support to the hypothesis that there are economies of scale in this industry.

Statistics Canada data for the book publishing industry (SIC group 5512) support the positive correlation. Based on 1994 as the reference year (the latest year for which these data are available), large firms with revenues in excess of $75 million have consistently higher profit rates (gross profit margins, pre-tax profit margins, net profit margins and return on equity) than do the medium size firms with revenues between $5 and $75 million[10].

TABLE 5: Profitability of Book Publishers and Exclusive Agents in Canada, 1996-97

	English-Language	***French-Language***
All Book Publishers		
EBT margin (%)	5.1	2.7
% of firms with a profit	49.9	51.2
Book Publishers: $5M + Revenues		
EBT margin (%)	5.9	6.2
% of firms with a profit	69.2	58.3
Book Publishers: $1-$5M Revenues		
EBT margin (%)	-4.1	-1.9
% of firms with a profit	68.4	52.8
Book Publishers: < $1M Revenues		
EBT margin (%)	-3.4	0.3
% of firms with a profit	44.5	50.1
Exclusive Agents		
EBT margin (%)	-1.1	-1.3
% of firms with a profit	54.3	50.0

Sources: See Table 1.

B. Financial Importance of Government Assistance

In each size category, a higher percentage of the Canadian, French-language publishers received financial assistance in 1996-97 than did the Canadian, English-language publishers (Table 6). The

10 For large and medium sized firms respectively, the gross profit margins were 41% and 35%, pre-tax margins were 16% and 8%, net margins were 14% and 6% and returns on equity were 12% and 11%. Source of the data is Statistics Canada, 61-058, volumes 1 and 2 (1996 edition).

largest percentage of firms receiving financial assistance were in the revenue category $250,000 to $1 million – 75% of the English-language firms, 80% of the French-language firms. The percentage of firms receiving financial assistance declined as the size of the firms exceeded $1 million in revenues; however, among the English-language firms, a higher percentage of firms with revenues in excess of $5 million received financial assistance than did firms with revenues of less than $250,000. Not all of the firms receiving financial assistance received grants from the federal government[11].

The federal government has provided the most financial assistance (Table 6). Average federal financial assistance per firm increased with the size of the firms – from $9,000 per firm for English-language publishers with less than $250,000 in revenues to $138,000 per firm for English-language publishers with more than $5 million in revenues. Similarly, federal financial assistance per firm increased from $17,000 per firm for French-language publishers with less than $250,000 in revenues to $131,000 for French-language firms with more than $5 million in revenues;

TABLE 6: Financial Aid Received ($000s), by Size and Language of Publishers, 1996-97

	< $250,000	*$250,000 – $1 Mill.*	*$1 Mill. – $5 Mill.*	*$5+ Mill.*
English-Language				
No. of Firms	202	72	38	39
% Receiving Aid	30.2%	75.0%	56.2%	43.6%
No. Receiving Aid	61	54	21	17
Avg. Grant by Source				
Federal	$9	$55	$54	$138
Provincial	3	20	7	16
Other	2	16	42	11
French-Language				
No. of Firms	71	41	36	12
% Receiving Aid	69.0%	80.5%	80.0%	58.3%
No. Receiving Aid	49	33	29	7
Avg. Grant by Source				
Federal	$17	$61	$102	$131
Provincial	5	23	61	12
Other	2	11	29	5

Source: Statistics Canada, 87-004XPB.

Provincial financial assistance was the largest for English-language publishers with $250,000 to $1 million in revenues ($20,000 per firm), and for French-language publishers with $1 million to $5 million in revenues ($61,000 per firm).

C. Summary

Canadian-owned firms accounted for 96% of all book publishers in Canada in 1996-97 and 75% of the exclusive agents. The Canadian-owned publishers and agents published 88% of the 11,400 titles

11 Grants from the Federal Government include all government and agency financial support programs to book publishers, including BPIDP.

published in that year in Canada. Most of the books published were trade books (44%). Canadians authored 75% of all the books published in Canada.
The revenues of the book publishers and exclusive agents in Canada totaled $1.97 billion in 1996-97. Book publishers generated $1.67 billion of the total revenues (85%), while the exclusive agents generated the remaining $305 million (15%). The largest publishers (51 companies with revenues in excess of $5 million) produced $1.43 billion in revenues (73%). The smaller book publishers (the 460 with revenues less than $5 million) had $240 million in revenues (12% of aggregate industry revenues).

The English-language book publishers produced $1.43 billion in sales ($4.1 million per firm and 72% of total industry revenues); and the French-language book publishers $240 million in revenues ($1.5 million per firm and 12% of total industry revenues). All the Canadian-owned firms generated 65% of industry revenues. The foreign firms are much larger than their Canadian-owned counterparts. The English-language foreign firms had average revenues of $22.7 million in 1996-97 compared to average revenues of only $2.7 million for the Canadian-owned, English-language firms. The foreign-owned, French-language foreign firms had average revenues of $7.8 million in 1996-97 compared to average revenues of only $1.8 million for the Canadian-owned, French-language firms.

Net sales in Canada totaled $1.5 billion in 1996-97; exports and other foreign sales generated an additional $383 million in net sales (Table 3). Of the $1.5 billion in net sales in Canada, sales of own titles accounted for $652 million (44%) and exclusive agency sales accounted for the remaining 56% ($844 million). English-language book publishers generated $1.2 billion in net sales in Canada (80% of the total), $491 million of the sales of own titles (75% of sales of own titles) and $701 million of exclusive agency sales (83% of these aggregate sales). The Canadian-controlled firms accounted for $821 million (55%) of the net sales, $427 million (65%) of the sales of own titles and $394 million (47%) of exclusive agency sales.

Net domestic sales of textbooks approached $500 million (sales of own titles by publishing firms accounted for 51% of these sales); domestic sales of trade books were almost $600 million (sales of own titles accounted for only 26%); and sales in Canada of other books were just under $300 million (with sales of own titles accounting for 75%). Canadian-authored books accounted for 50% of the domestic sales of textbooks, 64% of the Canadian sales of other books, and only 29% of the net domestic sales of trade books.

The Canadian-owned firms generated $615 million in operating profits (63% of the total) and $38 million in pre-tax profits (51% of total EBT). The English-language firms accounted for 85% of gross profits and 94% of pre-tax profits. The foreign, English-language firms accounted for 36% of the gross profits and 47% of the pre-tax profits.

Among the book publishers, the largest companies were the most profitable. Indeed, with the exception of the small, French-language publishers (revenues less than $1 million), only the largest book publishers had positive earnings on average. The French-language publishers with more than $5 million in revenues had a higher pre-tax profit margin than the English-language publishers in this size category.

In each size category, a higher percentage of the Canadian-owned, French-language publishers received financial assistance in 1996-97 than did the Canadian-owned, English-language publishers. The largest percentage of firms receiving financial assistance were in the revenue category $250,000 to $1 million – 75% of the English-language firms, 80% of the French-language firms.

The federal government has provided the most financial assistance. Average federal financial assistance per firm increased with the size of the firms – from $9,000 per firm for English-language publishers with less than $250,000 in revenues to $138,000 per firm for English-language publishers with more than $5 million in revenues. Similarly, federal financial assistance per firm increased from $17,000 per firm for French-language publishers with less than $250,000 in revenues to $131,000 for French-language firms with more than $5 million in revenues.

3. BPIDP

A. Overview of Government Programs

At the federal level, there are three direct funding policy instruments – the Book Publishing Industry Development Program (BPIDP) administered by the DCH; the Block Grants Program administered by the Canada Council for the Arts; and Aid to Scholarly Publishing Program administered by the Social Sciences and Humanities Research Council of Canada. The BPIDP funds are allocated in proportion to the volume of sales, regardless of the commercial categories of the publications. Canada Council grants are linked to specific categories, generally scholarly publications.

BPIDP is composed of four funding initiatives – Aid to Publishers; Aid to Industry and Associations; Distribution Assistance and International Marketing Assistance[12]. The third funding component (Distribution Assistance) supports the development of information systems' infrastructure in participating publishing firms. Funding cuts have had serious negative impacts on Canadian book publishers. For example, the Book Publishing Programs' budgets were reduced from $30 million in 1994-95 to under $17 million in 1995-96. Although the budgets have been increased since 1995-96, the aggregate budget in 1998-99 only marginally exceeds the budget four years earlier. (See table 7 for a summary of the budgets of the respective programs comprising BPIDP.) As we will see below in the review of BPIDP recipients by firm size, language and genre, profitability eroded sharply following the budget cuts, and in most cases, profit rates are still well below the pre-budget cut levels.

TABLE 7: Book Publishing Programs' Budgets, 1994-95 to 1998-99 ($ Millions)

	94-95	*95-96*	*96-97*	*97-98*	*98-99*
BPIDP					
Aid to Publishers	$18.9	$12.0	$15.9	$20.1	$22.4
Nat'l Marketing Assistance	0	0	0	0	2.0
Industry&Assoc. Assistance	0.2	0.2	0.2	1.5	1.9
Distribution Assistance	0	0	0	0	1.5
Int'l Marketing Assistance	3.5	3.0	3.0	3.0	3.5
Total	22.6	15.2	19.1	24.6	31.3
PDAP: Aid to Publishers	7.4	1.4	0	0	0
Total	30.0	16.6	19.1	24.6	31.3

Source: DCH[13].

BPIDP assistance is not available to publishers whose average profit margins for the last three financial years exceeded 12%. As well, companies that have losses must demonstrate constant improvement in their margins to maintain access to BPIDP. A company that incurred a loss must

12 This program is administered for the DCH by the Association for the Export of Canadian Books.

13 These budget figures represent the amounts allocated by the BPIDP in each fiscal year. These amounts differ from the total amounts declared by the beneficiaries of the BPIDP for corresponding fiscal years (see Table 9). The differences can be explained by one or more of the following scenarios: differences in individual publishers' accounting practices; varying reference periods (BPIDP accepts the financial statements dating up to 17 months); and finally, the entry into BPIDP of new publishers and/or departure of some who have chosen not to re-apply, or that no longer meet the eligibility criteria for the program.

improve its financial performance from that of its worst year in the previous two fiscal years. Should such a company fail to improve its profit margin, it is excluded from the program.

BPIDP does not support start-ups. New publishers have to survive for at least three years before they become eligible for financial support. However, the Canada Council Outreach Program does provide financial assistance to new companies.

The federal government and the Royal Bank introduced a new loan program in January 1999. The federal government has committed up to $2 million as a reserve to guarantee a portion of the lines of credit provided to book publishers; the Royal Bank will increase its lending to book publishers by up to $20 million. The publishers will pay rates of interest between prime plus two and prime plus four. This new program is important for small and medium size companies that have had difficulty obtaining bank financing.

B. Overview of BPIDP Recipients

The BPIDP data we use in the following tables are compiled by Canadian Heritage from program application forms. The dates that appear at the top of each table represent the dates of the application periods, and not the dates of the publishers' fiscal year for which financial assistance was provided. Therefore, the following tables show data from the previous fiscal year to that indicated. For example, in Table 8 the reported revenues for the French-language publishers in 1998-99 are listed as $244 million. In fact, the French-language applicants for BPIDP contributions in 1998-99 earned these revenues during their 1997-98 fiscal year and the grants reported as received in 1998-99 are in fact the amounts received during the 1997-98 fiscal year.

The number of BPIDP recipients has fluctuated between 184 and 201 during the last five years (Table 8). If we compare the numbers for 1997-98 with the numbers in Table 6, it would appear that of the 153 English-language book publishers that received government financial assistance in 1996-97 (Table 6)[14], only 104 (68%) received BPIDP support (Table 8). Of the 118 French-language publishers that received government assistance, 90 (76%) received BPIDP grants.

During the five-year period, the number of titles published annually by BPIDP recipients has fluctuated around 5,000, with the numbers increasing since 1996-97. The number of titles reprinted has ranged between 4,000 and 4,500 annually (Table 8). Again comparing the 1997-98 data in Table 8 with the corresponding data in Table 6, it would appear that the BPIDP recipients accounted for 44% of all titles published in 1996-97 and 60% of all titles reprinted.

Total revenues for BPIDP recipients have increased from $526 million in 1996-97 to $570 million in 1998-99 (Table 8). Total revenues for the English-language book publishers have increased during each of the past five years; whereas, the revenues of the French-language recipients were lower in 1998-99 than in 1994-95.

Comparing the revenues of the BPIDP recipients with the aggregate revenues of all book publishers in Canada (not including exclusive agents), it appears that the BPIDP recipients accounted for 32% of the total revenues of all book publishers in Canada in 1996-97.

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14 The lag of one year in the comparisons is necessary since the BPIDP data tend to lag the Statistics Canada data by approximately 8 months (see footnote 1).

Aggregate sales of Canadian titles and total publishing revenues picked up in 1998-99 after bouncing around between $228 and $240 million and between $301 and $320 million respectively during the preceding four years (Table 9). Other revenues have increased steadily since 1995-96 from $176 million to $202 million in 1998-99 (Table 9).

TABLE 8: Profile of BPIDP Recipients, 1994-95 to 1998-99

	94-95	***95-96***	***96-97***	***97-98***	***98-99***
Number of Firms					
English-Language	109	102	101	104	104
French-Language	84	85	83	90	97
Total	193	187	184	194	201
No. of Titles Published					
English-Language	2,169	2,248	2,121	2,175	2,210
French-Language	2,723	2,918	2,702	2,837	3,207
Total	4,892	5,166	4,823	5,012	5,417
No. of Titles Reprinted					
English-Language	1,689	1,793	1,858	1,737	1,728
French-Language	2,604	2,640	2,157	2,786	2,626
Total	4,293	4,433	4,015	4,523	4,354
Total Revenues ($ Millions)					
English-Language	$273.7	$293.0	$299.1	$307.7	$326.1
French-Language	252.1	249.9	226.7	232.6	243.8
Total	525.8	542.9	525.8	540.3	569.9

Source: DCH.

DCH grants[15] dropped sharply from $27.5 million in 1995-96 to $16.8 million in 1997-98 before rising modestly to $18.6 million in 1998-99 (Table 9). Canada Council grants averaged $5.7 million per year between 1994-95 and 1997-98 before increasing to $6.2 million in 1998-99. Provincial government grants have declined every year during the past five years with the cuts in these grants being most pronounced in 1996-97 and 1997-98. The Ontario Government shut down the Ontario Publishing Centre in 1996, an important source of funding for Ontario-based book and magazine publishers, terminated provincial loan guarantee program and reduced funding to the Ontario Arts Council

According to discussions with publishers, they shifted away from the literary works towards more commercial properties between 1994 and 1997 in order to stay in business following the cuts in federal and provincial grants.

Operating (gross) profits (including government grants) totaled $233 million in 1998-99 – 9% larger than the preceding year's operating profits, but only 4% larger than the operating profits in 1995-96 (Table 9). Pre-tax profits (EBT) have been positive in each of the past five years. Pre-tax profits peaked at $30 million in 1995-96 and then fell sharply in the next two years, coincident with the cuts in BPIDP and provincial government funding, before recovering to $13 million in 1998-99. The BPIDP recipients' pre-tax profits in 1997-98 appear to account for a miniscule 1.3% of the aggregate

15 DCH grants represent the Aid to Publishers grants under both BPIDP and PDAP. They do not include the grants under the other three components of BPIDP.

pre-tax profits of all book publishers (excluding exclusive agents) in Canada using the 1996-97 Statistics Canada data.

TABLE 9: Canadian Book Publishers: Selected Financial ($ Millions) and Other Indicators, 1994-95 to 1998-99

	94-95	*95-96*	*96-97*	*97-98*	*98-99*
Sales of Can. Titles	$228.0	$239.7	$228.1	$234.0	$263.7
Publishing Revenues	309.8	321.5	301.2	315.1	334.1
Other Revenues	176.7	176.5	187.1	193.9	201.8
DCH Grants	21.0	27.5	21.4	16.8	18.6
CC Grants	5.8	5.7	5.7	5.6	6.2
Prov. Grants	6.6	6.5	5.4	4.3	4.2
Total Grants	39.3	44.8	37.5	31.3	34.0
Total Revenues	525.8	542.9	525.8	540.3	569.9
Oper. Profits	210.1	223.6	213.3	213.9	233.3
EBT (ex. Grants)	-13.6	-15.2	-26.5	-30.3	-21.3
EBT	25.8	29.6	11.0	1.0	12.7
Net Income	16.7	22.1	5.2	-1.2	8.1

Source: See Table 8.

Pre-tax profits, excluding the grants received by the book publishers, were negative in each of the five years (Table 9). The pre-tax losses, after excluding the grants from both total revenues and profits, increased from a loss of $14 million in 1994-95 to a loss of $30 million in 1997-98, again coincident with cuts in government grants. The pre-tax loss in 1998-99 improved to $21 million.

Finally, according to an independent evaluation of BPIDP, 56% of the firms have remained in the same financial category[16] from the time they entered into the BPIDP program until the present time. An additional 34% of the firms moved into a higher revenue category, 28% moving up one level, and 6% moving up two levels. Ten percent of the recipient pool moved into a lower financial category.

C. English-Language BPIDP Recipients

The English-language book publishers who received BPIDP grants accounted for between 45% and 46% of the total sales of Canadian titles by all Canadian book publishers who received BPIDP grants between 1994-95 and 1998-99; 40% to 44% of total publishing revenues; and 71% to 80% of the other revenues[17] of BPIDP recipients. These publishers also received between 47% and 52% of the DCH grants during the period 1995-96 and 1998-99 and approximately 52% of all grants during the past three years (Table 10).

The English-language book publishers accounted for 52% to 56% of all firms over the last five years; 55% to 57% of total operating profits during the period 1994-95 to 1998-99; but only 18% of pre-tax profits and 10% of net income in 1998-99 (Table 10).

16 The financial categories are: < $150,000; $150,000-$500,000; $500,000-$1 million; $1 million-$3 million; $3+ million.
17 Other revenues include revenues from book retailing, publication of periodicals and marketing and distribution for other book publishers.

[It is important to underscore that the data and any comparisons relate only to BPIDP recipients and not the entire universe of publishers in Canada.]

TABLE 10: English-Language Book Publishers as % of All Book Publishers, Selected Financial and Other Indicators, 1994-95 to 1998-99

	94-95	***95-96***	***96-97***	***97-98***	***98-99***
Sales of Can. Titles	45.3%	44.8%	46.9%	45.5%	45.5%
Publishing Revenues	40.3	41.2	43.8	43.1	44.2
Other Revenues	71.2	77.0	78.8	80.2	79.6
DCH Grants	57.3	51.7	47.1	50.1	50.8
CC Grants	55.5	52.6	57.4	53.7	55.9
Provincial Grants	55.3	57.7	55.7	46.4	39.8
Total Grants	58.4	54.9	52.5	51.9	51.7
Total Revenues	52.1	54.0	56.9	56.9	57.2
Operating Profits	54.9	54.8	56.9	56.3	56.7
EBT	24.9	29.0	19.4	NM	17.8
Net Income	15.1	29.7	NM	NM	10.3
Total SE	42.9	46.0	45.8	47.9	44.7
Total Assets	52.9	54.9	56.4	54.4	53.2
No. of Firms	56.5	54.5	54.9	53.6	51.7
Titles Published	44.3	43.5	44.0	43.4	40.8
Titles Reprinted	39.3	40.4	46.3	38.4	39.7

Source: See Table 8.

The aggregate operating profits of the English-language book publishers who received BPIDP grants totaled $132 million in 1998-99 (Table 11). Pre-tax earnings totaled only $2.3 million; without grants, the combined pre-tax losses would have been $15 million. Had assistance been received only from sources other than DCH, the aggregate losses would have still been $7 million. Aggregate net income totaled $832,000, primarily because the largest group of book publishers in this category (revenues in excess of $5 million) had an aggregate after-tax loss of $1.7 million.

