

**Department of Canadian Heritage
Industry Development Directorate**

**Survey on Succession
Planning
of Owners of Publishing
Companies**

Prepared by:

**Étude Économique Conseil
(EEC Canada) Inc.**

March 2003



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The opinions expressed herein are those of the author, and do not necessarily reflect the opinions of the Department of Canadian Heritage.

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Canadian Heritage

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1. INTRODUCTION

1.1 Purpose of the survey

The main purpose of the survey was to establish to what extent, and with what degree of urgency, shareholders of Canadian publishing companies are facing challenges related to succession. It was also intended to determine the nature of difficulties or obstacles that they may then face. This meant creating a picture of the succession situation, which should provide food for thought on the possible need to develop specific initiatives and the directions these might possibly take.

Succession problems, and consequently the problems of finding the new generation of owners, exist in many sectors of the economy. This is particularly a problem for founders of small and medium-sized businesses who want to retire and make sure that the business they built over the years with their associates is placed in good hands. The great majority of Canadian publishing houses were created in the last four decades, and we might thus think that these succession problems may be particularly widespread and acute in this industry. The concerns expressed in this regard within the industry led to the creation of a *Financing and Succession Committee* under the aegis of Canadian Heritage, with members of the publishing industry participating. It was in response to questions raised by this committee that Canadian Heritage decided to conduct this survey to determine to what extent, with what urgency, and in what terms, Canadian publishers may find themselves faced with succession problems.

1.2 Methodology and conduct of survey

Specifically, the survey looked at the succession problems in for-profit publishing companies. Its target population was thus the shareholders of these companies, more specifically the for-profit publishing houses who receive support through the Book Publishing Industry Development Program (BPIDP). Private not-for-profit publishing houses and university presses that may possibly be faced with a succession problem are not included in the data collected and processed for the survey. Given the methods that could be and were used, the analysis of the situation could not be extended to consider these groups of publishers. However, although the survey was done electronically (access to the questionnaire on the Web), some additional telephone interviews helped to collect the views and concerns of publishers with companies whose status and organization differed from the predominant models to which the questionnaire had to be – and was – adapted in order to contact the maximum number of respondents. It should also be noted that private, for-profit publishing houses make up the vast majority (86%) of the total number of BPIDP publishers, that they represent 93% of total sales of titles by Canadian authors or edited by Canadians, and 87% of their total net income (based on data from the BPIDP 2001-2002 databank).

As previously mentioned, the survey was done on the Web. Following a preliminary test, Canadian Heritage sent a general e-mail to 209 publishing company executives on March 3, 2003. Canadian Heritage asked each recipient to contact their co-shareholders to tell them about the survey and give them the address to access the questionnaire on the EEC Canada survey site. The results of the survey presented in this report reflect questionnaires returned up to March 26. In all, 128 shareholders of 83 publishing houses (44% of the total of for-profit publishers on the BPIDP list) responded to the questionnaire. The assistance of professional associations who made their members aware of the survey in their newsletters, was a significant help in achieving the relatively high response rate for a survey of this type¹.

2. Background: age of Canadian publishing companies

Profile of the BPIDP publishing companies. Overall, the Canadian publishing industry is relatively young. Information from the BPIDP database for 2001-2002 shows that the vast majority of Canadian publishing firms were established during the last four decades. As shown in Table 1, 94.4% of all publishing companies were founded less than forty years ago. Those that were founded less than 20 years ago make up 38.3%. This means that over half of Canadian publishing houses (56.1%) have existed for between 20 and 40 years. In the case of for-profit publishing companies, 53.8% are in this age range according to the year they were founded (see Figure 1).

This means that a good proportion of publishing houses have gone through their “adolescence” and have reached maturity. It also means that a good number of them may today find themselves at the point where the issue of succession and the development of new publishers is becoming, or could soon become increasingly important (unless, for some, the question may have already been an issue for several years already, with or without a solution having been found).

¹ From a statistical viewpoint, the reliability of the results may also be considered to be relatively satisfactory. At a confidence level of 90%, the margin of error for results is approximately + /- 6.7% for publishing houses and +/- 6.0% for shareholders (estimate based on total populations of 184 publishing houses and 400 shareholders).