The largest book publishers lost money in aggregate on both a pre-tax and after tax basis – the smaller book publishers had positive pre-tax and after earnings in aggregate. All categories would have lost money in aggregate if they did not receive any grants; they also would have lost money if they had only received grants from sources other than DCH. But as noted above, in the absence of these programs, Canadian book publishers may have changed their editorial focus in order to at least break even, and a number of publishers would likely have dropped out of the industry. So overall, it is likely that the surviving Canadian book publishers would have generated profits if there were no government programs available. The Canadian presence in the industry may have been much smaller and the industry may not have developed in the same way.

In 1998-99, the book publishers with more than $5 million in total revenues accounted for 53% ($63.5 million) of total sales of Canadian titles; 56% ($83.1 million) of total publishing revenues; 94% ($150.3 million) of other revenues; 34% ($5.9 million) of total grants received – 45% of total DCH grants; and 73% ($239.3 million) of total revenues (Table 11).

The smallest firms received 11% ($1 million) of all DCH grants to English-language book publishers; 43% ($1.5 million) of all Canada Council grants to English-language book publishers; 45% ($757,000) of all provincial government grants; and 21% of all grants. These firms generated 5% ($6.9 million) of total operating profits; and 21% ($468,000) of total pre-tax profits (EBT).

In 1998-99, the largest category of book publishers (revenues in excess of $5 million) accounted for only 12% of all the English-language book publishers who received BPIDP grants, but they accounted for 58% ($37.5 million) of total shareholders' equity (defined as traditional shareholders' equity plus loans owing to shareholders)[18] and 71% ($147.5 million) of total assets. The smallest firms (revenues less than $500,000) accounted for 41% of all the firms, but for only 6% of total shareholders' equity and 4% of total assets.

TABLE 11: English-Language Book Publishers, by Revenue Size, 1998-99, Selected Financial ($000s) and Other Indicators

	< $200K	***$200K-$500K***	***$500K-$1M***	***$1M-$5M***	***$5M+***	***All***
Sales of Can. Titles	$922.4	$6,441.3	$7,095.7	$42,185.4	$63,450.9	$120,095.6
Publishing Revenues	1,060.6	7,043.8	8,430.8	48,214.4	83,067.1	147,816.7
Other Revenues	63.0	401.2	1,394.9	8,499.1	150,298.2	160,656.5
DCH Grants	89.9	931.4	850.1	3,337.5	4,237.0	9,445.9
CC Grants	313.2	1,160.1	436.6	749.6	790.1	3,449.5
Prov. Grants	176.3	580.4	240.5	370.8	309.9	1,677.8
Total Grants	642.4	3,081.6	1,926.8	6,006.0	5,942.0	17,598.8
Total Revenues	1,766.0	10,526.7	11,752.6	62,719.5	239,307.3	326,072.0
Oper. Profits	850.7	6,002.7	6,763.4	32,301.3	86,289.1	132,207.2
EBT (ex. Grants)	-598.4	-2,657.7	-1,462.7	-3,323.0	-7,296.8	-15,338.5
EBT (ex. DCH)	-45.9	-507.5	-385.9	-654.4	-5,591.8	-7,185.6
EBT	44.0	423.9	464.2	2,683.1	-1,354.8	2,260.3
Net Income	39.8	383.0	399.5	1,701.3	-1,692.1	831.5
Total SE	322.6	3,653.1	3,316.8	19,440.6	37,493.5	64,226.6
Total Assets	981.9	6,796.5	8,959.7	43,381.5	147,469.0	207,588.6
No. of Firms	11	32	16	32	13	104

Source: See Table 8.

Total shareholders' equity averaged 31% of total assets for all the English-language book publishers who received BPIDP grants in 1998-99. The total shareholders' equity to total asset ratio averaged 25% for the largest group of book publishers. The group of book publishers with revenues between $200,000 and $500,000 had the highest total shareholder' equity to total asset ratio at 54%. The smallest group of publishers had a ratio of 33%, while the other two groups (revenues between $500,000 and $1 million and between $1 million and $5 million) had ratios of 37% and 45% respectively. These ratios suggest that Canadian book publishers may be too highly leveraged[19] (a low equity to asset ratio implies a high debt to equity ratio) and thus in need of equity infusions to become more competitive in the Canadian market with their foreign-owned competitors.

18 Shareholders' equity plays an important role in assessing the need for various types of financial assistance by Canadian book publishers, in particular, the need for equity infusions.
19 Leverage is measured by the debt to equity ratio.

D. French-Language BPIDP Recipients

In 1998-99, the largest group of book publishers accounted for 64% ($92.0 million) of total sales of Canadian titles by the French-language book publishers who received BPIDP grants; 66% ($123.9 million) of total publishing revenues; 66% ($27.0 million) of other revenues; 31% ($5.1 million) of total grants received – 43% of total DCH grants; and 64% ($156.1 million) of total revenues (Table 13).

TABLE 12: French-Language Book Publishers as % of All Book Publishers, Selected Financial and Other Indicators, 1994-95 to 1998-99

	94-95	*95-96*	*96-97*	*97-98*	*98-99*
Sales of Can. Titles	54.7%	55.2%	53.1%	54.5%	54.5%
Publishing Revenues	59.7	58.8	56.2	56.9	55.8
Other Revenues	28.8	23.0	21.2	19.8	20.4
DCH Grants	42.7	48.3	52.9	49.9	49.2
CC Grants	44.5	47.4	42.6	46.3	44.1
Provincial Grants	44.7	42.3	44.3	53.6	60.2
Total Grants	41.6	45.1	47.5	48.1	48.3
Total Revenues	47.9	46.0	43.1	43.1	42.8
Operating Profits	45.1	45.2	43.1	43.7	43.3
EBT	75.1	71.0	80.6	NM	82.2
Net Income	84.9	70.3	NM	NM	89.7
Total SE	57.1	54.0	54.2	52.1	55.3
Total Assets	47.1	45.1	43.6	45.6	46.8
No. of Firms	43.5	45.5	45.1	46.4	48.3
Titles Published	55.7	56.5	56.0	56.6	59.2
Titles Reprinted	60.7	59.6	53.7	61.6	60.3

Source: See Table 8.

As well, the largest category of book publishers accounted for only 14% of all the French-language book publishers who received BPIDP grants, but they accounted for 59% ($47.2 million) of total shareholders' equity and 61% ($110.7 million) of total assets. The smallest firms (revenues less than $500,000) accounted for 38% of all the firms, but for only 3% of total shareholders' equity and 4% of total assets.

The aggregate operating profits of the French-language book publishers who received BPIDP grants totaled $101 million in 1998-99. Pre-tax earnings totaled $10.4 million; without grants, the combined pre-tax losses would have been $6 million; without only the DCH grants, the aggregate pre-tax profits would have been $1.3 million. Aggregate net income totaled $7.3 million.

The largest book publishers had pre-tax profits of $7.3 million and would still have had pre-tax profits even if they received no grants. All the other size groups would have lost money in aggregate if they did not receive any grants.

The smallest firms received 8% ($742,000) of all DCH grants to French-language book publishers; 49% ($1.3 million) of all Canada Council grants; 25% ($757,000) of all provincial government grants; and 19% of all grants to French-language book publishers. These firms generated 5% ($5.1 million) of total operating profits; and 2% ($229,000) of total pre-tax profits (EBT).

TABLE 13: French-Language Book Publishers, by Revenue Size, 1998-99, Selected Financial ($000s) and Other Indicators

	< $200K	*$200K-$500K*	*$500K-$1M*	*$1M-$5M*	*$5M+*	*All*
Sales of Can. Titles	$1,046.9	$4,384.6	$7,103.0	$39,099.5	$91,961.3	$143,595.3
Publishing Revenues	1,091.6	4,659.5	8,584.2	48,015.4	123,938.5	186,289.2
Other Revenues	74.3	308.6	687.2	13,026.7	27,033.2	41,129.9
DCH Grants	126.2	615.5	945.7	3,556.7	3,895.8	9,140.0
CC Grants	515.0	806.5	410.7	664.8	321.8	2,718.8
Prov. Grants	179.6	464.1	382.2	982.2	534.0	2,542.1
Total Grants	903.6	2,216.8	2,087.0	6,093.5	5,108.6	16,409.4
Total Revenues	2,069.4	7,184.9	11,358.3	67,135.6	156,080.3	243,828.5
Oper. Profits	1,100.6	4,003.8	5,911.0	32,166.2	57,879.6	101,061.3
EBT (ex. Grants)	-843.7	-2,047.6	-1,999.4	-3,309.6	2,236.2	-5,964.1
EBT (ex. DCH)	-66.3	-446.3	-858.1	-772.8	3,448.9	1,305.3
EBT	59.9	169.2	87.6	2,783.9	7,344.7	10,445.3
Net Income	48.1	102.6	22.8	2,047.6	5,049.5	7,270.5
Total SE	1,035.8	1,469.5	4,115.7	25,729.3	47,224.5	79,574.7
Total Assets	1,583.5	5,266.5	10,586.1	54,433.0	110,690.9	182,560.0
No. of Firms	15	22	16	30	14	97
Titles Published	145	362	311	1,059	1,330	3,207
Titles Reprinted	16	144	198	956	1,312	2,626

Source: See Table 8.

E. Summary

There are many small firms in the industry, partly due to the public policy goal of creating a diverse publishing industry that represents the various communities across Canada. Small, regionally based houses have been supported for their role in publishing new, Canadian authors and regionally significant titles. Indeed, this has been a key objective of federal financial assistance to the book publishing industry.

Grants have ensured the survival of a significant number of book publishers that have focused on developing and publishing Canadian authors and written works.

In light of the financial importance of federal and provincial grants, it is not surprising that following the cut-backs in BPIDP/PDAP funding in fiscal 1996, the profitability of Canadian book publishers who received these grants eroded dramatically. As BPIDP funding has been restored, the profitability of BPIDP recipients also has improved, although nowhere near the levels attained in 1994-95 and 1995-96.

BPIDP recipients appear to account for 44% of all titles published in 1996-97 by book publishers in Canada. Furthermore, the BPIDP recipients produced 32% of the total revenues of all book publishers in Canada in 1996-97.

The English-language book publishers who received BPIDP grants accounted for between 52% to 56% of all Canadian book publishers who received BPIDP grants between 1994-95 and 1998-99. They also accounted for 45% to 46% of the total sales of Canadian titles during this five year period; 40% to 44% of total publishing revenues; 71% to 80% of the other revenues; 47% to 52% of the DCH grants; 55% to 57% of total operating profits during the period 1994-95 to 1998-99; but only 18% of pre-tax profits and 10% of net income in 1998-99.

In 1998-99, the English-language book publishers (BPIDP recipients only) with more than $5 million in total revenues accounted for 53% of the total sales of Canadian titles by English-language publishers (BPIDP recipients); 56% of total publishing revenues; 94% of other revenues; 34% of total grants received – 45% of total DCH grants; and 73% of total revenues.

The smallest English-language book publishers (annual revenues of less than $200,000) received 11% of all DCH grants to English-language book publishers; 43% of all Canada Council grants to English-language book publishers; and 21% of all grants. These firms also produced 21% of total pre-tax profits.

In comparison, in 1998-99, the largest group of French-language book publishers (BPIDP recipients) accounted for 64% of the total sales of Canadian titles by the French-language book publishers who received BPIDP grants; 66% of total publishing revenues; 66% of other revenues; 31% of total grants received – 43% of total DCH grants; and 64% of total revenues.

The smallest French-language book publishers received 8% of all DCH grants to French-language book publishers; 49% of all Canada Council grants; 25% of all provincial government grants; and 19% of all grants to French-language book publishers. These firms generated only 2% of total pre-tax profits.

English-language BPIDP recipients in general, and the largest ones in particular are more dependent upon other revenues than publishing revenues than their French-language counterparts. For example, in 1998-99 publishing revenues accounted for 45% of the total revenues of the English-language BPIDP recipients and for 76% of the total revenues of the French-language BPIDP recipients. On the other hand, other revenues accounted for 49% and 17% of the total revenues of the English-language and French-language book publishers respectively.

The largest BPIDP recipients in both language groups received 43% to 45% of all the DCH grants in 1998-99, while the smallest companies received 43% to 49% of all Canada Council grants in that year. Finally, public policy has created a disincentive to amalgamate. For example, to determine the amount of BPIDP funds for which a book publisher qualifies, each publisher calculates eligible sales from their titles and based on each applicant's eligible sales, the entire amount of BPIDP funding is distributed proportionately. BPIDP multiplies the publisher's initial $400,000 of sales of Canadian-authored titles by three in an attempt to compensate the small publishers for the financial pressures associated with fewer sales. BPIDP grants are limited to a certain amount ($750,000 per firm in 1998-99). The ceiling is a drawback for firms whose eligible sales would entitle them to receive grants in excess of this amount.

4. DETAILED REVIEW OF ENGLISH-LANGUAGE BPIDP RECIPIENTS

A. Revenues: Less than $200,000

Examining the ratios of selected financial variables to total revenues excluding all government grants (Table 14), we find that only direct costs increased steadily throughout the past five years as a percentage of total revenues excluding grants (from 59% in 1994-95 to 82% in 1998-99) and that the counterpart, gross profits excluding grants declined steadily throughout this period (from 41% to 18% of total revenues excluding grants).

Other trends are visible during the four-year time period 1994-95 to 1997-98. For example, total grants increased each year as a percentage of total revenues excluding grants (37% in 1994-95 to 72% in 1997-98) before tailing off in 1998-99; total operating costs also rose each year (64% in 1994-95 to 100% in 1997-98); and pre-tax losses excluding grants increased as a percentage of total revenues excluding grants from 23% in 1994-95 to 77% in 1997-98. The ratio was still negative for pre-tax profits excluding grants in 1998-99 (-53%).

Grants provided by the DCH have decreased as a percentage of total grants since 1995-96 (from 35% to 14% in 1998-99). While there has been no consistent upward trend for any of the other categories of grants (as a percentage of total grants) during this four-year period, both Canada Council grants and provincial government grants have accounted for a higher percentage of total grants in the each of the last three years than they did in 1995-96 (Table 14).

There are no apparent trends in the composition of total costs. Total direct costs and total operating costs have each accounted for around 50% of total costs.

Gross (operating) profit margins have trended down during the past five years from 57% in 1994-95 to 48% in 1998-99. Pre-tax and net profit margins have not followed any steady trend as a percentage of total revenues during the past five years. However, both of these margins have been much lower in the past two years in comparison to the first three years.

Shareholders' equity, excluding loans to shareholders (defined as Equity1 in the tables), was negative in 1994-95 and 1998-99 and barely positive in 1997-98. On the other hand, shareholders' equity including loans to shareholders (defined as Equity2) has been negative only in 1994-95, and during the other four years has accounted for a low of 33% of total assets in 1998-99 and a high of 62% in 1996-97. Total debt as a percentage of assets has bounced around from year to year – reaching a high of 49% in 1994-95 and a low of 10% in 1996-97.

In 1998-99:

- Sales of Canadian authored titles accounted for 82% of total revenues excluding grants;
- Total eligible sales accounted for 91% of total revenues excluding grants;
- Total publishing revenues accounted for 94% of total revenues excluding grants;
- Total grants represented 57% of total revenues excluding grants;
- Total direct costs totaled 82% of aggregate revenues excluding grants;
- Total operating costs accounted for 72% of total revenues excluding grants;
- Pre-tax losses excluding grants totaled 53% of total revenues excluding grants;

TABLE 14: English-Language Book Publishers, Less than $200,000 in Revenues, Selected Financial Indicators, 1994-1995 to 1998-1999

	94-95	*95-96*	*96-97*	*97-98*	*98-99*
% of Total Revenues ex. Grants					
Sales of Can. Authored Titles	80.8%	84.2%	84.9%	91.4%	82.1%
Sales of Eligible Titles	13.8%	1.4%	0.5%	0.9%	8.6%
Total Eligible Sales	94.6%	85.7%	85.5%	92.3%	90.7%
Total Publishing Revenues	99.0%	95.0%	90.7%	95.9%	94.4%
Total Grants	37.0%	40.7%	64.4%	71.8%	57.2%
Total Direct Costs	59.0%	62.5%	75.1%	77.6%	81.5%
Gross Profits ex. Grants	41.0%	37.5%	24.9%	22.4%	18.5%
Total Operating Costs	63.9%	72.2%	77.6%	99.6%	71.8%
Pre-Tax Profits, ex. Grants	-22.9%	-34.7%	-52.6%	-77.2%	-53.3%
Inventory	35.5%	26.4%	20.9%	41.8%	37.5%
Accounts Receivable	11.3%	13.8%	12.8%	19.4%	16.1%
% of Grants					
DCH	18.5%	35.0%	21.8%	19.2%	14.0%
Canada Council	39.8%	35.3%	45.9%	36.5%	48.8%
Provincial	30.0%	14.7%	26.4%	18.1%	27.5%
Other	11.7%	15.0%	5.9%	26.2%	9.8%
% of Total Costs					
Total Direct Costs	48.0%	46.4%	49.2%	43.8%	53.2%
Marketing & Promotion	13.2%	11.3%	14.1%	14.3%	8.8%
Distribution	8.6%	6.9%	6.0%	7.5%	6.6%
Total Operating	52.0%	53.6%	50.8%	56.2%	46.8%
Profit Rates					
% of Total Revenues					
Gross Profits	56.9%	55.6%	54.3%	54.8%	48.2%
Pre-Tax Profits	10.2%	4.3%	7.2%	-3.1%	2.5%
Net Profits	9.5%	13.0%	5.5%	-3.9%	2.3%
EBT ex. Grants	-16.7%	-24.7%	-32.0%	-44.9%	-33.9%
Net Profits/Equity1	NM	59.4%	25.8%	-408.9%	NM
Net Profits/Equity2	NM	39.9%	18.8%	-20.7%	12.3%
% of Assets					
Equity1	NM	37.8%	45.2%	1.7%	NM
Equity 2	NM	56.4%	62.1%	34.3%	32.9%
Debt	48.9%	18.3%	9.7%	31.9%	16.9%
Total Revenues ex. Grants	128.4%	122.9%	128.0%	106.3%	114.4%

Source : See Table 8.

In 1998-99 (cont'd):

- DCH grants accounted for 14% of total grants, while Canada Council grants accounted for 49% of total grants;
- Gross profits totaled 48% of total revenues (including grants), while after-tax profits equaled only 2.5% of total revenues but 12% of total shareholders' equity including loans to shareholders; and
- Total debt accounted for 17% of total assets.

DCH grants per firm have declined from $14,300 in 1995-96 to $8,200 in 1998-99 (Table 15). By comparison, total grants per firm increased from $40,700 in 1995-96 to $60,500 in 1997-98 before tailing off modestly to $59,400 in 1998-99.

Marketing and promotion expenses per firm peaked at $21,400 in 1997-98 and have fallen to their lowest level during the past five years to $13,700 in 1998-99 (Table 15). Without grants, the firms in this size category would have lost money on average on a pre-tax basis each year – for example, $65,000 per firm in 1997-98, $54,400 per firm in 1998-99. Even with the grants, pre-tax profits per firm have been positive in four of the past five years and barely so.

TABLE 15: English-Language Book Publishers, Less than $200,000 in Revenues, Selected Financial Indicators per Firm ($000s), 1994-95 to 1998-99

	94-95	***95-96***	***96-97***	***97-98***	***98-99***
Sales of Can. Titles	$84.6	$84.3	$70.1	$76.9	$83.8
Publishing Revenues	103.6	95.0	74.8	80.7	96.4
Other Revenues	1.0	5.0	7.7	3.5	5.7
DCH Grants	7.2	14.3	11.6	11.6	8.2
Total Grants	38.7	40.7	53.1	60.5	58.4
Total Revenues	143.3	140.8	135.6	144.7	160.5
Marketing & Promotion	17.0	15.3	17.8	21.4	13.7
EBT (ex. Grants)	-24.0	-34.7	-43.4	-65.0	-54.4
EBT	14.7	6.0	9.7	-4.5	4.0
Net Income	13.6	18.3	7.5	-5.6	3.6
Total SE	-7.7	45.9	40.0	27.2	29.3

Source: See Table 8.

B. Revenues: $200,000 to $500,000

Turning to the ratios of selected financial indicators to total revenues excluding all government grants (Table 16), we do not find any steady trends during the five-year period. However, total grants and total direct costs have declined steadily during each of the past four years. Gross profits excluding grants have increased as a percentage of total revenues excluding grants during the past four years (from 29% to 39%), as have pre-tax profits excluding grants. But pre-tax profits excluding grants have been negative throughout the past five years (they reached their high point at –36% in 1998-99).

Grants provided by the DCH have held steady as a percentage of total grants since 1995-96 (around 30%). During the past four years, Canada Council grants have increased as a percentage of total grants; whereas provincial government grants have accounted for an increasingly smaller percentage of total grants since 1994-95 (Table 16).

There are no apparent trends in the composition of total costs during either the past five years. Total direct costs and total operating costs have each accounted for around 45% and 55% respectively of total costs. Marketing and promotion costs and distribution costs have both trended upwards as a percentage of total costs during the past five years (from 11% to 15% for marketing and promotion, from 7% to 9% for distribution).

Gross profit margins have fluctuated around 56% during the past five years, and pre-tax and net profit margins bounced back in 1998-99 to approach their five year highs.

Shareholders' equity, excluding loans to shareholders has trended down as a percentage of total assets from 33% in 1994-95 to 24% in 1998-99. On the other hand shareholder's equity including loans to shareholders, after accounting for roughly 45% of total assets for three years, now account for 54% of total assets. With the exception of 1995-96, total debt has averaged 11% to 12% of total assets.

In 1998-99:

- Sales of Canadian authored titles accounted for 86% of total revenues excluding grants;
- Total eligible sales accounted for 93% of total revenues excluding grants;
- Total publishing revenues accounted for 95% of total revenues excluding grants;
- Total grants represented 41% of total revenues excluding grants;
- Total direct costs accounted for 61% of total revenues excluding grants;
- Total operating costs accounted for 75% of total revenues excluding grants;
- Pre-tax losses excluding grants totaled 36% of total revenues excluding grants;
- DCH grants accounted for 30% of total grants, while Canada Council grants accounted for 38% of total grants;
- Gross profits totaled 57% of total revenues (including grants), while after-tax profits equaled 4% of total revenues and 10% of total shareholders' equity including loans to shareholders; and
- Total debt accounted for 11% of total assets.

DCH grants per firm have declined from $44,100 in 1995-96 to $27,900 in 1997-98 and have improved somewhat to $29,100 in 1998-99 (Table 17). Total grants per firm have declined each year since 1995-96 from $138,000 in 1995-96 to $96,300 in 1998-99.

Without grants, the firms in this size category would have lost money each year on average on a pre-tax basis, but the losses would have trended down since 1995-96 from $122,200 per firm in that year to $83,100 in 1998-99. With the grants, pre-tax profits per firm have been positive during the past five years, and after reaching a low level of $5,600 per firm in 1997-98, pre-tax profits bounced back to $13,200 per firm in 1998-99 (Table 17).

TABLE 16: English-Language Book Publishers, $200,000 - $500,000 in Revenues, Selected Financial Indicators, 1994-95 to 1998-99

	94-95	*95-96*	*96-97*	*97-98*	*98-99*
% of Total Revenues ex. Grants					
Sales of Can. Authored Titles	87.6%	84.5%	84.7%	86.4%	86.5%
Sales of Eligible Titles	3.3%	7.1%	3.9%	5.0%	6.9%
Total Eligible Sales	90.9%	91.6%	88.6%	91.4%	93.4%
Total Publishing Revenues	93.2%	93.8%	90.4%	92.3%	94.6%
Total Grants	51.6%	61.9%	47.4%	41.1%	41.4%
Total Direct Costs	66.1%	71.0%	70.3%	61.2%	60.8%
Gross Profits ex. Grants	33.9%	29.0%	29.7%	38.8%	39.2%
Total Operating Costs	82.1%	83.8%	74.4%	77.5%	74.9%
Pre-Tax Profits ex. Grants	-48.2%	-54.8%	-44.8%	-38.7%	-35.7%
Inventory	33.2%	41.1%	41.8%	33.2%	29.3%
Accounts Receivable	23.8%	23.4%	25.3%	21.3%	25.8%
% of Grants					
DCH	20.6%	32.0%	28.8%	28.7%	30.2%
Canada Council	32.0%	26.2%	31.6%	35.6%	37.6%
Provincial	29.0%	23.4%	25.4%	24.1%	18.8%
Other	18.4%	18.5%	14.2%	11.5%	13.3%
% of Total Costs					
Total Direct Costs	44.6%	45.9%	48.6%	44.2%	44.8%
Marketing & Promotion	10.8%	11.1%	12.8%	12.7%	14.7%
Distribution	6.8%	7.5%	8.6%	9.6%	9.3%
Total Operating	55.4%	54.1%	51.4%	55.8%	55.2%
Profit Rates					
% of Total Revenues					
Gross Profits	56.4%	56.2%	52.3%	56.6%	57.0%
Pre-Tax Profits	2.3%	4.4%	1.8%	1.7%	4.0%
Net Profits	2.1%	3.9%	1.1%	1.3%	3.6%
EBT ex. Grants	-31.8%	-33.9%	-30.4%	-27.4%	-25.2%
Net Profits/Equity1	11.1%	17.4%	6.0%	8.9%	23.3%
Net Profits/Equity2	6.8%	13.7%	3.7%	4.7%	10.5%
% of Assets					
Equity1	33.1%	35.8%	27.7%	24.3%	24.2%
Equity2	53.8%	45.7%	45.2%	45.4%	53.7%
Debt	11.4%	6.1%	11.7%	12.6%	11.4%
Total Revenues ex. Grants	114.2%	99.9%	98.5%	116.2%	109.5%

Source: See Table 8.

Marketing and promotion expenses have been on an upward trend during the past five years reaching $46,300 per firm in 1998-99.

TABLE 17: English-Language Book Publishers, $200,000 to $500,000 in Revenues, Selected Financial Indicators per Firm ($000s), 1994-95 to 1998-99

	94-95	***95-96***	***96-97***	***97-98***	***98-99***
Sales of Can. Titles	$186.9	$188.5	$197.1	$204.4	$201.3
Publishing Revenues	198.9	209.3	210.3	218.2	220.1
Other Revenues	14.4	13.8	22.4	18.3	12.5
DCH Grants	22.7	44.1	31.8	27.9	29.1
Total Grants	110.1	138.0	110.4	97.1	96.3
Total Revenues	323.4	361.0	343.1	333.6	329.0
Marketing & Promotion	34.0	38.5	43.0	41.7	46.3
EBT (ex. Grants)	-102.7	-122.2	-104.2	-91.5	-83.1
EBT	7.4	15.8	6.2	5.6	13.2
Net Income	6.8	13.9	3.9	4.4	12.0
Total SE	100.6	102.0	106.7	92.4	114.2

Source : See Table 8.

C. <u>Revenues: $500,000 to $1 Million</u>

There are a few discernible trends, but only since 1996-97. For example, total eligible sales have increased from 79% of total revenues excluding grants in 1996-97 to 84% in 1998-99. During this same period, total grants have declined steadily as a percentage of total revenues excluding grants (from 32% to 20%) and pre-tax losses excluding grants have declined as a percentage of total revenues excluding grants from 31% to 15% (Table 18).

Grants provided by the DCH have increased as a percentage of total grants since 1996-97 (from 39% to 44%) and Canada Council grants have increased as a percentage of total grants during the past four years. Provincial government grants accounted for increasingly smaller percentages of total grants since between 1994-95 and 1997-98 before increasing in 1998-99.

There are no apparent trends in the composition of total costs during the past five years. Total direct costs and total operating costs have each accounted for around 44% and 56% respectively of total costs. Distribution costs have risen as a percentage of total costs during the past three years (from 8% to 11%).

Gross profit margins have fluctuated around 56% during the past five years, and pre-tax and net profit margins bounced back in 1998-99 to approach their five-year highs.

Shareholders' equity, excluding loans to shareholders, has increased steadily as a percentage of total assets from 20% in 1995-96 to 28% in 1998-99. Shareholders' equity including loans to shareholders also has increased during this period from 28% of total assets to 37%. Total debt, after ranging between 28% and 31% of total assets during the three years 1995-96 to 1997-98, dropped to 23% of total assets in 1998-99.

TABLE 18: English-Language Book Publishers, $500,000 - $1 M. in Revenues, Selected Financial Indicators, 1994-95 to 1998-99

	94-95	***95-96***	***96-97***	***97-98***	***98-99***
% des rec. Glob., moins subv.					
Sales of Can. Authored Titles	76.8%	75.8%	73.6%	77.9%	72.2%
Sales of Eligible Titles	5.0%	6.5%	5.2%	5.9%	12.1%
Total Eligible Sales	81.8%	82.3%	78.8%	83.8%	84.4%
Total Publishing Revenues	85.0%	84.8%	82.9%	86.9%	85.8%
Total Grants	29.3%	29.4%	31.5%	20.5%	19.6%
Total Direct Costs	57.1%	53.9%	57.9%	58.2%	50.8%
Gross Profits ex. Grants	42.9%	46.1%	42.1%	41.8%	49.2%
Total Operating Costs	69.2%	69.5%	72.7%	64.1%	64.1%
Pre-Tax Profits ex. Grants	-26.3%	-23.4%	-30.6%	-22.2%	-14.9%
Inventory	31.0%	31.6%	34.7%	26.1%	31.0%
Accounts Receivable	24.2%	22.2%	24.7%	20.2%	23.5%
% of Grants					
DCH	41.2%	55.5%	39.3%	40.6%	44.1%
Canada Council	16.0%	14.0%	16.1%	18.3%	22.7%
Provincial	19.9%	18.2%	16.8%	9.7%	12.5%
Other	22.9%	12.4%	27.8%	31.5%	20.7%
% of Total Costs					
Total Direct Costs	45.2%	43.7%	44.3%	47.6%	44.2%
Marketing & Promotion	12.2%	13.2%	11.8%	12.5%	11.5%
Distribution	7.4%	8.3%	7.8%	9.0%	10.6%
Total Operating	54.8%	56.3%	55.7%	52.4%	55.8%
Profit Rates					
% of Total Revenues					
Gross Profts	55,8 %	58,3 %	56,0 %	51,7 %	57.5%
Pre-Tax Profits	2,3 %	4,6 %	0,7 %	-1,4 %	3,9 %
Net Profts	2,0 %	5,2 %	0,0 %	1,7 %	3,4 %
EBT ex. Grants	-20,4 %	-18,1 %	-23,3 %	-18,5 %	-12,4 %
Net Profits/Equity1	12,9 %	39,0 %	-0,1 %	10,8 %	16,0 %
Net Profits/Equity2	8,0 %	27,9 %	-0,1 %	8,2 %	12,0 %
% of Assets					
Equity1	22,6 %	19,8 %	20,8 %	24,0 %	27,9 %
Equity2	36,4 %	27,7 %	31,8 %	31,5 %	37,0 %
Debt	22,1 %	31,1 %	28,1 %	31,1 %	23,4 %
Total Revenues ex. Grants	112,6 %	114,5 %	105,5 %	122,9 %	109,7 %

Source : See Table 8.

In 1998-99:

- Sales of Canadian authored titles accounted for 72% of total revenues excluding grants;
- Total eligible sales accounted for 84% of total revenues excluding grants;
- Total publishing revenues accounted for 86% of total revenues excluding grants;
- Total grants represented 20% of total revenues excluding grants;
- Total direct costs accounted for 51% of total revenues excluding grants;
- Total operating costs accounted for 64% of total revenues excluding grants;
- Pre-tax losses excluding grants totaled 15% of total revenues excluding grants;
- DCH grants accounted for 44% of total grants, while Canada Council grants accounted for 23% of total grants;
- Gross profits totaled 58% of total revenues (including grants), while after-tax profits equaled 4% of total revenues and 12% of total shareholders' equity including loans to shareholders; and
- Total debt accounted for 23% of total assets.

DCH grants per firm have declined from $99,300 in 1995-96 to $51,300 in 1997-98 and have increased modestly to $53,100 in 1998-99 (Table 19). Total grants per firm have declined from $179,900 in 1996-97 to $120,400 in 1998-99.

TABLE 19: English-Language Book Publishers, $500,000 to $1 Million in Revenues, Selected Financial Indicators per Firm ($000s), 1994-95 to 1998-99

	94-95	*95-96*	*96-97*	*97-98*	*98-99*
Sales of Can. Titles	$428.7	$461.3	$419.9	$480.2	$443.5
Publishing Revenues	474.8	515.8	472.6	535.3	526.9
Other Revenues	83.5	92.5	97.7	81.0	87.2
DCH Grants	67.4	99.3	70.8	51.3	53.1
Total Grants	163.3	179.0	179.9	126.4	120.4
Total Revenues	721.6	787.4	750.2	742.7	734.5
Marketing & Promotion	86.3	99.2	88.0	94.0	81.2
EBT (ex. Grants)	-147.0	-142.5	-174.7	-137.1	-91.4
EBT	16.3	36.5	5.1	-10.7	29.0
Net Income	14.5	41.1	-0.1	13.0	25.0
Total SE	180.6	147.3	172.1	157.7	207.3

Source: See Table 8.

Without grants, the firms in this size category would have lost money each year on average on a pre-tax basis, but the losses would have trended down since 1996-97 from $174,700 per firm in that year to $91,400 in 1998-99. With the grants, pre-tax profits per firm have been positive in four of the past five years, and after posting a pre-tax loss per firm in 1997-98, pre-tax profits bounced back sharply to $29,000 per firm in 1998-99.

Marketing and promotion expenses have bounced around from year to year during the past five years, ranging from $81,200 per firm in 1998-99 to $99,200 per firm in 1995-96 (Table 19).

D. Revenues: $1 Million to $5 Million

There are few discernible trends. Total eligible sales and total publishing revenues have declined steadily as a percentage of total revenues excluding grants since 1995-96. Total grants declined and total operating costs rose as a percentage of total revenues excluding grants between 1994-95 and 1997-98. All the other financial variables have fluctuated as a percentage of total revenues excluding grants during the past five years.

Grants provided by the DCH have ranged between 56% and 59% of total grants since 1994-95. Canada Council grants have increased each year as a percentage of total grants since 1994-95 (from 7% to 12%), while provincial government grants accounted for increasingly smaller percentages of total grants since between 1995-96 and 1998-99 (Table 20).

Total direct costs have increased as a percentage of total costs since 1996-97 and total operating costs have declined during the past three years.

Gross profit margins have fluctuated between 52% and 54% with the exception of 1997-98. Pre-tax and net profit margins improved in 1998-99, but remain well below their five-year highs reached in 1994-95.

Total debt has declined since 1996-97 as a percentage of total debt (52% in 1996-97, 46% in 1998-99).

In 1998-99:

- Sales of Canadian authored titles accounted for 74% of total revenues excluding grants;
- Total eligible sales accounted for 78% of total revenues excluding grants;
- Total publishing revenues accounted for 85% of total revenues excluding grants;
- Total grants represented 11% of total revenues excluding grants;
- Total direct costs accounted for 54% of total revenues excluding grants;
- Total operating costs accounted for 52% of total revenues excluding grants;
- Pre-tax losses excluding grants totaled 6% of total revenues excluding grants;
- DCH grants accounted for 56% of total grants, while Canada Council grants accounted for 12% of total grants;
- Gross profits totaled 52% of total revenues (including grants), while after-tax profits equaled 3% of total revenues and 9% of total shareholders' equity including loans to shareholders; and
- Total debt accounted for 46% of total assets.

DCH grants per firm declined from $174,600 in 1995-96 to $93,900 in 1997-98 before increasing to $104,300 in 1998-99 (Table 21). Total grants per firm followed a similar pattern, declining from $296,500 per firm in 1995-96 to $160,200 in 1997-98, then rising to $187,700 in 1998-99.

TABLE 20: English-Language Book Publishers, $1M -$5M. in Revenues, Selected Financial Indicators, 1994-95 to 1998-99

	94-95	***95-96***	***96-97***	***97-98***	***98-99***
% of Total Revenues ex. Grants					
Sales of Can. Authored Titles	73.2%	77.5%	75.7%	71.2%	74.4%
Sales of Eligible Titles	9.1%	7.1%	5.6%	7.6%	4.1%
Total Eligible Sales	82.3%	84.6%	81.4%	78.7%	78.4%
Total Publishing Revenues	90.8%	93.9%	88.2%	87.7%	85.0%
Total Grants	16.4%	16.3%	12.8%	8.9%	10.6%
Total Direct Costs	54.2%	54.0%	52.7%	58.1%	53.6%
Gross Profits ex. Grants	45.8%	46.0%	47.3%	41.9%	46.4%
Total Operating Costs	55.6%	55.7%	56.4%	59.3%	52.2%
Pre-Tax Profits ex. Grants	-9.8%	-9.7%	-9.1%	-17.4%	-5.9%
Inventory	26.4%	23.7%	28.3%	26.4%	26.8%
Accounts Receivable	29.5%	26.9%	25.8%	29.2%	21.6%
% of Grants					
DCH	59.4%	58.9%	56.6%	58.6%	55.6%
Canada Council	6.7%	7.5%	10.8%	12.0%	12.5%
Provincial	11.3%	14.6%	11.2%	7.5%	6.2%
Other	22.6%	19.0%	21.4%	21.9%	25.8%
% of Total Costs					
Total Direct Costs	49.4%	49.2%	48.3%	49.5%	50.7%
Marketing & Promotion	12.9%	11.3%	12.1%	10.0%	10.6%
Distribution	9.1%	7.0%	7.9%	12.4%	9.6%
Total Operating	50.6%	50.8%	51.7%	50.5%	49.3%
Profit Rates					
% of Total Revenues					
Gross Profits	53.4%	53.5%	53.3%	46.6%	51.5%
Pre-Tax Profits	5.7%	5.7%	3.3%	-7.8%	4.3%
Net Profits	4.6%	3.6%	2.7%	-8.2%	2.7%
EBT ex. Grants	-8.4%	-8.3%	-8.1%	-16.0%	-5.3%
Net Profits/Equity1	17.5%	15.1%	11.1%	-54.0%	12.3%
Net Profits/Equity2	13.0%	11.9%	8.7%	-22.4%	8.8%
% of Assets					
Equity1	33.2%	35.9%	32.9%	18.3%	31.8%
Equity2	44.8%	45.4%	42.0%	44.1%	44.8%
Debt	48.3%	47.5%	52.1%	50.1%	46.5%
Total Revenues ex. Grants	108.4%	128.7%	121.9%	110.6%	130.7%

Source: See Table 8.

Marketing and promotion expenses have decreased steadily since 1994-95 from $251,200 per firm in that year to $198,600 in 1998-99.

TABLE 21: English-Language Book Publishers, $1 Million to $5 Million in Revenues, Selected Financial Indicators per Firm ($000s), 1994-95 to 1998-99

	94-95	*95-96*	*96-97*	*97-98*	*98-99*
Sales of Can. Titles	$1,298.8	$1,411.3	$1,274.2	$1,274.6	$1,318.3
Publishing Revenues	1,610.0	1,710.1	1,484.7	1,571.9	1,506.7
Other Revenues	163.8	111.9	197.8	219.6	265.6
DCH Grants	172.9	174.6	121.9	93.9	104.3
Total Grants	291.0	296.5	215.6	160.2	187.7
Total Revenues	2,064.8	2,118.5	1,898.0	1,951.7	1,960.0
Marketing & Promotion	251.2	226.3	222.2	210.3	198.6
EBT (ex. Grants)	-174.3	-176.4	-153.8	-312.4	-103.8
EBT	116.8	120.1	61.8	-152.1	83.8
Net Income	95.1	76.6	50.6	-160.3	53.2
Total SE	732.8	642.1	579.6	714.6	607.5

Source: See Table 8.

Without grants, the firms in this size category would have lost money each year on a pre-tax basis; the losses would have trended down since 1995-96 with the exception of 1997-98 (Table 24). With the grants, pre-tax profits per firm have been positive in four of the past five years, and after posting a pre-tax loss of $152,100 per firm in 1997-98, pre-tax profits bounced back sharply to $83,800 per firm in 1998-99 (Table 21).