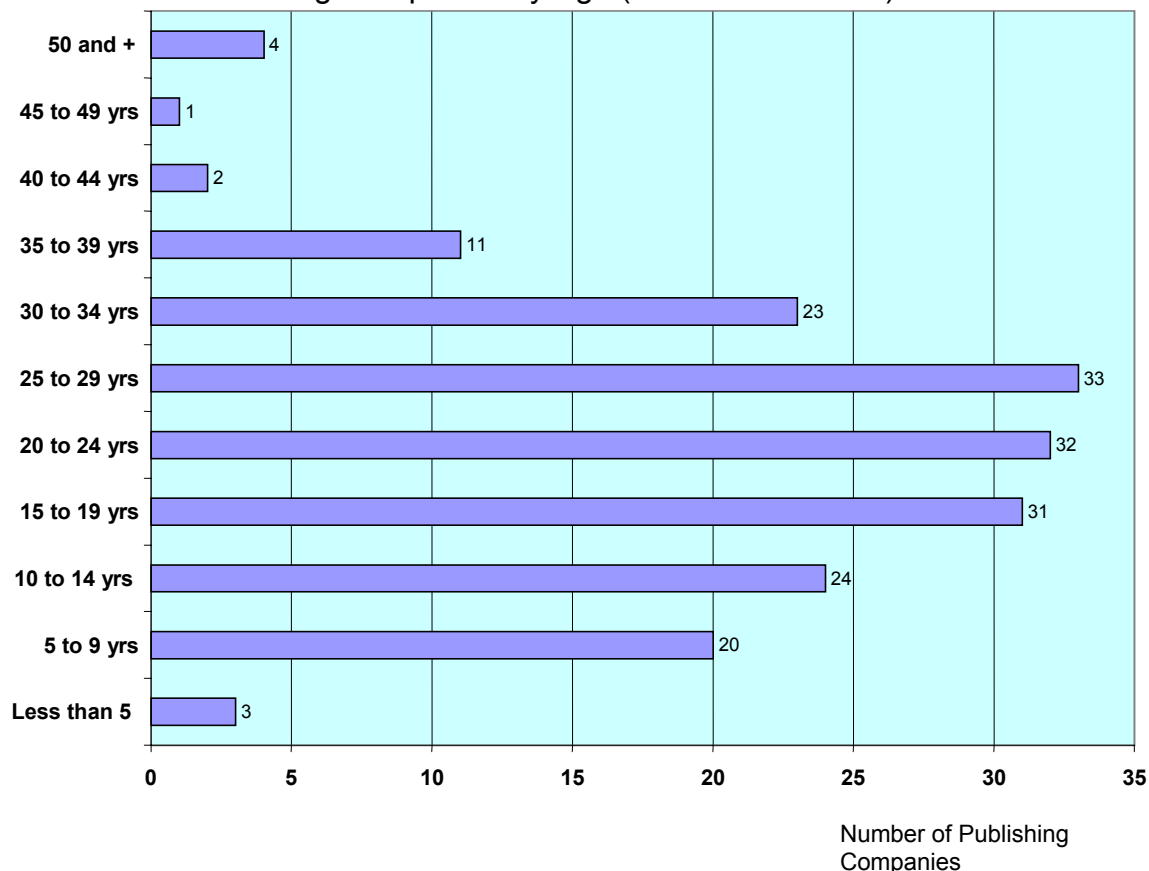
Table 1. Cumulative Percentage of Total Number
of Publishing Companies by Age² and Status

EEC Canada compilation based on CH/BPIDP database

Age of Publishing Co.	Private For-Profit Companies	Private Not-For-Profit Companies	Univ. Presses	All Co's.
Under 5 yrs	1.6%	0.0%	0.0%	1.4%
Under 10 yrs	12.5%	5.6%	0.0%	11.2%
Under 15 yrs	25.5%	11.1%	0.0%	22.9%
Under 20 yrs	42.4%	22.2%	0.0%	38.3%
Under 25 yrs	59.8%	38.9%	8.3%	55.1%
Under 30 yrs	77.7%	72.2%	33.3%	74.8%
Under 35 yrs	90.2%	83.3%	75.0%	88.8%
Under 40 yrs	96.2%	83.3%	83.3%	94.4%
40 and over	3.8%	16.7%	16.7%	5.6%
No. of publishers	184	18	12	214

² Age is calculated from the date the publishing company was founded (not, with respect to private incorporated companies, from the date of incorporation, which could possibly be later)