E. <u>Revenues: $5+ Million</u>

Total operating costs have trended upwards, albeit at a slow pace, as a percentage of total revenues excluding grants during the past four years. Otherwise, all the other financial variables have fluctuated within narrow ranges since 1994-95 as percentages of total revenues excluding grants (Table 22).

Grants provided by the DCH have ranged between 68% and 72% of total grants. During the past four years, Canada Council grants have increased as a percentage of total grants and provincial government grants have accounted for an increasingly smaller percentage of total grants during the past three years.

Total direct costs have declined slowly but steadily as a percentage of total costs since 1995-96. Total direct costs and total operating costs have each accounted for around 64% and 36% respectively of total costs. Marketing and promotion costs have trended upwards as a percentage of total costs during the past four years (from 8% to 10%) and distribution costs have declined since 1996-97 as a percentage of total costs.

Gross profit margins have fluctuated around 36% during the past five years, and pre-tax and net profit margins have both been negative in the last two years.

TABLE 22: English-Language Book Publishers, $5+ M. in Revenues, Selected Financial Indicators, 1994-95 to 1998-99

	94-95	***95-96***	***96-97***	***97-98***	***98-99***
% of Total Revenues ex. Grants					
Sales of Can. Authored Titles	27.7%	27.9%	26.9%	23.5%	27.2%
Sales of Eligible Titles	3.3%	3.6%	3.7%	5.9%	5.0%
Total Eligible Sales	31.0%	31.5%	30.5%	29.4%	32.2%
Total Publishing Revenues	34.2%	36.0%	35.3%	32.2%	35.6%
Total Grants	3.6%	4.2%	2.9%	2.4%	2.5%
Total Direct Costs	65.8%	65.9%	65.9%	66.2%	65.6%
Gross Profits ex. Grants	34.2%	34.1%	34.1%	33.8%	34.4%
Total Operating Costs	36.4%	36.1%	37.0%	37.5%	37.6%
Pre-Tax Profits ex. Grants	-2.2%	-2.0%	-2.9%	-3.7%	-3.1%
Inventory	21.0%	21.0%	21.5%	22.0%	23.3%
Accounts Receivable	25.3%	24.3%	24.4%	22.2%	25.0%
% of Grants					
DCH	71.9%	72.0%	67.8%	67.6%	71.3%
Canada Council	9.0%	6.5%	12.4%	13.3 %	13.3 %
Provincial	9.7%	9.7%	11.7%	10.8%	5.2%
Other	9.4%	11.9%	8.2%	8.2%	10.2%
% of Total Costs					
Total Direct Costs	64.4%	64.6%	64.1%	63.8%	63.6%
Marketing & Promotion	9.0%	8.2%	8.3%	9.2%	9.6%
Distribution	8.6%	10.4%	10.6%	9.7%	9.1%
Total Operating	35.6%	35.4%	35.9%	36.2%	36.4%
Profit Rates					
% of Total Revenues					
Gross Profits	36.5%	36.7%	36.0%	35.4%	36.1%
Pre-Tax Profits	1.3%	2.1%	0.1%	-1.2%	-0.6%
Net Profits	-0.4%	1.5%	-1.1%	-0.7%	-0.7%
EBT ex. Grants	-2.2%	-1.9%	-2.8%	-3.6%	-3.0%
Net Profits/Equity1	-4.0%	10.9%	-6.7%	-5.0%	-5.7%
Net Profits/Equity2	-3.7%	8.4%	-6.1%	-3.9%	-4.5%
% of Assets					
Equity1	16.2%	22.2%	24.5%	22.7%	20.1%
Equity2	17.6%	28.5%	26.9%	29.1%	25.4%
Debt	27.8%	18.1%	29.7%	26.8%	26.7%
Total Revenues ex. Grants	163.4%	155.3%	149.9%	161.8%	158.2%

Source: See Table 8.

Both measures of shareholders' equity represent a higher percentage of total assets in 1998-99 than they did in 1994-95. With the exception of 1995-96, total debt has averaged between 27% and 30% of total assets.

In 1998-99:

- Sales of Canadian authored titles accounted for 27% of total revenues excluding grants;
- Total eligible sales accounted for 32% of total revenues excluding grants;
- Total publishing revenues accounted for 36% of total revenues excluding grants;
- Total grants represented only 2% of total revenues excluding grants;
- Total direct costs accounted for 66% of total revenues excluding grants;
- Total operating costs accounted for 38% of total revenues excluding grants;
- Pre-tax losses excluding grants totaled 3% of total revenues excluding grants;
- DCH grants accounted for 71% of total grants, while Canada Council grants accounted for 13% of total grants;
- Gross profits totaled 36% of total revenues (including grants), but one a both a pre-tax and after tax basis, these publishers incurred losses; and
- Total debt accounted for 27% of total assets.

DCH grants per firm peaked at $468,400 in 1995-96, declined to a low of $274,100 per firm in 1997-98 and increased to $325,900 in 1998-99 (Table 23). Total grants per firm followed a similar pattern, declining from $650,800 per firm in 1995-96 to $405,500 in 1997-98, then rising to $457,100 in 1998-99.

TABLE 23: English-Language Book Publishers, $5+ Million in Revenues, Selected Financial Indicators per Firm ($000s), 1994-95 to 1998-99

	94-95	***95-96***	***96-97***	***97-98***	***98-99***
Sales of Can. Titles	$4,539.8	$4,375.1	$4,131.1	$3,902.4	$4,880.8
Publishing Revenues	5,598.0	5,628.6	5,419.5	5,341.2	6,389.8
Other Revenues	10,784.5	10,026.6	9,952.7	11,272.0	11,561.4
DCH Grants	429.3	468.4	304.7	274.1	325.9
Total Grants	596.8	650.8	449.5	405.5	457.1
Total Revenues	16,979.3	16,306.0	15,821.7	17,018.7	18,408.3
Marketing & Promotion	1,501.4	1,304.3	1,315.2	1,582.9	1,769.9
EBT (ex. Grants)	-368.2	-313.3	-438.9	-609.7	-561.3
EBT	228.6	337.5	10.7	-204.2	-104.2
Net Income	-65.8	242.9	-167.7	-116.2	-130.2
Total SE	1,762.8	2,876.2	2,758.6	2,991.9	2,884.1

Source: See Table 8.

Without grants, the firms in this size category would have lost money each year on a pre-tax basis, with the losses peaking at $609,700 per firm in 1997-98. Even with the grants, this largest group of firms have lost money on a pre-tax basis on average during the past two years following a marginally better than break-even level in 1996-97.

Marketing and promotion expenses have increased steadily since 1995-96 from $1.3 million per firm in that year to $1.8 million in 1998-99.

F. Genre

Based on data averaged over the five-year period 1994-95 to 1998-99, there are a number of interesting correlations between various ratios and size of book publishers in the Trade genre (Table 24). For example, among the ratios to total revenues excluding grants, we find inverse correlations[20] between sales of Canadian authored titles and firm size (sales of Canadian-authored titles represented 37% of total revenues excluding grants for publishers with annual revenues in excess of $5 million and 84% for publishers with revenues of less than $200,000); total eligible sales and firm size; total publishing revenues and firm size; total grants and firm size (4% of total revenues excluding grants for firms with annual revenues greater than $5 million, 71% for firms with revenues less than $200,000); and total operating costs and firm size (36% for firms with annual revenues greater than $5 million, 84% for firms with revenues less than $200,000). This latter observation lends some credence to the wide-held premise that there are economies of scale in this industry.

The DCH grants are positively correlated with firm size – increasing as a percentage of total grants as firms increase in size (76% for firms with annual revenues greater than $5 million, 15% for firms with revenues less than $200,000). On the other hand, both Canada Council grants and provincial government grants are inversely related to firm size.

Both total direct costs and distribution costs as a percentage of total costs are positively correlated with firm size, while total operating costs as a percentage of total costs are inversely correlated.

With regards to profit rates, gross profits as a percentage of total revenues are inversely correlated with firm size (increasing from 35% for firms with annual revenues greater than $5 million, to 54% for firms with revenues less than $200,000); but pre-tax profits excluding grants as a percentage of total revenues, while negative, are positively correlated with firm size (decreasing from -3% for firms with revenues greater than $5 million, to -36% for firms with revenues less than $200,000). This observation as well provides some support to the economies of scale presumption.

There are no consistent correlations between equity-asset and debt-asset ratios and firm size for the Trade book publishers.

Turning to the Education book publishers (Table 25), we also find several interesting correlations, but fewer than in the case of the Trade publishers. For example, among the ratios to total revenues excluding grants, we find inverse correlations between total grants and firm size (1% of total revenues excluding grants for firms with annual revenues greater than $5 million, 17% for firms with revenues less than $200,000); and total operating costs and firm size (44% for firms with annual revenues greater than $5 million, 63% for firms with revenues less than $200,000). In this genre as well, this inverse correlation between total operating costs as a percentage of total revenues excluding grants and firm size supports the existence of economies of scale.

The DCH grants and Canada Council grants as percentages of total grants do not show any pattern with respect to firm size. Provincial government grants as a percentage of total grants appear to be positively correlated with firm size.

20 An inverse correlation exists when the value of the ratio increases as firm size decreases.

There do not appear to be any correlations between firm size and the various ratios of costs to total costs. Pre-tax profits excluding grants as a percentage of total profits, while negative, are positively correlated with firm size (decreasing from -1% for firms with revenues greater than $5 million, to -13% for firms with revenues less than $200,000). There also are no consistent correlations between equity-asset and debt-asset ratios and firm size for the trade book publishers.

In the case of the Hybrid book publishers, there are no discernible correlations with respect to firm size. However, the largest sized book publishers in this genre category do appear to be distinctly different than the smaller publishers. For example, sales of Canadian authored titles, total eligible sales, total publishing revenues, total grants and total operating costs as a percentage of total revenues excluding grants are much smaller for the largest sized book publishers. So too are total operating costs as a percentage of total costs and gross profits excluding grants as a percentage of total revenues. On the other hand, the DCH grants account for a much larger percentage of total grants for these firms and pre-tax profits excluding grants as a percentage of total revenues is also larger (Table 26).

In comparing the various ratios across the genre categories and firm size, we find the following (Tables 24, 25, 26):

- The largest sized Education book publishers generate the smallest percentage of revenues from eligible sales and publishing in general, well below their counterparts in the other two genre categories;
- The Trade publishers receive larger grants (as a percentage of total revenues excluding grants) than do the Education publishers and than do the largest and smallest groups of Hybrid publishers;
- The Trade publishers tend to have higher total direct costs as a percentage of total revenues excluding grants than do the other two genre groups across all firm size categories;
- The Education publishers are much more dependent on DCH grants (as a percentage of total grants) than the other two genre groups and the Trade publishers are more dependent upon Canada Council grants;
- Total operating costs as a percentage of total costs are lower across all firm sizes for the Trade publishers; and
- The gross profit margins are lower for the Trade publishers and the pre-tax excluding grants profit margins are lower for the Education publishers.

**TABLE 24: English-Language Book Publishers – Trade,
Selected Financial Indicators, 5-Year Average, 1994-95 to 1998-99**

	<200 K $	*200-500 K $*	*0,5-1 M $*	*1-5 M $*	*5 M+ $*
% of Total Revenues ex. Grants					
Sales of Can. Authored Titles	83.6%	85.0%	76.1%	68.1%	37.1%
Sales of Adapted/Transalted Titles	0.0%	0.1%	0.5%	0.5%	0.5%
Total Eligible Sales	91.5%	90.6%	82.6%	76.1%	43.3%
Total Publishing Revenues	98.6%	92.6%	84.9%	87.7%	48.5%
Total Grants	70.8%	58.5%	26.1%	9.8%	3.9%
Total Direct Costs	78.4%	72.3%	58.1%	59.5%	67.5%
Total Operating	83.9%	82.3%	65.9%	50.9%	35.9%
Inventory	36.3%	37.0%	30.6%	26.5%	25.3%
Accounts Receivable	15.0%	26.1%	22.9%	26.7%	21.8%
% of Grants					
DCH	15.1%	23.4%	47.6%	65.7%	76.0%
Canada Council	49.4%	40.0%	25.4%	14.4%	13.0%
Provincial	27.3%	27.2%	20.1%	14.8%	10.2%
Other	8.1%	9.4%	6.9%	5.0%	0.7%
% of Total Costs					
Total Direct Costs	48.3%	46.8%	46.8%	53.9%	65.3%
Marketing & Promotion	11.8%	11.6%	11.3%	9.3%	11.2%
Distribution	6.5%	8.4%	10.9%	10.7%	10.8%
Total Operating	51.7%	53.2%	53.2%	46.1%	34.7%
Profit Rates					
% of Total Revenues					
Gross Profits	54.1%	54.5%	54.0%	45.8%	35.0%
Pre-Tax Profits	5.0%	2.5%	1.7%	-0.5%	0.4%
Net Profits	4.0%	2.2%	3.2%	-1.4%	-0.8%
EBT ex. Grants	-36.4%	-34.4%	-19.0%	-9.4%	-3.3%
Net Profits/Equity1	23.5%	7.9%	22.6%	-7.4%	-4.8%
Net Profits/Equity2	13.8%	5.7%	15.2%	-4.6%	-4.0%
% of Assets					
Equity1	29.6%	43.2%	20.8%	24.9%	28.7%
Equity2	50.3%	60.1%	31.0%	39.6%	34.3%
Debt	12.6%	11.1%	18.8%	17.6%	24.0%
Total Revenues ex. Grants	101.4%	99.3%	116.2%	122.5%	159.6%

Source : See Table 8.

TABLE 25: English-Language Book Publishers – Educational, Selected Financial Indicators, 5-Year Average, 1994-95 to 1998-99

	<200 K $	*200-500 K $*	*0,5-1 M $*	*1-5 M $*	*5 M+ $*
% of Total Revenues ex. Grants					
Sales of Can. Authored Titles	80.4%	90.2%	79.2%	86.8%	11.7%
Sales of Adapted/Translated Titles	0.0%	0.1%	0.4%	0.6%	2.9%
Total Eligible Sales	80.8%	95.4%	88.1%	90.8%	14.8%
Total Publishing Revenues	83.0%	96.1%	90.4%	91.5%	16.2%
Total Grants	17.2%	16.8%	16.1%	10.9%	1.4%
Total Direct Costs	52.0%	52.9%	50.4%	57.1%	57.5%
Total Operating	63.2%	57.5%	59.7%	59.8%	43.5%
Inventory	19.1%	21.6%	28.7%	22.9%	18.7%
Accounts Receivable	13.3%	19.6%	22.0%	20.6%	44.0%
% of Grants					
DCH	82.4%	74.7%	73.9%	79.1%	78.3%
Canada Council	0.0%	0.5%	0.5%	1.3%	0.0%
Provincial	0.0%	8.8%	13.4%	10.9%	13.0%
Other	17.6%	15.9%	12.3%	8.7%	8.8%
% of Total Costs					
Total Direct Costs	45.1%	47.9%	45.8%	41.8%	56.9%
Marketing & Promotion	12.8%	13.7%	16.0%	15.7%	5.6%
Distribution	6.0%	5.9%	4.6%	4.8%	11.9%
Total Operating	54.9%	52.1%	54.2%	58.2%	43.1%
Profit Rates					
% of Total Revenues					
Gross Profits	55.6%	54.8%	56.6%	61.3%	43.3%
Pre-Tax Profits	1.7%	5.5%	5.1%	7.3%	0.4%
Net Profits	1.3%	4.3%	3.6%	5.5%	0.4%
EBT ex. Grants	-13.0%	-8.9%	-8.7%	-2.5%	-1.0%
Net Profits/Equity1	14.6%	21.9%	12.3%	19.6%	4.9%
Net Profits/Equity2	9.5%	14.8%	9.4%	17.3%	3.1%
% of Assets					
Equity1	21.7%	32.1%	36.3%	38.9%	8.7%
Equity2	33.3%	47.5%	47.2%	44.1%	13.4%
Debt	17.4%	16.0%	21.6%	18.7%	31.5%
Total Revenues ex. Grants	209.8%	140.4%	106.6%	125.4%	103.3%

Source : See Table 8.

TABLE 26: English-Language Book Publisher – Hybrid,
Selected Financial Indicators, 5-Year Average, 1994-95 to 1998-99

	<200 K $	*200-500 K $*	*0,5-1 M $*	*1-5 M $*	*5 M+ $*
% of Total Revenues ex. Grants					
Sales of Can. Authored Titles		83.7%	74.0%	76.0%	27.8%
Sales of Adapted/Translated Titles		0.0%	0.0%	0.1%	1.9%
Total Eligible Sales		86.9%	77.0%	81.5%	30.5%
Total Publishing Revenues		87.7%	84.0%	85.9%	34.7%
Total Grants		41.7%	45.7%	19.3%	2.7%
Total Direct Costs		59.7%	59.2%	52.2%	61.6%
Total Operating		78.5%	87.1%	62.2%	41.5%
Inventory		47.5%	39.7%	27.8%	20.2%
Accounts Receivable		23.7%	25.1%	28.9%	32.0%
% of Grants					
DCH		30.5%	25.4%	41.0%	84.2%
Canada Council		10.3%	9.4%	5.9%	4.0%
Provincial		19.3%	15.9%	4.0%	10.7%
Other		39.9%	49.2%	49.1%	1.1%
% of Total Costs					
Total Direct Costs		43.2%	40.5%	45.6%	59.7%
Marketing & Promotion		14.0%	11.2%	12.7%	12.0%
Distribution		10.7%	7.6%	10.5%	14.0%
Total Operating		56.8%	59.5%	54.4%	40.3%
Profit Rates					
% of Total Revenues					
Gross Profits		57.9%	59.3%	56.3%	40.0%
Pre-Tax Profits		2.5%	-0.5%	4.2%	-0.4%
Net Profits		2.4%	-0.8%	4.1%	-0.1%
EBT ex. Grants		-26.9%	-31.8%	-12.0%	-3.1%
Net Profits/Equity1		12.3%		9.4%	-0.4%
Net Profits/Equity2		5.3 %		7.7%	-0.4%
% of Assets					
Equity1		30.0%	-4.1%	63.5%	23.4%
Equity2		69.9%	3.8%	77.5%	23.9%
Debt		7.0%	35.3%	12.2%	23.1%
Total Revenues ex. Grants		109.9%	101.0%	122.1%	135.2%

Source: See Table 8.

G. Summary

The English-language BPIDP recipients in all the size categories would have had pre-tax losses throughout the five-year period without government grants. It is conceivable that a number of English-language book publishers could not survive without the grants from the federal and provincial governments. On the other hand, many may have survived by changing their strategies in order to be profitable without these grants. But the Canadian presence in the industry is likely to have been greatly diminished.

Pre-tax losses excluding the grants as a percentage of total revenues excluding grants tended to decline as firm size increased. For example, in 1998-99 this ratio declined from 53% for the smallest sized publishers (annual revenues less than $200,000) to 3% for the largest firms (annual revenues exceeding $5 million). As noted above, this result supports the supposition that there are economies of scale in this industry. This in turn is supported by the observation that total operating costs as a percentage of total revenues excluding grants also displayed an inverse relation with firm size. That is, operating costs as a percentage of total revenues excluding grants decreased as firms increased in size. Again, in 1998-99 this ratio declined from 72% for the smallest group of BPIDP recipients to 38% for the largest group[21].

The largest firms are much less dependent upon sales of Canadian-authored titles, sales of eligible titles and publishing revenues in general than are the other BPIDP recipients. In contrast, the smallest firms are much more dependent upon grants. Indeed, grants as a percentage of total revenues excluding grants are inversely correlated with firm size – increasing from 2.5% for firms with more than $5 million in total revenues to 57% for the firms with less than $200,000 in revenues in 1998-99.

As a percentage of total grants, the DCH grants are positively correlated with firm size – decreasing from 71% for the largest firms to 14% for the smallest firms; and Canada Council grants and provincial grants are both inversely correlated with firm size.

The total debt to total asset and total shareholders' equity (both definitions) to total asset ratios did not display any correlation pattern with respect to firm size. In 1998-99, the debt to asset ratio ranged from a low of 11% for firms with total revenues between $200,000 and $500,000 to a high of 46% for firms with revenues between $1 and $5 million.

Inventories as a percentage of total revenues excluding grants tended to decrease with firm size in 1998-99 from 38% for the smallest firms to 23% for the largest firms. Accounts receivable as a percentage of total revenues excluding grants showed no correlation pattern but did range between 16% and 26%. It would appear from the sizes of these ratios for all firm size categories that these BPIDP recipients have substantial working capital needs to finance inventories and accounts receivables. Any unexpected increase in inventories and/or any unexpected slowdown in collecting

21 We caution the reader that we have not performed a true test of the economies of scale hypothesis. According to the book publishers and the trade associations, there are significant economies of scale. But a meaningful test of this hypothesis requires that the composition of total revenues is the same for publishers in all size categories. However, as book publishers become larger, publishing revenues account for a smaller share of total revenues. As well, it is possible that the genre mix of revenues also changes with size. In addition, it may well be that our large Canadian-owned firms are small by international standards and so their size is below the critical thresholds needed to capture economies of scale. At best, we can argue that there is evidence consistent with this hypothesis.

on receivables or increase in defaults on receivables could create serious financial problems for these book publishers.

In 1998-99, the grants enabled all but the largest group of publishers to generate pre-tax and after tax profits.

The correlations between total operating costs as a percentage of total revenues excluding grants and firm size and pre-tax profits excluding grants as a percentage of revenues excluding grants and firm size for both the Trade and Education publishers also support the economies of scale hypothesis.

Among the Trade book publishers, the largest firms are much less dependent upon sales of Canadian-authored titles and publishing revenues in general than are the smaller firms. The Trade publishers receive larger grants (as a percentage of total revenues excluding grants) than the Education publishers and the largest and smallest groups of Hybrid publishers.

The largest sized Education book publishers generate the smallest percentage of revenues from eligible sales and publishing in general, well below their counterparts in the other two genre categories. The Education publishers are much more dependent on DCH grants (as a percentage of total grants) than the other two genre groups.

Finally, the various profit measures deteriorated across all size groups following the cut-backs in federal government grants in fiscal 1995. However, the restoration of the funding by 1998-99 has enabled the publishers with revenues between $200,000 and $5 million to recover almost to their five-year highs.

5. DETAILED REVIEW OF FRENCH-LANGUAGE BPIDP RECIPIENTS

A. Revenues: Less than $200,000

Examining the ratios of selected financial indicators to total revenues excluding all government grants (Table 27), we find that only inventories increased steadily throughout the past five years as a percentage of total revenues excluding grants (from 23% in 1994-95 to 51% in 1998-99). During the last three years (1996-97 to 1998-99), total grants have increased each year as a percentage of total revenues excluding grants (from 43% to 78%) and total operating costs and pre-tax losses excluding grants also have increased.

Grants provided by the DCH have decreased as a percentage of total grants since 1995-96 (from 26% to 14% in 1998-99). While there has been no consistent upward trend for any of the other categories of grants (as a percentage of total grants) during this four-year period, Canada Council grants have accounted for a higher percentage of total grants in the each of the last three years than they did in 1995-96.

Total direct costs have declined as a percentage of total costs during the past three years, but the level they reached in 1998-99 (48%) almost matches the level reached in 1994-95. Marketing and promotion costs have risen steadily as a percentage of total costs since 1994-95 to 22%.

Gross profit margins have trended up during the past three years from 44% in 1996-97 to 53% in 1998-99, yet this profit rate is still below the peak level of 54% in 1994-95. The pre-tax and net profit margins are well below their 1995-96 peak levels and pre-tax losses excluding grants have risen each year since 1996-97 from 26% of total revenues to 41%.

Shareholders’ equity, excluding loans to shareholders, dropped sharply as a percentage of total assets between 1994-95 and 1997-98 before recovering modestly in 1998-99. Total debt has increased as a percentage of total assets during the past three years to a level of 11% in 1998-99.

In 1998-99 (Table 27):

- Sales of Canadian authored titles accounted for 90% of total revenues excluding grants;
- Total eligible sales accounted for 94% of total revenues excluding grants;
- Total publishing revenues accounted for 94% of total revenues excluding grants;
- Total grants represented 78% of total revenues excluding grants;
- Total direct costs totaled 83% of aggregate revenues excluding grants;
- Total operating costs accounted for 89% of total revenues excluding grants;
- Pre-tax losses excluding grants totaled 72% of total revenues excluding grants;
- Inventories and accounts receivable totaled 51% and 36% respectively of total revenues excluding grants;
- DCH grants accounted for 14% of total grants, while Canada Council grants accounted for 57% of total grants;
- Gross profits totaled 53% of total revenues (including grants), while after-tax profits equaled only 2.3% of total revenues and 4.6% of total shareholders’ equity including loans to shareholders; and
- Total debt accounted for 11% of total assets.

TABLE 27: French-Language Book Publishers, Less than $200,000 in Revenues, Selected Financial Indicators, 1994-95 to 1998-99

	94-95	***95-96***	***96-97***	***97-98***	***98-99***
% of Total Revenues ex. Grants					
Sales of Can. Authored Titles	92.3%	91.1%	88.5%	95.9%	89.8%
Sales of Eligible Titles	1.2%	2.8%	2.5%	1.4%	3.8%
Total Eligible Sales	93.4%	93.9%	91.0%	97.3%	93.6%
Total Pubishing Revenues	93.5%	93.8%	91.3%	97.3%	93.6%
Total Grants	52.0%	64.3%	43.4%	56.5%	77.5%
Total Direct Costs	69.3%	80.4%	79.7%	84.1%	83.1%
Gross Profits ex. Grants	30.7%	19.6%	20.3%	15.9%	16.9%
Total Operating Costs	76.4%	74.3%	57.8%	68.3%	89.3%
Pre-Tax Profits ex. Grants	-45.6%	-54.7%	-37.5%	-52.3%	-72.4%
Inventory	23.4%	23.7%	32.6%	40.9%	50.6%
Accounts Receivable	16.4%	26.6%	24.6%	31.6%	36.3%
% of Grants					
DCH	14.2%	26.0%	21.5%	15.5%	14.0%
Canada Council	58.0%	52.0%	57.0%	60.3%	57.0%
Provincial	20.5%	21.7%	18.7%	18.2%	19.9%
Other	7.3%	0.2%	2.8%	6.0%	9.2%
% of Total Costs					
Total Direct Costs	47.6%	52.0%	58.0%	55.2%	48.2%
Marketing & Promotion	12.8%	18.1%	18.1%	18.0%	22.4%
Distribution	5.7%	6.1%	4.9%	6.6%	6.1%
Total Operating	52.4%	48.0%	42.0%	44.8%	51.8%
Profit Rates					
% of Total Revenues					
Gross Profits	54.4%	51.0%	44.4%	46.3%	53.2%
Pre-Tax Profits	4.2%	5.8%	4.1%	2.7%	2.9%
Net Profts	3.2%	5.1%	2.5%	2.1%	2.3%
EBT ex. Grants	-30.0%	-33.3%	-26.2%	-33.4%	-40.8%
Net Profits/Equity1	8.2%	14.2%	5.4%	10.3%	7.8%
Net Profits/Equity2	6.9%	13.2%	4.4%	5.7%	4.6%
% of Assets					
Equity1	70.2%	64.8%	63.5%	32.5%	38.8%
Equity2	82.8%	69.6%	79.2%	58.9%	65.4%
Debt	0.6%	3.6%	0.0%	5.5%	10.6%
Total Revenues ex. Grants	119.5%	110.1%	97.5%	103.8%	73.6%

Source : See Table 8.

The DCH grants per firm have averaged $8,400 during each of the last three years, but this figure is well below the $14,800 received on average by each firm in this revenue size category in 1995-96 (Table 28). By comparison, total grants per firm have increased from $43,000 in 1996-97 to $60,200 in 1998-99. Total grants per firm in 1998-99 exceeded the level in 1995-96.

Without grants, the firms in this size category would have lost money on average on a pre-tax basis each year – for example, $56,200 per firm in 1998-99. Although the average pre-tax loss, excluding the grants declined between 1995-96 and 1996-97, these losses have increased steadily during the past two years.

Marketing and promotion expenses per firm averaged between $24,000 and $25,000 during the three-year period 1995-96 to 1997-98, and jumped to $30,000 per firm in 1998-99. This increase in 1998-99 stands in sharp contrast to the English-language publishers in this size category. Average marketing and promotion expenses per firm have been consistently higher for the French-language publishers during the past five years than their English-language counterparts with gap peaking in 1998-99 at just over $16,000 per firm.

TABLE 28: French-Language Book Publishers, < $200,000 in Revenues, Selected Financial Indicators per Firm ($000s), 1994-95 to 1998-99

	94-95	***95-96***	***96-97***	***97-98***	***98-99***
Sales of Can. Titles	$80.9	$80.3	$87.7	$82.3	$69.8
Publishing Revenues	82.0	82.8	90.5	83.6	72.8
Other Revenues	5.7	5.4	8.6	2.3	5.0
DCH Grants	6.5	14.8	9.3	7.5	8.4
Total Grants	45.6	56.7	43.0	48.5	60.2
Total Revenues	133.3	144.9	142.1	134.4	138.0
Marketing & Promotion	16.3	24.7	24.7	23.6	30.0
EBT (ex. Grants)	-40.0	-48.2	-37.2	-44.9	-56.2
EBT	5.6	8.5	5.8	3.6	4.0
Net Income	4.2	7.4	3.5	2.8	3.2
Total SE	51.5	51.9	64.6	26.9	41.0

Source: See Table 8.

B. <u>Revenues: $200,000 to $500,000</u>

Most of the ratios relative to total revenues excluding grants have tended to move within narrow ranges during the past five years. There are a few exceptions. Total grants have trended downwards since 1995-96 (from 52% in 1995-96 to 45% in 1998-99) as have total operating costs as a percentage of total revenues excluding grants (Table 29).

Grants provided by the DCH decreased as a percentage of total grants between 1995-96 and 1997-98 before rising in 1998-99. Provincial grants rose as a percentage of total grants between 1995-96 and 1997-98 before dropping sharply in 1998-99. Canada Council grants have risen steadily during the past four years, but at 36% of total grants in 1998-99, they represent marginally more than they did in 1994-95.

TABLE 29: French-Language Book Publishers, $200,000-$500,000 in Revenues, Selected Financial Indicators, 1994-95 to 1998-99

	94-95	*95-96*	*96-97*	*97-98*	*98-99*
% of Total Revenues ex. Grants					
Sales of Can. Authored Titles	88.6%	85.5%	87.2%	88.6%	88.3%
Sales of Eligible Titles	4.5%	3.4%	3.0%	3.5%	2.7%
Total Eligible Sales	93.1%	89.0%	90.2%	90.2%	90.9%
Total Publishing Revenues	94.7%	92.0%	91.0%	92.2%	93.8%
Total Grants	46.9%	52.5%	52.4%	48.8%	44.6%
Total Direct Costs	64.9%	59.4%	64.6%	65.4%	64.0%
Gross Profits ex. Grants	35.1%	40.6%	35.4%	34.6%	36.0%
Total Operating Costs	79.4%	90.8%	80.7%	82.6%	77.2%
Pre-Tax Profits ex. Grants	-44.3%	-50.2%	-45.2%	-48.0%	-41.2%
Inventory	33.4%	48.0%	29.4%	42.0%	34.3%
Accounts Receivable	23.4%	31.8%	25.9%	23.2%	28.1%
% of Grants					
DCH	24.4%	32.4%	26.2%	25.6%	27.8%
Canada Council	35.0%	25.7%	33.5%	35.7%	36.4%
Provincial	25.2%	19.8%	24.0%	28.2%	20.9%
Other	15.4%	22.2%	16.4%	10.6%	14.9%
% of Total Costs					
Total Direct Costs	45.0%	39.6%	44.4%	44.2%	45.3%
Marketing & Promotion	16.9%	20.2%	19.9%	17.5%	13.7%
Distribution	8.7%	9.2%	9.1%	7.5%	11.2%
Total Operating	55.0%	60.4%	55.6%	55.8%	54.7%
Profit Rates					
% of Total Revenues					
Gross Profits	55.8%	61.0%	57.6%	56.0%	55.7%
Pre-Tax Profits	1.8%	1.5%	4.7%	0.5%	2.4%
Net Profits	1.1%	0.6%	4.0%	0.2%	1.4%
EBT ex. Grants	-30.1%	-32.9%	-29.7%	-32.2%	-28.5%
Net Profits/Equity1	7.7%	1.8%	21.0%	1.1%	8.2%
Net Profits/Equity2	5.2%	1.6%	19.3%	0.9%	7.0%
% of Assets					
Equity1	22.8%	24.5%	31.2%	28.6%	23.8%
Equity2	34.0%	27.3%	34.0%	34.4%	27.9%
Debt	16.0%	18.2%	21.5%	29.3%	25.5%
Total Revenues ex. Grants	112.4%	52.1%	106.5%	92.0%	94.3%

Source: See Table 8.

There are no apparent trends in the composition of total costs during the past five years. Total direct costs and total operating costs have accounted for around 45% and 55% respectively of total costs. Marketing and promotion costs have declined as a percentage of total costs since 1995-96.

Gross profit margins have fallen slightly since 1995-96 as a percentage of total revenues (from 61% to 56%). The other profit rate measures peaked in 1996-97, but their levels in 1998-99 are the second highest during the past five years.

Shareholders' equity, excluding loans to shareholders, has declined as a percentage of total assets since 1996-97. Total debt increased as a percentage of total assets increased between 1994-95 and 1997-98 before declining in 1998-99.

In 1998-99:

- Sales of Canadian authored titles accounted for 88% of total revenues excluding grants;
- Total eligible sales accounted for 91% of total revenues excluding grants;
- Total publishing revenues accounted for 94% of total revenues excluding grants;
- Total grants represented 45% of total revenues excluding grants;
- Total direct costs totaled 64% of aggregate revenues excluding grants;
- Total operating costs accounted for 77% of total revenues excluding grants;
- Pre-tax losses excluding grants totaled 41% of total revenues excluding grants;
- DCH grants accounted for 28% of total grants, while Canada Council grants accounted for 36% of total grants;
- Gross profits totaled 45% of total revenues (including grants), while after-tax profits equaled 1.4% of total revenues and 7% of total shareholders' equity including loans to shareholders; and
- Total debt accounted for 26% of total assets.

Average DCH grants per firm declined from $37,700 in 1995-96 to $25,900 in 1997-98 and increased modestly to $28,000 in 1998-99 (Table 30). Total grants per firm have declined each year since 1995-96 from $116,400 in 1995-96 to $100,800 in 1998-99.

Without grants, the firms in this size category would have lost money each year on average on a pre-tax basis, with the losses in the $93,000 to $100,000 range per firm with the exception of 1995-96. With the grants, average pre-tax profits and net income per firm have been positive during each of the past five years (Table 30). Both pre-tax profits and net income per firm declined sharply in 1997-98 – the erosion attributable in large part to the decline of about $12,000 in total grants per firm – and have recovered in 1998-99, largely the result of stabilization in grants and cost controls (e.g. sharp cuts in promotion and marketing expenditures). Both measures of profits are the second highest levels attained during the past five years, but still well below the peak levels in 1996-97.

Marketing and promotion expenses have been on a downward trend during the past four years, falling from an average of $67,400 per firm in 1995-96 to $43,600 per firm in 1998-99. This stands in contrast to the upward trend for their English-language publishers in this size category. Despite the opposite trends, both groups of publishers in this size category now spend approximately the same amount, on average, per firm for marketing and promotion.

TABLE 30: French-Language Book Publishers, $200,000 to $500,000 in Revenues, Selected Financial Indicators per Firm ($000s), 1994-95 to 1998-99

	94-95	*95-96*	*96-97*	*97-98*	*98-99*
Sales of Can. Titles	$198.1	$189.8	$187.1	$179.7	$199.3
Publishing Revenues	211.7	204.1	195.3	191.2	211.8
Other Revenues	11.9	17.7	19.2	16.2	14.0
DCH Grants	25.6	37.7	29.4	25.9	28.0
Total Grants	104.9	116.4	112.3	101.1	100.8
Total Revenues	328.6	338.3	326.8	308.6	326.6
Marketing & Promotion	54.5	67.4	62.0	53.6	43.6
EBT (ex. Grants)	-99.0	-111.3	-97.1	-99.5	-93.1
EBT	5.9	5.1	15.2	1.7	7.7
Net Income	3.5	1.9	13.2	0.7	4.7
Total SE	67.7	116.2	68.5	77.6	66.8

Source: See Table 8.

C. Revenues: $500,000 to $1 Million

Sales of Canadian-authored titles, total eligible sales and total publishing revenues as a percentage of total revenues excluding grants have all trended downwards during the past five years. Pre-tax losses excluding grants also trended upwards during this period (with the exception of 1997-98) from 12% of total revenues excluding grants in 1994-95 to 22% in 1998-99. The only other discernible trend is the steady increase in total operating costs as a percentage of total revenues excluding grants during the past four years (Table 31).

Grants provided by DCH have decreased as a percentage of total grants since 1995-96 (from 67% to 45%). Canada Council grants increased between 1995-96 and 1997-98 before tapering off in 1998-99 as a percentage of total grants.

Total direct costs have declined and total operating costs have increased as a percentage of total costs since 1995-96. In 1995-96, total direct costs represented 55% of total costs; they now account for 48% of total costs.

Gross profit margins have improved as a percentage of total revenues during the past three years. However, the other profit measures are well below the peak levels reached in 1995-96 (1994-95 in the case of pre-tax profits excluding grants).

Shareholders' equity, excluding loans to shareholders, has declined sharply as a percentage of total assets since 1995-96. Total debt increased as a percentage of total assets between 1995-96 and 1997-98 before declining in 1998-99.

In 1998-99:

- Sales of Canadian authored titles accounted for 77% of total revenues excluding grants;
- Total eligible sales accounted for 90% of total revenues excluding grants;
- Total publishing revenues accounted for 93% of total revenues excluding grants;
- Total grants represented 22% of total revenues excluding grants;

TABLE 31: French-Language Book Publishers, $500,000-$1 M. in Revenues, Selected Financial Indicators, 1994-95 to 1998-99

	94-95	***95-96***	***96-97***	***97-98***	***98-99***
% of Total Revenues ex. Grants					
Sales of Can. Authored Titles	89.7%	86.6%	82.0%	81.6%	76.6%
Sales of Eligible Titles	4.8%	6.9%	8.8%	8.0%	12.9%
Total Eligible Sales	94.5%	93.5%	90.8%	89.5%	89.5%
Total Publishing Revenues	98.1%	98.2%	94.1%	92.5%	92.6%
Total Grants	20.0%	25.6%	19.4%	20.0%	22.5%
Total Direct Costs	59.7%	63.8%	63.3%	58.0%	58.8%
Gross Profits ex. Grants	40.3%	36.2%	36.7%	42.0%	41.2%
Total Operating Profits	52.5%	51.4%	57.6%	59.5%	62.8%
Pre-Tax Profits ex. Grants	-12.1%	-15.2%	-20.9%	-17.5%	-21.6%
Inventory	45.1%	41.3%	51.5%	50.8%	50.5%
Accounts Receivable	23.6%	20.1%	22.1%	34.8%	29.6%
% of Grants					
DCH	58.2%	67.2%	56.3%	46.5%	45.3%
Canada Council	15.6%	13.2%	18.2%	21.6%	19.7%
Provincial	18.2%	16.3%	21.6%	18.4%	18.3%
Other	8.0%	3.2%	3.9%	13.5%	16.7%
% of Total Costs					
Total Direct Costs	53.2%	55.4%	52.4%	49.3%	48.3%
Marketing & Promotion	11.5%	12.4%	13.7%	12.3%	13.1%
Distribution	5.0%	9.5%	13.1%	13.4%	11.6%
Total Operating	46.8%	44.6%	47.6%	50.7%	51.7%
Profit Rates					
% of Total Revenues					
Gross Profits	50.3%	49.2%	47.0%	51.7%	52.0%
Pre-Tax Profits	6.6%	8.3%	-1.3%	2.1%	0.8%
Net Profits	4.5%	10.6%	-0.3%	1.3%	0.2%
EBT ex. Grants	-10.1%	-12.1%	-17.5%	-14.6%	-17.6%
Net Profits/Equity1	14.3%	32.4%	-0.9%	6.3%	1.2%
Net Profits/Equity2	13.0%	30.6%	-0.6%	3.7%	0.6%
% of Assets					
Equity1	35.4%	41.0%	29.2%	21.4%	18.4%
Equity2	38.9%	43.4%	42.8%	36.7%	38.9%
Debt	25.3%	18.4%	21.0%	30.1%	23.2%
Total Revenues ex. Grants	93.2%	99.6%	89.4%	88.5%	87.6%

Source: See Table 8.