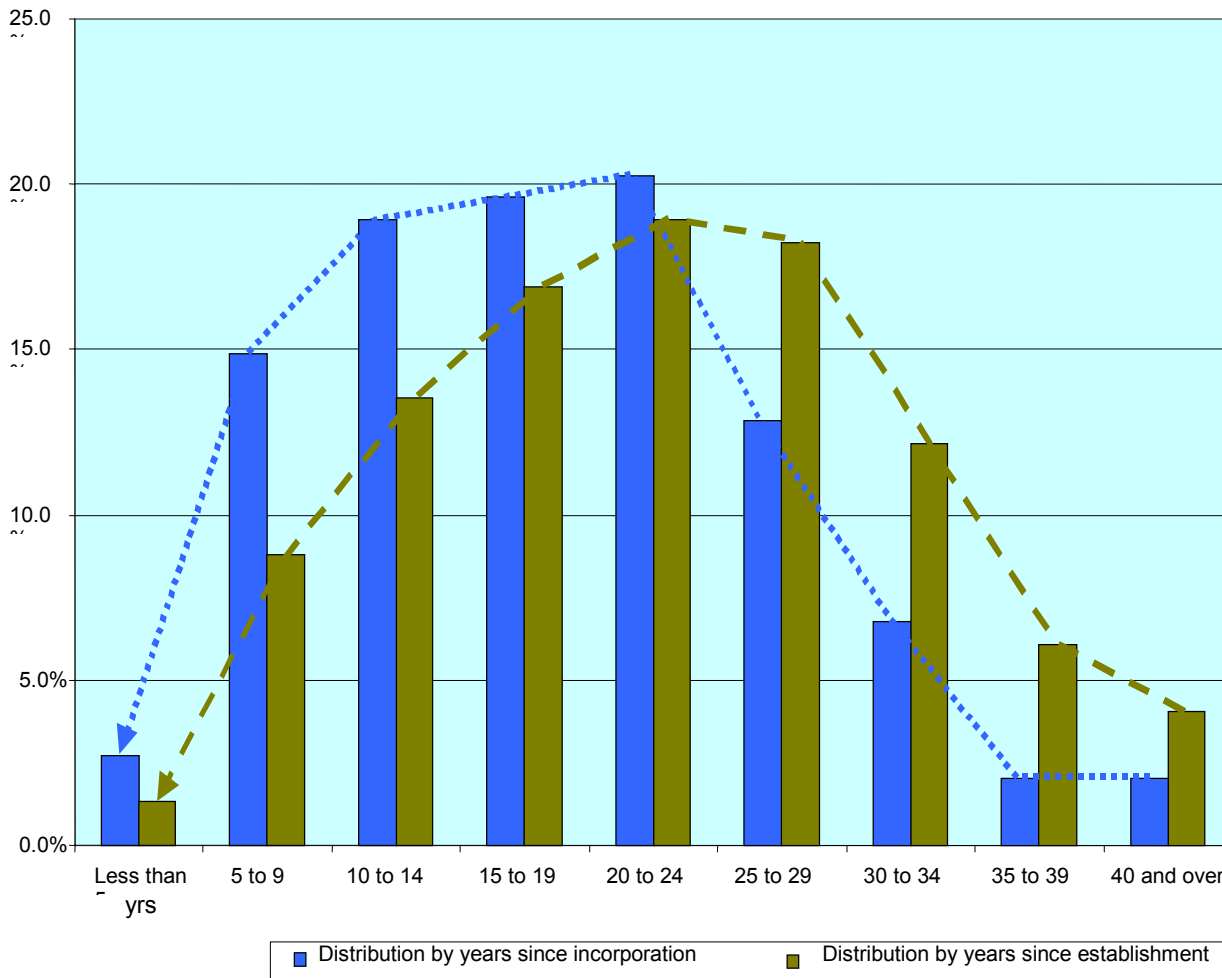
Figure 1. Distribution of Total Number of For-Profit Publishing Companies by Age (BPIDP Publishers)³



In many cases, publishing companies were only incorporated some years after being founded and they may have changed their identity or legal status in the course of their history. Figure 2, below, demonstrates this. One can see that the distribution of publishing companies by age since incorporation is similar, but differs by approximately five years compared to distribution based on age since founding.

³ Idem note 1.

Figure 2. Distribution of For-Profit Publishers by Years Since Founding and Years Since Incorporation (BPIDP Publishers)⁴