- Total direct costs totaled 59% of aggregate revenues excluding grants;
- Total operating costs accounted for 63% of total revenues excluding grants;
- Pre-tax losses excluding grants totaled 22% of total revenues excluding grants;
- Inventories and accounts receivable totaled 50% and 30% respectively of total revenues excluding grants;
- DCH grants accounted for 45% of total grants, while Canada Council grants accounted for 20% of total grants;
- Gross profits totaled 52% of total revenues (including grants), while after-tax profits equaled a meager 0.2% of total revenues and 0.6% of total shareholders' equity including loans to shareholders; and
- Total debt accounted for 23% of total assets.

Average DCH grants per firm declined from $99,600 in 1995-96 to $59,100 in 1998-99 (Table 32). Total grants per firm have increased since 1996-97, although they are still below the peak of $148,200 per firm received on average in 1995-96. Marketing and promotion expenses peaked in 1996-97 at over $100,000 per firm on average.

TABLE 32: French-Language Book Publishers, $500,000 to $1 Million in Revenues, Selected Financial Indicators per Firm ($000s), 1994-95 to 1998-99

	94-95	***95-96***	***96-97***	***97-98***	***98-99***
Sales of Can. Titles	$530.0	$501.5	$499.5	$521.8	$444.9
Publishing Revenues	579.9	568.9	573.1	591.9	536.5
Other Revenues	11.0	10.2	35.9	48.0	42.9
DCH Grants	68.8	99.6	66.4	59.4	59.1
Total Grants	118.2	148.2	118.1	127.9	130.4
Total Revenues	709.1	727.3	727.1	767.8	709.9
Marketing & Promotion	76.2	82.6	101.2	92.8	92.6
EBT (ex. Grants)	-71.7	-88.2	-127.3	-112.1	-125.0
EBT	46.5	60.0	-9.2	15.8	5.5
Net Income	32.1	77.1	-1.9	9.7	1.4
Total SE	246.5	252.1	291.7	265.1	247.2

Source: See Table 8.

Without grants, the firms in this size category would have lost money each year on average on a pre-tax basis, with the losses averaging in excess of $110,000 in each of the last three years – the pre-tax losses (excluding grants) of the French-language book publishers now exceed the losses for the English-language publishers in this size category. With the grants, pre-tax profits per firm have been positive in four of the past five years, and after posting a pre-tax loss per firm in 1996-97, average pre-tax profits bounced back to an average of $15,800 per firm in 1997-98 before dropping to $5,500 per firm in 1998-99 (Table 32). Pre-tax profits peaked at $60,000 per firm on average in 1995-96.

D. <u>Revenues: $1 Million to $5 Million</u>

By and large, most of the ratios relative to total revenues excluding grants have moved within very narrow ranges. However, total eligible sales and total publishing revenues have declined each year since 1995-96 as a percentage of total revenues excluding grants – but the overall decline has been quite modest in both cases. During the past three years, total direct costs have increased marginally

TABLE 33: French-Language Book Publishers, $1M-$5M. in Revenues, Selected Financial Indicators, 1994-95 to 1998-99

	94-95	***95-96***	***96-97***	***97-98***	***98-99***
% of Total Revenues ex. Grants					
Sales of Can. Authored Titles	64.6%	65.4%	63.9%	64.9%	64.1%
Sales of Eligible Titles	10.5%	10.8%	11.8%	9.7%	10.7%
Total Eligible Sales	75.1%	76.3%	75.6%	74.7%	74.7%
Total Publishing Revenues	79.9%	81.4%	81.2%	80.3%	78.7%
Total Grants	10.6%	14.0%	11.7%	8.9%	10.0%
Total Direct Costs	55.6%	56.7%	56.2%	56.4%	57.3%
Gross Profits ex. Grants	44.4%	43.3%	43.8%	43.6%	42.7%
Total Operating Costs	47.6%	50.7%	51.7%	49.5%	48.1%
Pre-Tax Profits ex. Grants	-3.1%	-7.4%	-7.9%	-5.9%	-5.4%
Inventory	30.5%	29.5%	29.1%	28.1%	30.6%
Accounts Receivable	18.8%	19.3%	18.8%	20.0%	19.4%
% of Grants					
DCH	58.2%	66.3%	60.6%	54.8%	58.4%
Canada Council	15.6%	13.3%	12.6%	12.4%	10.9%
Provincial	14.7%	10.7%	11.4%	14.6%	16.1%
Other	11.5%	9.7%	15.4%	18.2%	14.6%
% of Total Costs					
Total Direct Costs	53.9%	52.8%	52.1%	53.3%	54.3%
Marketing & Promotion	14.3%	14.2%	14.9%	14.6%	13.1%
Distribution	12.2%	11.6%	12.5%	12.5%	12.3%
Total Operating	46.1%	47.2%	47.9%	46.7%	45.7%
Profit Rates					
% of Total Revenues					
Gross Profits	49.8%	50.2%	49.7%	48.2%	47.9%
Pre-Tax Profits	6.8%	5.8%	3.4%	2.7%	4.1%
Net Profits	5.7%	4.6%	2.5%	1.5%	3.0%
EBT ex. Grants	-2.8%	-6.5%	-7.0%	-5.4%	-4.9%
Net Profits/Equity1	20.2%	17.0%	7.9%	5.0%	8.9%
Net Profits/Equity2	16.4%	14.0%	7.0%	4.4%	8.0%
% of Assets					
Equity1	37.7%	38.3%	44.3%	41.4%	42.1%
Equity2	46.6%	46.6%	49.4%	46.5%	47.3%
Debt	14.5%	14.6%	13.9%	17.3%	20.0%
Total Revenues ex. Grants	122.2%	123.9%	124.0%	127.2%	112.1%

Source: See Table 8.

overall, while total operating costs and pre-tax profits excluding grants have trended upwards as a percentage of total revenues excluding grants (Table 33).

Grants provided by the DCH decreased as a percentage of total grants between 1995-96 and 1997-98 (from 66% to 55%) before recovering in 1998-99. Canada Council grants have declined each year since 1994-95 from 16% to 11% of total grants.

Total direct costs have increased and total operating costs have decreased as a percentage of total costs since 1996-97. Nevertheless, total direct costs have averaged between 52% and 54% of total costs and total operating costs have ranged between 46% and 48%.

Gross profit margins have dropped each year as a percentage of total revenues during the past four years. The other profit measures (with the exception of pre-tax profits excluding grants as a percentage of total revenues) all trended downwards during the four year period between 1994-95 and 1997-98. All of these profit measures have improved in 1998-99 (including pre-tax profits excluding grants).

Total debt has increased as a percentage of total assets during the past three years to 20% of total assets.

In 1998-99:

- Sales of Canadian authored titles accounted for 64% of total revenues excluding grants;
- Total eligible sales accounted for 75% of total revenues excluding grants;
- Total publishing revenues accounted for 79% of total revenues excluding grants;
- Total grants represented 10% of total revenues excluding grants;
- Total direct costs totaled 57% of aggregate revenues excluding grants;
- Total operating costs accounted for 48% of total revenues excluding grants;
- Pre-tax losses excluding grants totaled 5% of total revenues excluding grants;
- DCH grants accounted for 58% of total grants, while Canada Council grants accounted for 11% of total grants;
- Gross profits totaled 48% of total revenues (including grants), while after-tax profits equaled 3% of total revenues and 8% of total shareholders' equity including loans to shareholders and
- Total debt accounted for 20% of total assets.

The DCH grants per firm declined from $189,700 in 1995-96 to $107,300 in 1997-98 before increasing to $118,600 in 1998-99 (Table 34). Total grants per firm followed a similar pattern, declining from an average of $286,100 per firm in 1995-96 to $195,700 in 1997-98, then rising to $203,100 in 1998-99.

Without grants, the firms in this size category would have lost money each year on a pre-tax basis; the losses would have trended down since 1996-97. With the grants, average pre-tax profits per firm have been positive throughout the past five years, although they declined significantly between 1994-95 and 1997-98 before improving in 1998-99 but only to about 60% of the pre-tax profit level in 1994-95 (Table 34).

TABLE 34: French-Language Book Publishers, $1 Million to $5 Million in Revenues, Selected Financial Indicators per Firm ($000s), 1994-95 to 1998-99

	94-95	***95-96***	***96-97***	***97-98***	***98-99***
Sales of Can. Titles	$1,324.0	$1,340.6	$1,417.5	$1,433.0	$1,303.3
Publishing Revenues	1,638.0	1,667.7	1,801.9	1,772.0	1,600.5
Other Revenues	412.1	381.9	417.8	434.6	434.2
DCH Grants	127.0	189.7	157.6	107.3	118.6
Total Grants	218.2	286.1	260.1	195.7	203.1
Total Revenues	2,268.3	2,335.7	2,479.8	2,402.2	2,237.9
Marketing & Promotion	301.3	312.1	355.8	341.4	281.4
EBT (ex. Grants)	-64.0	-151.8	-174.8	-129.7	-110.3
EBT	154.2	134.4	85.2	66.0	92.8
Net Income	128.2	107.7	62.3	35.7	68.3
Total SE	781.2	770.8	884.5	806.9	857.6

Source: See Table 8.

Marketing and promotion expenses have decreased steadily since 1996-97 from $355,800 per firm to an average of $281,400 in 1998-99. Marketing and promotion expenses for the French-language publishers in the size category have tended to exceed the comparable expenditures for the English-language book publishers in this size category by about $100,000 per firm per year.

E. <u>Revenues: $5+ Million</u>

There are several observable trends among the ratios relative to total revenues excluding grants. For example, sales of Canadian-authored titles, total eligible sales and total operating costs all have increased each year since 1994-95 as a percentage of total revenues excluding grants (Table 35). Total direct costs have trended downwards during the past five years. Pre-tax profits excluding grants have increased each year since 1996-97 as a percentage of total revenues excluding grants; however, they are still well below the 1995-96 high. Accounts receivable also have increased during the past four years as a percentage of total revenues excluding grants.

Grants provided by the DCH increased as a percentage of total grants between 1994-95 and 1996-97 and have declined each year since peaking at 85% in 1996-97. Provincial government grants decreased each year between 1994-95 and 1997-98 as a percentage of total grants. Canada Council grants have not followed any distinct trend.

Total direct costs have decreased steadily and total operating costs have increased each year as a percentage of total costs since 1994-95. Total direct costs accounted for 76% of total costs in 1994-95 and 66% in 1998-99. Total operating costs represented 24% of total costs in 1994-95 and 34% in 1998-99. Both marketing and promotion costs and distribution costs have trended upwards as a percentage of total costs during the past five years.

Gross profit margins have risen each year as a percentage of total revenues since 1994-95. The other profit measures have remained rather steady during the past three years, but well below their peak levels in 1995-96.

TABLE 35: French-Language Book Publishers, $5+ M. in Revenues, Selected Financial Indicators, 1994-95 to 1998-99

	94-95	*95-96*	*96-97*	*97-98*	*98-99*
% of Total Revenues ex. Grants					
Sales of Can. Authored Titles	45.2%	51.3%	51.8%	52.8%	60.9%
Sales of Eligible Titles	17.6%	21.2%	21.4%	20.5%	15.8%
Total Eligible Sales	62.8%	72.4%	73.2%	73.3%	76.7%
Total Publishing Revenues	76.3%	81.6%	79.5%	82.2%	82.1%
Total Grants	3.5%	3.9%	4.5%	3.3%	3.4%
Total Direct Costs	71.7%	68.9%	69.1%	67.8%	65.0%
Gross Profits ex. Grants	28.3%	31.1%	30.9%	32.2%	35.0%
Total Operating Costs	23.1%	24.5%	30.5%	31.0%	33.5%
Pre-Tax Profits ex. Grants	5.2%	6.6%	0.4%	1.2%	1.5%
Inventory	14.9%	12.9%	16.9%	19.2%	17.6%
Accounts Receivable	23.7%	17.3%	18.5%	20.5%	22.5%
% of Grants					
DCH	63.0%	79.2%	85.0%	80.6%	76.3%
Canada Council	5.9%	5.9%	4.8%	7.1%	6.3%
Provincial	18.8%	14.7%	9.9%	7.9%	10.5%
Other	12.3%	0.2%	0.3%	4.4%	7.0%
% of Total Costs					
Total Direct Costs	75.6%	73.8%	69.4%	68.6%	66.0%
Marketing & Promotion	7.4%	7.4%	7.8%	8.4%	9.4%
Distribution	4.9%	5.5%	5.9%	5.5%	6.3%
Total Operating	24.4%	26.2%	30.6%	31.4%	34.0%
Profit Rates					
% of Total Revenues					
Gross Profits	30.7%	33.7%	33.9%	34.4%	37.1%
Pre-Tax Profits	8.4%	10.1%	4.7%	4.4%	4.7%
Net Profits	5.9%	7.0%	3.0%	2.6%	3.2%
EBT ex. Grants	5.0%	6.4%	0.4%	1.1%	1.4%
Net Profits/Equity1	31.9%	30.2%	11.6%	9.3%	11.7%
Net Profits/Equity2	29.1%	29.0%	10.2%	8.6%	10.7%
% of Assets					
Equity1	33.6%	45.3%	40.7%	39.8%	39.0%
Equity2	36.8%	47.2%	45.9%	42.8%	42.7%
Debt	10.5%	10.4%	13.5%	19.9%	17.9%
Total Revenues ex. Grants	176.7%	187.2%	151.3%	137.2%	136.4%

Source : See Table 8.

Both measures of shareholders' equity have declined as a percentage of total assets each year since 1995-96; whereas, total debt has increased as a percentage of total assets during this period.

In 1998-99:

- Sales of Canadian authored titles accounted for 61% of total revenues excluding grants;
- Total eligible sales accounted for 77% of total revenues excluding grants;
- Total publishing revenues accounted for 82% of total revenues excluding grants;
- Total grants represented 3% of total revenues excluding grants;
- Total direct costs totaled 65% of aggregate revenues excluding grants;
- Total operating costs accounted for 34% of total revenues excluding grants;
- Pre-tax profits excluding grants totaled 1.5% of total revenues excluding grants;
- DCH grants accounted for 76% of total grants, while Canada Council grants accounted for 6% of total grants;
- Gross profits totaled 37% of total revenues (including grants), while after-tax profits equaled 3% of total revenues and 11% of total shareholders' equity including loans to shareholders;
- Total debt accounted for 18% of total assets.

The DCH grants per firm peaked at an average of $433,100 in 1996-97 and have declined to a low of $278,300 per firm in 1998-99 (Table 36). Total grants per firm peaked at $515,100 in 1995-96 and have dropped to $364,900 in 1998-99.

Even without grants, the firms in this size category would have made money on average during each of the past five years on a pre-tax basis – this stands out in sharp contrast with all the other groups of French-language BPIDP recipients and all groups of English-language BPIDP recipients. The pre-tax profits, excluding the grants, peaked at an average of $875,200 per firm in 1995-96, fell to almost break-even in 1996-97 and have risen slowly to $159,700 per firm in 1998-99.

TABLE 36: French-Language Book Publishers, $5+ Million in Revenues, Selected Financial Indicators per Firm ($000s), 1994-95 to 1998-99

	94-95	***95-96***	***96-97***	***97-98***	***98-99***
Sales of Can. Titles	$5,980.2	$6,778.6	$5,914.9	$6,020.7	$6,568.7
Publishing Revenues	10,096.3	10,780.9	9,068.7	9,372.6	8,852.8
Other Revenues	3,137.9	2,437.8	2,340.5	2,028.1	1,930.9
DCH Grants	290.7	407.7	433.1	307.8	278.3
Total Grants	461.6	515.1	509.2	381.6	364.9
Total Revenues	13,695.8	13,733.7	11,918.4	11,782.4	11,148.6
Marketing & Promotion	930.6	918.4	891.1	948.2	995.3
EBT (ex. Grants)	686.7	875.2	47.1	134.0	159.7
EBT	1,148.3	1,390.3	556.3	515.6	524.6
Net Income	802.3	965.5	355.0	306.3	360.7
Total SE	2,757.8	3,331.2	3,464.2	3,558.2	3,373.2

Source: See Table 8.

Pre-tax profits (including the grants) peaked at $1.4 million per firm in 1995-96, fell by almost 60% to an average of $556,300 per firm in 1996-97 and have averaged around $520,000 per firm in each of the past two years (Table 36).

Marketing and promotion expenses have increased by more than $100,00 per firm since 1996-97 from $891,100 to $995,300 in 1998-99. But the French-language book publishers in this size category are spending approximately $800,000 less per firm on promotion and marketing than their English-language counterparts in this size category.

F. Genre

Based on data averaged over the five-year period 1994-95 to 1998-99, there are a number of interesting correlations between various ratios and the size of book publishers in the Trade genre (Table 37). Among the ratios to total revenues excluding grants, we find inverse correlations between sales of Canadian authored titles and firm size (sales of Canadian-authored titles represented 46% of total revenues excluding grants for publishers with annual revenues in excess of $5 million and 90% for publishers with revenues of less than $200,000); total grants and firm size (3% of total revenues excluding grants for firms with annual revenues greater than $5 million, 85% for firms with revenues less than $200,000); and total operating costs and firm size (22% for firms with annual revenues greater than $5 million, 95% for firms with revenues less than $200,000).

The DCH grants are positively correlated with firm size – increasing as a percentage of total grants as firms increase in size (80% for firms with annual revenues greater than $5 million, 14% for firms with revenues less than $200,000). On the other hand, both Canada Council grants and provincial government grants are inversely related to firm size.

Both total direct costs and marketing and promotion costs as a percentage of total costs are positively correlated with firm size, while total operating costs as a percentage of total costs are inversely correlated.

With regards to profit rates, gross profits as a percentage of total revenues are inversely correlated with firm size (increasing from 28% for firms with annual revenues greater than $5 million, to 52% for firms with revenues less than $200,000); but pre-tax profits excluding grants as a percentage of total revenues are positively correlated with firm size (decreasing from 4% for firms with revenues greater than $5 million, to -45% for firms with revenues less than $200,000).

There are no consistent correlations between equity-asset and debt-asset ratios and firm size for the Trade book publishers.

Turning to the Education book publishers, we also find several interesting correlations, but fewer than in the case of the Trade publishers (Table 38). Among the ratios to total revenues excluding grants, we find inverse correlations only for sales of Canadian-authored titles and firm size (69% of total revenues excluding grants for firms with annual revenues greater than $5 million, 93% for firms with revenues less than $200,000).

For several other financial indicators, there are some correlations with firm size, but only for firm sizes greater than $200,000 in annual revenues. For example, excluding the smallest size group, we find inverse correlations between total grants and firm size and total operating costs and firm size. The smallest group of firms in this genre category appears to be somewhat of an anomaly.

There are no apparent correlations for the DCH grants, Canada Council grants and provincial government grants and firm size. As well, there do not appear to be any correlations between firm size and the various ratios of costs to total costs and for any of the profit measures. Pre-tax profits excluding grants as a percentage of total revenues are positively correlated with firm size if the smallest group of firms is ignored. There also are no consistent correlations between equity-asset and debt-asset ratios and firm size for the Trade book publishers.

In the case of the Hybrid book publishers, there are no firms in the size category $500,000 to $1 million in annual revenue (Table 39). Thus, excluding this size group, there are several correlations with respect to firm size. For example, sales of Canadian authored titles, total eligible sales, total publishing revenues and total grants as a percentage of total revenues excluding grants are inversely correlated with firm size – increasing in value as firm size declines.

The DCH grants as a percentage of total grants are positively correlated with firm size (increasing from 10% of total grants for firms with revenues of less than $200,000 per year to 87% for firms with more than $5 million in revenues), and Canada Council grants are inversely correlated with firm size.

Pre-tax profits and net profits as a percentage of total revenues are inversely related to firm size – declining in value as firm size increases, and so too are net profits as a percentage of shareholders' equity including loans to shareholders inversely correlated with firm size. On the other hand, pre-tax profits excluding grants as a percentage of total revenues are positively correlated with firm size – increasing from –36% for the smallest group of firms to –0.2% for the largest group of firms.

In comparing the various ratios across the genre categories and firm size, we find the following (Tables 37, 38, 39):

- The largest sized Hybrid book publishers generate the smallest percentage of revenues from eligible sales and publishing in general, well below their counterparts in the other two genre categories;
- Total grants account for very large shares of total revenues excluding grants for the book publishers with less than $500,000 in annual revenues in the Trade and Hybrid genres;
- Among firms with less than $1 million in annual revenues, the Education publishers are much more dependent on DCH grants (as a percentage of total grants) than the other two genre groups and the Education publishers are much less dependent upon Canada Council grants; and
- The gross profit margins are lowest for the Trade publishers with more than $5 million in revenues, and the pre-tax excluding grants profit margins are highest for this group of publishers.

TABLE 37: French-Language Book Publishers – Trade, Selected Financial Indicators, 5-Year Average, 1994-95 to 1998-99

	<200 K $	*200-500 K $*	*0,5-1 M $*	*1-5 M $*	*5 M+ $*
% of Total Revenues ex. Grants					
Sales of Can. Authored Titles	89.9%	88.8%	78.4%	59.1%	46.5%
Sales of Adapted/Translated Titles	0.8%	1.0%	5.6%	7.9%	25.8%
Total Eligible Sales	92.0%	92.6%	89.3%	73.4%	74.5%
Total Publishing Revenues	92.0%	94.8%	93.7%	79.4%	87.5%
Total Grants	84.8%	58.0%	25.9%	11.5%	3.1%
Total Direct Costs	89.1%	74.8%	61.7%	56.8%	74.0%
Total Operating Costs	94.6%	80.8%	64.8%	51.7%	21.9%
Inventory	24.5%	37.0%	47.4%	24.6%	13.2%
Accounts Receivable	29.4%	24.9%	29.1%	20.7%	24.9%
% of Grants					
DCH	13.9%	20.8%	41.2%	55.6%	80.4%
Canada Council	58.9%	40.4%	24.3%	20.0%	9.5%
Provincial	24.8%	28.3%	26.3%	19.8%	9.7%
Other	2.4%	10.4%	8.2%	4.6%	0.4%
% of Total Costs					
Total Direct Costs	48.5%	48.1%	48.8%	52.4%	77.2%
Marketing & Promotion	15.4%	15.5%	14.3%	12.2%	5.9%
Distribution	8.4%	11.0%	16.0%	16.0%	6.0%
Total Operating	52.5%	51.9%	51.2%	47.6%	22.8%
Profit Rates					
% of Total Revenues					
Gross Profits	51.8%	52.6%	51.0%	49.0%	28.2%
Pre-Tax Profits	0.6%	1.5%	-0.5%	2.7%	7.0%
Net Profits	0.6%	1.0%	-0.9%	2.1%	4.7%
EBT ex. Grants	-45.3%	-35.2%	-21.1%	-7.6%	4.0%
Net Profits/Equity1	2.1%	10.1%	-8.8%	7.7%	20.1%
Net Profits/Equity2	1.6%	6.4%	-3.0%	6.8%	18.9%
% of Assets					
Equity1	55.6%	16.8%	13.7%	40.3%	37.8%
Equity2	71.0%	26.3%	39.5%	45.8%	40.1%
Debt	3.0%	17.0%	14.8%	10.8%	16.7%
Total Revenues ex. Grants	108.5%	105.4%	104.1%	130.4%	157.2%

Source : See Table 8.

TABLE 38: French-Language Book Publishers – Educational, Selected Financial Indicators, 5-Year Average, 1994-95 to 1998-99

	<200 K $	*200-500 K $*	*0,5-1 M $*	*1-5 M $*	*5 M+ $*
% of Total Revenues ex. Grants					
Sales of Can. Authored Titles	92.6%	88.0%	86.7%	73.0%	69.4%
Sales of Adapted/Translated Titles	0.0%	0.6%	4.6%	2.0%	2.0%
Total Eligible Sales	94.8%	89.9%	92.7%	80.5%	71.8%
Total Publishing Revenues	94.8%	91.5%	95.6%	83.3%	71.9%
Total Grants	12.6%	25.2%	14.8%	11.7%	5.2%
Total Direct Costs	53.1%	58.6%	62.0%	57.7%	57.9%
Total Operating Costs	53.7%	80.5%	45.7%	46.3%	40.7%
Inventory	41.7%	47.9%	50.1%	38.5%	20.8%
Accounts Receivable	19.6%	29.3%	21.0%	17.7%	10.8%
% of Grants					
DCH	85.9%	66.3%	83.8%	63.5%	71.0%
Canada Council	0.0%	2.7%	4.5%	4.8%	1.2%
Provincial	9.8%	15.7%	5.6%	6.1%	16.9%
Other	4.3%	15.3%	6.1%	25.6%	10.9%
% of Total Costs					
Total Direct Costs	49.7%	34.0%	57.6%	55.5%	58.7%
Marketing & Promotion	31.3%	35.4%	10.9%	15.8%	12.2%
Distribution	1.7%	8.7%	5.3%	5.7%	3.1%
Total Operating	50.3%	66.0%	42.4%	44.5%	41.3%
Profit Rates					
% of Total Revenues					
Gross Profits	52.9%	66.9%	46.0%	48.3%	45.0%
Pre-Tax Profits	5.2%	2.6%	6.2%	6.9%	6.2%
Net Profits	3.2%	2.3%	7.5%	5.6%	4.3%
EBT ex. Grants	-6.0%	-17.5%	-6.7%	-3.6%	1.3%
Net Profits/Equity1	6.4%	6.4%	16.7%	15.5%	15.6%
Net Profits/Equity2	4.8%	6.3%	16.4%	13.6%	13.7%
% of Assets					
Equity1	52.7%	36.3%	40.2%	42.5%	44.1%
Equity2	70.9%	36.9%	41.0%	48.4%	50.0%
Debt	2.3%	35.4%	15.0%	11.4%	20.6%
Total Revenues ex. Grants	93.3%	82.5%	77.5%	105.4%	152.4%

Source : See Table 8.

TABLE 39: French-Language Book Publishers – Hybrid, Selected Financial Indicators, 5-Year Average, 1994-95 to 1998-99

	<200 K $	*200-500 K $*	*0,5-1 M $*	*1-5 M $*	*5 M+ $*
% of Total Revenues ex. Grants					
Sales of Can. Authored Titles	96.8%	75.8%		59.2%	27.2%
Sales of Adapted/Translated Titles	0.0%	1.5%		4.1%	3.3%
Total Eligible Sales	98.8%	80.3%		66.1%	31.7%
Total Publishing Revenues	99.7%	84.2%		74.0%	35.7%
Total Grants	107.2%	47.2%		7.1%	3.0%
Total Direct Costs	120.1%	64.6%		51.9%	61.5%
Total Operating Costs	55.1%	75.7%		50.4%	38.7%
Inventory	55.8%	28.9%		22.2%	28.0%
Accounts Receivable	55.2%	21.1%		17.4%	24.1%
% of Grants					
DCH	10.2%	27.8%		78.6%	86.7%
Canada Council	72.7%	37.5%		9.5%	6.9%
Provincial	6.9%	22.3%		5.7%	6.0%
Other	10.3%	12.4%		6.2%	0.4%
% of Total Costs					
Total Direct Costs	68.5%	46.0%		50.7%	61.4%
Marketing & Promotion	16.3%	11.9%		17.9%	11.4%
Distribution	3.5%	5.7%		17.1%	15.6%
Total Operating	31.5%	54.0%		49.3%	38.6%
Profit Rates					
% of Total Revenues					
Gross Profits	42.0%	56.1%		51.5%	40.2%
Pre-Tax Profits	15.4%	4.7%		4.5%	2.7%
Net Profts	12.6%	4.0%		2.0%	1.8%
EBT ex. Grants	-36.3%	-27.4%		-2.1%	-0.2%
Net Profits/Equity1	31.0%	34.5%		9.5%	8.4%
Net Profits/Equity2	30.7%	26.8%		6.8%	7.9%
% of Assets					
Equity1	56.3%	19.2%		39.5%	33.8%
Equity2	56.8%	24.8%		55.6%	35.9%
Debt	3.9%	27.0%		19.6%	29.3%
Total Revenues ex. Grants	66.6%	113.1%		174.2%	156.5%

Source: See Table 8.

G. Summary

The French-language BPIDP recipients with revenues of less than $5 million would have had pre-tax losses, on average, throughout the five-year period without government grants. The largest book publishers have been profitable even without the grants. This stands in sharp contrast to the case of the largest English-language BPIDP recipients. All size categories had positive pre-tax and after-tax profits when the grants are included. Nevertheless, it is conceivable that many of the smaller French-language book publishers could not survive without grants.

Similar to the case of the English-language book publishers, there is a positive correlation between pre-tax profits excluding the grants as a percentage of total revenues excluding grants and firm size for the French-language BPIDP recipients – suggesting that there are economies of scale in the French-language segment of this industry. In 1998-99, the smallest sized publishers (annual revenues less than $200,000) recorded a loss equal to 41% of their total revenues excluding grants. The other three size groups with revenues between $200,000 and $5 million also recorded losses (excluding grants), but as a declining percentage of revenues excluding grants as firm size increased. The largest firms (annual revenues exceeding $5 million) produced a pre-tax profit equal to 1.4% of revenues excluding grants.

Total operating costs as a percentage of total revenues excluding grants also displayed an inverse relation with firm size. That is, operating costs as a percentage of total revenues excluding grants decreased as firms increased in size. In 1998-99 this ratio declined from 89% for the smallest group of French-language BPIDP recipients to 34% for the largest group.

While the largest firms (revenues in excess of $1 million) are less dependent upon publishing revenues than are the other BPIDP recipients, the difference is quite small. This stands in sharp contrast to the case of the largest English-language book publishers. However, the smallest firms are much more dependent upon grants. Grants as a percentage of total revenues excluding grants are inversely correlated with firm size – increasing from 3% for firms with more than $5 million in total revenues to 78% for the firms with less than $200,000 in revenues in 1998-99. With the exception of publishers with revenues between $1 million and $5 million, the French-language BPIDP recipients received larger grants as a percentage of revenues excluding grants than did their English-language counterparts in 1998-99.

Similarly to the case of the English-language publishers, the DCH grants as a percentage of total grants also are positively correlated with firm size for the French-language publishers – increasing from 14% for the smallest companies to 76% for the largest firms; and Canada Council grants are inversely correlated with firm size.

The total debt to total asset and total shareholders' equity to total asset ratios did not display any correlation pattern with respect to firm size. The debt to asset ratio ranged from 11% for firms with total revenues of less than $200,000 to 26% for the firms with revenues between $200,000 and $500,000 in 1998-99. With the exception of companies with revenues between $200,000 and $500,000, the French-language BPIDP recipients had lower debt to asset ratios than the English-language firms in 1998-99.

Inventories ranged between 18% of total revenues excluding grants (firms with total revenues in excess of $5 million annually) to 51% (firms with revenues of less than $200,000) in 1998-99. With the exception of the largest size group, the French-language book publishers had higher ratios of inventories to total revenues excluding grants than the comparable English-language BPIDP recipients.

Accounts receivable as a percentage of total revenues excluding grants showed no correlation pattern but did range between 19% and 36%. The ratios of the sum of inventories and accounts receivables as a percentage of revenues excluding grants were substantially higher for the smallest groups of French-language book publishers (annual revenues of less than $1 million) than for the similar groups of English-language publishers in 1998-99. Thus, while it would appear that the French-language BPIDP recipients have substantial working capital needs to finance inventories and accounts receivables, the problem is likely to be quite severe for the smallest book publishers. For the very smallest group of French-language book publishers (revenues of less than $200,000), the problem appears to have become worse since both inventories and accounts receivables as percentages of revenues excluding grants have risen steadily during the past five years.

There are some interesting differences between the French-language and English-language book publishers in the area of marketing and promotion expenses. Among the smallest firms (total annual revenues of less than $200,000) and medium size firms (Revenues between $1 million and $5 million), the French-language publishers spend considerably more than the English-language BPIDP recipients on average per firm. But the largest French-language firms (revenues in excess of $5 million) spend about 40% less on average per firm than their English-language counterparts.

The correlations between total operating costs as a percentage of total revenues excluding grants and firm size and pre-tax profits excluding grants as a percentage of revenues excluding grants and firm size for both the Trade and Hybrid publishers and all but the smallest Education publishers support the economies of scale hypothesis.

The largest sized Hybrid book publishers generate the smallest percentage of revenues from eligible sales and publishing in general, well below their counterparts in the other two genre categories. Moreover, total grants account for very large shares of total revenues excluding grants for the book publishers with less than $500,000 in annual revenues in the Trade and Hybrid genres. Among firms with less than $1 million in annual revenues, the Education publishers are much more dependent on DCH grants (as a percentage of total grants) than the other two genre groups and the Education publishers are much less dependent upon Canada Council grants.

There are several other important features of the book publishing market, especially in Quebec that are worth noting. For example, the business practices of the French-language book publishers located in Quebec are governed by Bill 51. The French-language publishers located outside of Quebec do not have the same benefits as publishers in Quebec.

Bill 51 imposes conditions on publishers, distributors and bookstores that are Canadian-owned and have head offices in Quebec. Firms seeking provincial government financial assistance must be accredited under the Act (distributors do not receive government financial assistance and are not subject to accreditation). For bookstores to be accredited, they must sell at least $300,000 of books per year, maintain an inventory of at least 2,000 titles published in Quebec and 4,000 titles published elsewhere, receive new titles from at least 25 accredited Quebec publishers and keep them on display for at least four months, and purchase their books from accredited publishers. Government departments and public and semi-public agencies must buy their books at accredited bookstores and cannot return any books – this amounts to an indirect subsidy to these bookstores. Exclusive distributors must give the accredited bookstores a minimum discount of 30% on scientific and technical books and 40% on trade books.

The predominance of Quebec publishers in the educational market is due to administrative decisions made by the Quebec Government several decades ago. But there is significant competition in this segment, high levels of investment and high degrees of risks in having textbooks selected by the school boards that combine to put downward pressure on profits.

Although there is a market for French-language books across Canada, the principal market is in Quebec. French-language book publishers outside of Quebec have difficulty in selling in the Quebec market where they must compete against Quebec-based publishers and imports from France and other countries. The high publishing costs for textbooks make it difficult for the French-language publishers outside of Quebec to amortize their development costs in the very small, minority French-language markets. The Francophone markets in New Brunswick and Ontario are sufficiently large to justify, from a business perspective, the publication of specialized French-language school manuals. However, these markets are not large enough to support competition among school manuals and thus more than one or two French-language book publishers.

French-language publications have increased by almost 26% over the past 10 years, but total publications have increased by 42% during this period in Quebec alone. Translations of US books, whose French-language rights for the world are purchased by French publishers, have the highest sales in Quebec.

Imports, largely from Europe, of French-language translations of US books, account for almost 65% of the market in Quebec. French-language publishers in Quebec have difficulty competing against the French publishers in all French-language markets. The French-language book publishers generate a much smaller proportion of their publishing revenues from exports than do their English-language counterparts.

6. THE INTERNATIONAL BOOK PUBLISHING INDUSTRY

A. Overview of the Book Publishing Industry in the US (1997)

The US book publishing industry had sales of US$21.3 billion in 1997 (Table 40). Trade, professional, elementary-high school and higher education texts and books represent the major categories by sales.

The top 20 publishers generated 80% of all sales of books in the US. Of the top 20, eight are foreign-owned. As a result of the acquisition of Random House by Bertelsmann, and of Simon & Schuster's education division by Pearson, foreign-owned companies in the book publishing industry account for almost 50% of total sales in the US. With the acquisition of Simon & Schuster, Pearson's Addison Wesley Longman subsidiary will become the largest educational publisher in the world. The major foreign-owned publishers are Pearson, Bertelsmann, Thomson Corporation, Wolters Kluwer, News Corp (Harper Collins) and Reed Elsevier.

TABLE 40: Book Publishers Net Sales in the US, 1995 to 1997 (US$ Millions)

	1995	***1996***	***1997***
Trade	$5,561	$5,643	$5,453
Religious	1,037	1,093	1,133
Professional	3,869	3,985	4,156
Book Clubs	976	1,092	1,145
Mass Market PB	1,500	1,555	1,434
University Presses	340	349	368
El-Hi	2,446	2,619	2,960
Higher Education	2,325	2,486	2,670
Subscription/Ref.	671	706	736
Total	19,947	20,780	21,277

Source: Open Book Publishing, *The Subtext 1998 Perspectives on Book Publishing*, 1998, Table 2.1

Further consolidation is expected in the US market with the remaining Simon & Schuster trade unit and Harper Collins the most likely candidates to be acquired. Within the next few years, the 20 largest publishers could own 90% of the book publishing industry in the US.

Small independent publishers accounted for about 15% of the market in 1997. This sector is composed largely of niche publishers. Publishers that specialize in one subject can survive because those with a niche have to contend with fewer competitors. The downside of niche publishing is that it is next to impossible to expand into a market dominated by an entrenched competitor with a brand name.

The largest export markets for US books are Canada (US$824 million), the UK (US$254 million) and Australia (US$138 million). US imports of books totalled US$1.3 billion, with the largest book import sources being the UK (US$283 million), Hong Kong (US$203 million) and Canada (US$189 million). It is worth noting that, according to these statistics, Canada had a trade deficit with the US in books of US$635 million in 1997. This compares with total sales by Canadian-based book publishers of $1.7 billion (Canadian currency) in 1996-97.

Ingram, the world's largest wholesale book distributor[22], launched its Lightning Print "one book at a time" service in November 1997. By warehousing books in a digital library, Ingram is able to print copies only as ordered by the retailer. Simon & Schuster has established its own on-demand production centre. McGraw-Hill and Wadsworth (Thomson) are using the technology in their college custom publishing programs.

On-demand technology, by doing away with inventory and offset print set-up costs and diminishing the need for working capital to finance "shelf investment", has the potential to increase publishers' net income for low-volume titles and generate revenues for books for which demand might have fallen below a profitable level for traditional offset printing. Printing can now be done with a "just in time" rather than a "just in case" approach and cash flow can be improved by printing some books in one or two month supplies rather than on one large, risky run.

The segments using digital on-demand printing are: subscription/reference (100%), college (50%), el-hi (40%), university presses (50%) and professional (50%). Digital printing also is being increasingly used in trade publishing, a sector marked by excessive print runs, high returns and poor inventory tracking systems.

The largest four US chain stores (Barnes & Noble, Borders, Books-A-Million and Crown Books) accounted for 49% of the US$11.7 billion trade retail book market in 1997. The superstores dominate the independents and the smaller chains. Since 1991, the independent booksellers' share of the market has declined from 32% to 19%. The saturation point for the megastores does not appear to have yet been reached and their market shares have likely continued to increase.

A number of booksellers – Barnes & Noble, Borders and Bertelsmann's BooksOnline – are entering into online distribution via the Internet to compete with Amazon.com.

Amazon, in order to cater to small book publishers, has launched Amazon.com Advantage, a free service designed to boost the visibility and sales of small press titles. This should enable many of the small publishers to overcome the barriers that have limited their access to traditional distribution channels. The program permits the small publishers to place a limited quantity of books in Amazon's distribution centres for immediate availability to customers.

Audio books were first introduced in 1985 and since that time, approximately 68,000 audio books have been introduced to the market by book publishers and other independent publishers. In 1998, audio books generated US$2 billion in sales. Many of the largest book publishers in the US have entered into the audio book market in recent years.

B. The Small Firm Segment of the Industry in the US

(Source: Book Industry Study Group and Publishers Marketing Association, *The Rest of Us*, NY 1999-08)[23]

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22 Ingram carries nearly 300,000 titles from 3,000 publishers in the US. The company serves the large chains as well as independent bookstores. Ingram controls 55% of the wholesale market in the US.

23 The Book Industry Group is a not-for-profit corporation organized to assist in the exchange of ideas between members

According to this study, the number of publishers by annual net book sales in fiscal year 1997 are as follows (US$):

- <$100K – 80.8% of total, 1,780 publishers;
- $100-$250K – 8.9% of total, 197 publishers;
- $250-$500K – 3.9%, 85;
- $500-$1000K – 2.4%, 53;
- $1-$5M – 3.0%, 66;
- $5+M – 1.0%, 23.

Many of the smallest book publishers (39% of the small book publishers in the survey) have been in business less than 5 years. Another 22% have been in business between six and 10 years. Only 13% have been in business more than 20 years.

Small publishers are not generally big on big first printings perhaps because modern technology has made it possible to hold unit costs down. Moreover, as the supply of titles in print increases, the smaller independent publishers increase the number of sales and distribution channels that they use. As the number of titles in print increase, these book publishers increasingly rely on a direct or commissioned work force, wholesalers and the Internet. In addition, the publishers with the most titles in print are more likely to sell to libraries, bookstores, schools and colleges than to non-bookstore retailers, catalogues or professionals, business and government.

C. <u>The International Market</u>

The US market is by far the largest, almost three times the size (in terms of sales) of the second largest market – Germany (Table 41). Canada ranked 11th in 1996 with book sales roughly equal to 5% of the US total. Sales averaged US$9.8 million per publishing company in the US. In Canada, sales averaged US$2.3 million or only 24% of the average in the US. Not only are US book publishers much larger than Canadian-based companies one average, but many of the largest Canadian-based companies are subsidiaries of US-based companies and the US companies generate a trade surplus in books equal to about 50% of total Canadian sales. US companies have the ability to leverage their size and US operations to gain a competitive advantage in the Canadian marketplace.

Interestingly, sales averaged only US$600,000 per publisher in France where the government has fostered the development of this industry and less than US$200,000 per publisher in the UK, where there is history of the small, independent book publisher.

Of the 10 largest, foreign-controlled book publishers selling in the US, two each are based in Germany (Bertelsmann and Holtzbrinck), the UK (Pearson and Reed Elsevier) and Canada (Thomson and Torstar). The remainder are based in the Netherlands (Wolters Kluwer), Australia (News Corp), Switzerland (Safra Group) and France (Lagardere Groupe). The largest US publishers, ranked by international sales (1997) are: Reader's Digest, McGraw-Hill, Time Warner, Harcourt Brace and John Wiley.

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of the book industry and to facilitate research into related subjects. The Publishers Marketing Association is the largest nonprofit trade association in the US representing independent publishers of books, audio, video and CDs.

TABLE 41: Book Sales in Major Markets, 1996 (US$ Millions), and Number of Publishing Companies in Top 10 Markets, 1995

	Sales	*No. of Companies*
US	$26,127	2,679
Germany	9,773	2,070
Japan	9,126	4,487
UK	4,772	29,116
France	3,306	5,500
Spain	2,981	588
South Korea	2,742	11,571
Brazil	2,678	NA
Italy	2,500	2,956
China	1,867	563
Canada	1,296	562

Source: Open Book Publishing, *The Subtext 1998 Perspectives on Book Publishing*, 1998, Table 6.4

D. The Book Publishing Industry in France

France has not escaped the trend towards consolidation of the book publishing industry. Concentration in the publishing and distribution industries is higher than in Canada – the two largest publishing companies in France (Havas and Hachette) control over 50% of the market. The largest companies have become vertically integrated combining distribution and publishing. These companies offer their distribution services to other, smaller publishing firms. However, government policies have created an environment in which very many small companies have survived.

In France, business practices are influenced by many sets of regulations, including an act that stipulates uniform book prices and regulations, which establish protocols for new titles similar to Bill 51 in Quebec. The protocol in France is related to the establishment of automatic and regular shipments of new titles from publishers to bookstores. Increases in the number of new titles published annually has had a negative impact on the profitability of book publishers for similar reasons as in Quebec.

Government subsidies in France for book publishing amount to about 1% of sales for the industry as a whole, but represent a much higher percentage of sales for the small publishers. Direct assistance to book publishers consists of reimbursable, interest-free loans designed to reduce the publisher's capital burden for books which are released slowly. These loans have a cap of 50% of the estimated production costs for a book. There are also direct subsidies available for certain genres such as poetry, theatre and rare books. Book purchases by subsidized agencies (schools, public libraries, etc.) provide additional assistance to booksellers. The assistance programs are administered by the Centre National du Livre which manages a fund derived from a 3% royalty on the sale of reprographic material and a 0.2% royalty on books sold in bookstores (the small publishers are exempt from this royalty).

In addition, we have been informed that books are only taxed at 5% in France and the government provides generous export financial assistance.

7. STRUCTURAL CHALLENGES

A. Competitive Advantage and Competitive Strategies

Market structure influences the rates of return earned by the competitors in the marketplace, whether it is the book publishing or any other industry. The key determinants of market structure are the intensity and nature (pricing, marketing, innovation, distribution, etc.) of industry rivalry; the bargaining power of suppliers; the bargaining power of buyers; and substitute products or services.

The bargaining power of buyers (customers), in conjunction with the intensity of rivalry in the market, are the key structural factors affecting the financial performance of book publishers in Canada. US-based companies leverage their position in the US market to set low prices for books in Canada. The growth of megastore chains, in particular Chapters, and the growth of the Internet and companies such as Amazon.com, Chapters.ca and others as major distribution channels are putting added downward pressure on the net prices received by Canadian book publishers. The creation by Chapters of its own wholesale distribution company will further reinforce the bargaining advantage of the buyers and intensify demands for additional price discounts by the book publishers. To sell books in Canada, the roads will increasingly pass through Chapters.

There are three generic competitive strategies that a book publisher can try to execute in order to succeed – cost, differentiation, and niche strategies. But in order to succeed, a company that opts for one of these strategies cannot ignore the other strategies. A cost leadership strategy cannot ignore differentiation; and a differentiation strategy cannot ignore costs.

Scale and the financial strength to invest in technologies and people are the key to creating a successful cost leadership strategy in the book publishing industry. The US-based companies are better positioned than most Canadian companies to attain cost leadership in this industry.

The key drivers for a successful differentiation strategy are the number of titles and the range of genres covered, the scale of advertising/marketing budgets, the types of distribution channels and the degree of brand name recognition in each distribution channel, the quality of writing and the motivation of the employees. Canadian-controlled book publishers have the potential to match, if not surpass, their foreign competitors in the areas of the quality of writing and motivation of employees. But they most likely lag behind in the other areas.

As noted in the discussion of the US market, a niche strategy may be the best option for small book publishers. But the success of a niche strategy depends upon selecting the right market segment and maintaining a competitive cost structure. The risks with this strategy are that the targeted segment becomes structurally unattractive; large companies overwhelm the segment and/or new niche players sub-segment the market.

B. Case Studies of Competitive Strategies

The case studies were compiled by DCH officials using the corporate strategy questions in the BPIDP filings. A sample of 10 companies (by size and genre) in each language were selected by DCH and we were supplied with a brief summary of their findings. Company names were kept anonymous.

English-Language Publishers

Several book publishers, especially those specializing in the Education genre, targeted multimedia – educational material in electronic format – as a growth opportunity. These strategies have been largely abandoned because the market did not develop as expected. Schools did not get the funding required to purchase multimedia products and the Internet has overtaken this market.

The marketing strategies of the companies reviewed in the case studies focused on expansion into other provincial markets and into the US. However, when revenues and profits declined, many of the companies cut back on marketing outside of their home provinces. In addition, the case studies suggest that few of these book publishers are selling directly via the Internet and that the smaller publishers are using third party sales forces to penetrate markets outside home province.

Trade publishers have experienced above average rates of revenue growth through the use of niche strategies including distribution through non-book retailers.

The case studies suggest that continuous development of new titles and new authors was very important for future success, although the number of new titles produced annually is obviously limited by the resources available to the firms. In increasing the number of titles, the following strategies stood out – foreign translations of existing titles in order to enter new geographic markets and partnerships with other publishers, especially for smaller publishers specializing in the education genre. However, in order to cope with unexpected declines in revenues and profits, the book publishers reduced their investments in developing new titles.

The smaller publishers tended to target markets which the larger publishers are less likely to pursue, generally those too small to attract the interests of the larger companies. The larger publishers were exploring opportunities to grow through mergers and acquisitions.

The more successful firms appear to be those which undertake and make use of market analysis and invest in new technologies (computers, software, Internet). However, many of the companies in the case studies experienced long delays in adopting new technologies and developing Internet capabilities due to a lack of resources — skills, money, time (this suggest the potential for outsourcing opportunities and collaboration).

Based on these case studies, it would seem that the following are the keys for any successful competitive strategy for Canadian-controlled book publishers, especially the smaller companies:

- Niche publishing by genre;
- Investment in marketing and expansion into foreign markets;
- Adoption of new technologies;
- Investment in and production of new titles.

The key challenges facing these companies appear to be a lack of resources, cutbacks in government financial support, lack of focus and an inability to follow through on their strategies.

French-Language Publishers

The case studies for the French-language publishers also indicated that several book publishers, especially those specializing in the Education genre, targeted multimedia as a growth opportunity, one that did not materialize as expected.

The marketing strategies of the firms studied focused on expansion into minority French-language markets outside of Quebec, English-language markets across Canada and French-language markets in other parts of the world. However, the smaller companies lacked the financial wherewithal to make the necessary marketing investments to expand into these markets. And, marketing expenses were the first to be reduced when revenues and profits declined.

The French-language book publishers also recognized the strategic and competitive importance of continuous development of new titles and new authors. There were strong commitments to produce works by Canadian authors. However, the number of new titles produced annually was limited by the resources available to the firms.

In increasing the number of titles, the book publishers pursued the following strategies: English translations of existing titles and partnerships – small publishers, especially those outside of Quebec, pursued partnerships with publishers in Quebec, some small Quebec-based publishers looked to partner with English-language publishers, and larger publishers attempted partnerships with foreign companies. But investments in developing new titles were another early casualty of declining revenues.

Based on these case studies, the keys for any successful competitive strategy for Canadian-controlled, French-language book publishers are the following:

- Niche publishing by genre;
- Investment in marketing and expansion into foreign markets;
- Adoption of new technologies;
- Investment in and production of new titles;
- Ability to adapt to changing competitive and market environments; and
- Partnerships with other book publishers.

The key challenges facing these companies appear to be a lack of stability in government financial support, intense and increasing rivalry, a general lack of financial resources, a lack of focus and an inability to follow through on their strategies.

C. Challenges Facing Canadian Book Publishers

Canadian-controlled book publishers face a number of structural and competitive challenges.

US-based book publishers have a significant competitive advantage in the Canadian marketplace as a result of their ability to leverage their positions in the US. They can amortize their R&D costs over their sales in the US market and so do not need to price their books in Canada at a level necessary to recover these investments. Canadian-owned publishers have to amortize their R&D costs over their Canadian sales. The costs of printing the books to be sold in the Canadian market by the US-based publishers are significantly lower than the costs for Canadian book publishers because of the substantial economies of scale in printing. The marginal costs for the US companies of printing additional copies for the Canadian market are well below the costs for Canadian publishers whose major print run is for the Canadian market. Altogether, Canadian publishers must match the prices set by the US companies selling in the Canadian market and these prices leave little room for error or profit for the Canadian companies.

There is continued consolidation of this industry as the large publishing houses in the US and Europe are pursuing increased scale in order to buttress their competitive positions. As a result, a smaller number of increasingly larger companies are achieving competitive advantages that cannot be challenged[24] by the smaller players in the industry and hence they are expanding their dominance of this industry globally. In this evolving environment, the Canadian book publishers will be increasingly squeezed into fewer and smaller niches.

Government grants have enabled many of these companies to remain profitable. Cutbacks in funding by either the federal or provincial governments have pushed these companies into a loss position. For example, after fiscal 1995 there was a major reduction in federal support, which triggered serious financial problems for the industry until, the funding was restored several years later. Despite the cut in funding, there were virtually no bankruptcies among the Canadian-owned book publishers because the funding cuts were restored in the following years[25]. However, several of the publishers responded to the cutback in federal financial support by reducing their investments in developing new books and in marketing. These responses, while necessary to keep the companies afloat, tend to erode the competitive positions of these companies in the market. Thus, funding stability or security is a concern for many Canadian book publishers.

As well, even when a provincial government increases the level of funding support for this industry, the program may not be designed to assist the Canadian-owned companies. The Ontario Government recently announced a $100 million program to subsidize the costs for public schools to buy textbooks. While this represented a potential doubling of this market, the program favoured the foreign multinationals over the Canadian-owned firms. To be eligible for purchase by the public schools under this program, a textbook only had to be printed in Canada. It did not have to be authored by a Canadian or published by a Canadian-controlled firm.

The Canadian-owned segment of the industry is facing increased pressures in signing Canadian authors, especially the ones who have become successful. Part of this may be due to Investment Canada’s conditions for permitting mergers among branch plant publishers in Canada. The foreign companies, which are usually larger and have international networks, are bidding away Canadian authors who are just getting established in order to satisfy the conditions. But in general, the Canadian-owned companies involved in Trade publishing lack the financial strength to be competitive in the bidding process for the successful Canadian authors. The Canadian companies need increased financing to be able to compete to retain their most valuable properties. Otherwise, they will become more like the minor sports leagues where young talent is developed before they jump to the big leagues.

This problem is compounded by the world rights issue. With prominent authors, this has served to truncate the Canadian industry’s growth. This is in contrast to the Canadian film industry which can sell in the world market.

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24 For example, economies of scale in printing, R&D, marketing and distribution; breadth of product line; financial clout to compete for successful authors and adopt the latest technologies; and increasing market bargaining power vis a vis suppliers and buyers.

25 It is conceivable that if the cuts had not been restored, bankruptcies would have become quite prevalent.

Exacerbating the financial performance and competitive position of the Canadian book publishers is the increasing dominance of Chapters in retail and wholesale distribution and the continued growth of distribution via the Internet and the dominance of this distribution channel by a small number of players including Amazon, Chapters, Barnes&Noble and Bertelsmann. Chapters accounts for more than 50% of the retail book market in Canada, and through its Pegasus subsidiary, accounts for more than 75% of the wholesale market. Chapters now charges for placement, a US practise that has come to Canada. Consequently, as the retail distributors increase their market power vis a vis the book publishers, they are demanding, and in most cases extracting, greater price discounts and more flexible and generous return policies. The Canadian book publishers' profit margins are being squeezed further.

In addition, consumers are being offered 40% to 50% price discounts from the list prices for books purchased through the Internet and they are expecting similar price discounts for books purchased through other distribution channels. Thus, consumers are becoming increasingly conditioned to lower prices and book publishers have little choice but to meet their demands.

Finally, many of the long-term survivors among the Canadian book publishers are companies that were started and have continued to be managed by one or two individuals. As these "pioneers' in the industry approach retirement age, they are facing a problem of succession. Over the next decade, several of the Canadian-owned firms will likely seek ownership changes. But attracting outside capital to this industry is difficult.

In an October 1998 Report entitled "Ownership Changes In the Canadian Book Publishing Industry", the ACP made the following observations:

- It is difficult, but often preferable, for an owner to sell the business to employees.
- The IPO route is generally not available as an exit strategy and merchant banks or other institutional funds are typically not attracted to this industry. Either the investments are deemed to be too small or the longer-term profitability track record is unattractive.
- Despite the fact that 90% of the ACP member firms have sales of less than $500,000, the BPIDP has a built-in disincentive to consolidation.

Unless, new people and new capital are attracted into the industry, as more and more of the pioneers exit, the industry may have difficulty replenishing itself. In light of the challenges facing Canadian book publishers, it is understandable why there is no flood of people and money looking to replace them. But for most Canadian book publishers, the attraction of the industry has not really been its profit and capital gains potential, but rather the ability to nurture and develop Canadian culture. And for Ottawa, it will be important to facilitate the transition to a new generation of Canadian book publishers in order to protect the aggregate investments made over the past 30 years in developing a Canadian presence in publishing and writing and to ensure that the industry will have the capability and the players to achieve the cultural objectives.

8. CONCLUSIONS

The principal competitive disadvantages faced by Canadian-owned firms appear to be the following:

- Scale disadvantage, unable to exploit economies of scale in production, marketing, distribution;
- Inadequate capitalization;
- Erosion in bargaining position vis a vis the multinational book publishers, book retailing superstores and new Internet distribution channels;
- Inadequate development and execution of competitive strategies; and
- Difficulties in penetrating markets outside the home province.

Book publishing is not a homogeneous industry. To understand the structure of the book publishing industry in Canada, it is important to note that the market consists of a number of different segments. And as Canadian book publishers tend to focus on a very small number of these segments, their market potential becomes quite limited, especially given the small size of the aggregate market in Canada and the difficult barriers Canadian firms face in entering foreign markets.

The structure of the retail and wholesale distribution networks for books has changed during the past decade. The bricks and mortar segment of distribution has become highly concentrated in Canada and elsewhere. The Internet has become an important new distribution channel, but with very few exceptions, the same companies are involved in this market segment as in the bricks and mortar segment. Consolidation of the distribution networks has placed Canadian book publishers at an increasing bargaining disadvantage that negatively impacts their financial performance and ability to compete for successful authors. Selling via the Internet also has changed consumers' expectations regarding prices and this has lead to further downward pressures on prices for the book publishers.

As noted in the preceding section, there are a number of deeper, structural forces at work, which are also jeopardizing the competitiveness of Canadian book publishers. While the book publishing industry in Canada has always been susceptible to a number of pressures, the new environment appears to be more threatening than in the past. Hence, it may be more difficult to achieve the Canadian cultural policy objectives in this industry.

As well, the various public sector measures that protected and stimulated the development of the book publishing industry in Canada are thought by some not to be consistent with the development of a commercially viable, competitive book publishing industry. Moreover, these kinds of measures in other cultural sectors are being continuously challenged and constrained by the World Trade Organization, the US government and the US entertainment industry.

Therefore, are we faced with a losing situation in Canada in this industry? Is the Canadian industry on a downward spiral? The data do not support this view. But important structural changes are happening that suggest the industry will have to change to overcome the challenges and to continue to promote the development of Canadian writing.

For this industry to continue to fulfill its cultural objectives and to create the Canadian content for the Internet generation, public policy will have to come to grips with some of the following issues:

- While the English-language book publishers are active in all segments, the competitive viability of each segment differs. The same conclusion holds for the French-language publishers except that those specializing in the Education genre appear to be in a better financial and competitive position than their English-language counterparts, and the French-language publishers outside of Quebec and indeed outside the major urban centres in Quebec are in the weakest financial and competitive positions.

- BPIDP funding is an essential component in providing cost competitiveness, though it is not clear that BPIDP funding has helped the industry on a structural adjustment front and without a clear commitment to an increasing budget path, it is also not clear that the industry will be able to manage future shocks as well as it has managed the difficult 1990s.

- The bidding war for authors in the Trade publishing segment of the industry is accelerating, and the increased concentration among the foreign book publishers makes matters worse. Size and financial strength are related to the bidding war. The entire globalization phenomenon makes it more likely that a bidding war for a successful author will be won by a foreign publisher.

- The French-language publishers are losing out in bidding for the world French-language rights to US and other English-language books.

- The Canadian book publishing industry is under-capitalized and there is a need for the entry of new people and money into the industry to maintain its vitality and ensure its ability to serve the cultural policy objective.