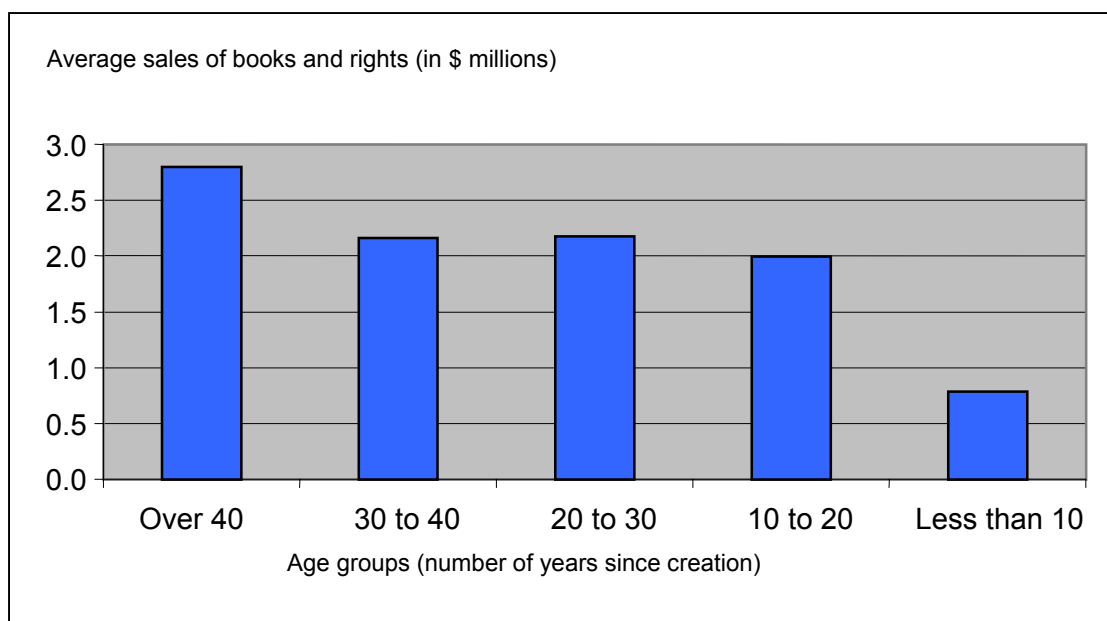


Source: EEC Canada using PCH/BPIDP database

⁴ Unlike Figure 1, which is based on 184 publishers, Figure 2 is based on the 148 publishers for which data on both dates – founding and incorporation – were available.

Age and sales of publishing companies. It can be seen that there is no strong correlation between the age of publishing companies and their sales figures. As shown in Figure 3, average sales of books and rights tend to increase from the youngest (less than 10 years) to the oldest (over 40). However, there is hardly any difference in average sales between the 10 to 20, 20 to 30 and 30 to 40 year groups. The size of publishers also varies greatly with respect to these averages.⁵

Figure 3. Average Net Revenue of For-Profit Publishing Companies by Age Group (BPIDP publishers)

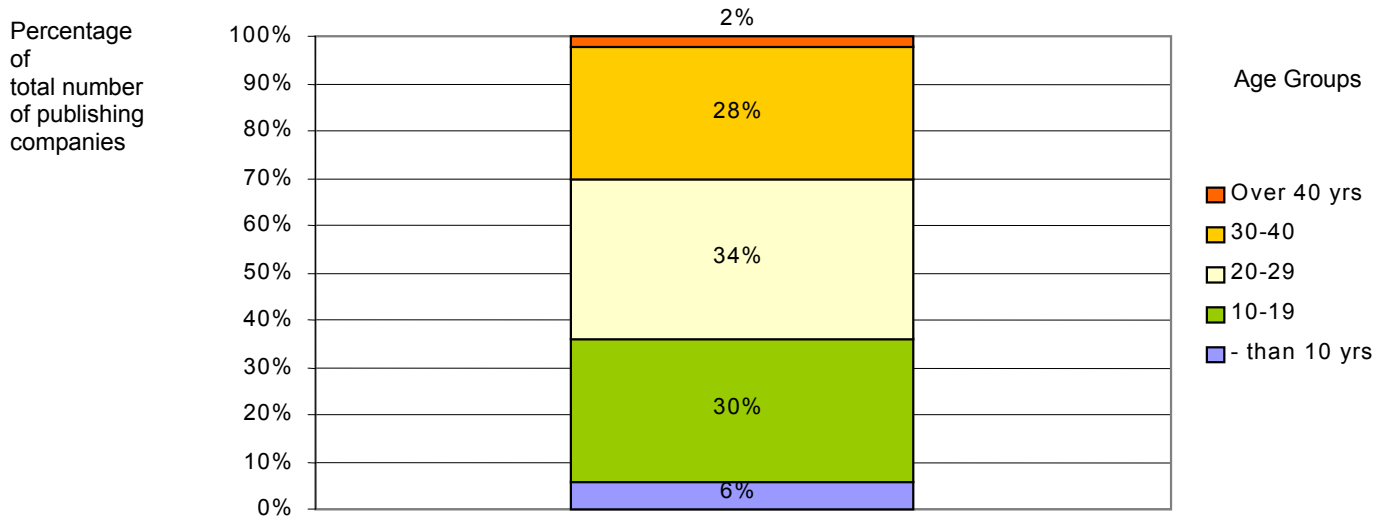


Source: EEC Canada, based on PCH/BPIDP databases

Profile of responding publishing companies. The 128 respondents to the survey were shareholders of 83 publishing houses. The age profile of these companies is similar to that of the total population of BPIDP publishers: 94% were less than 40 years old (96% for all BPIDP publishers); the proportion in the 20-40 year group among respondents (62%) was noticeably higher than their percentage among BPIDP publishers (53.8%). Figure 4 shows the distribution of responding publishing companies by age.

⁵ Roughly the same results are obtained when we look at the relationship between age and total net revenue of publishers (that is, by also taking into account other revenue and grants over and above sales of books and rights).

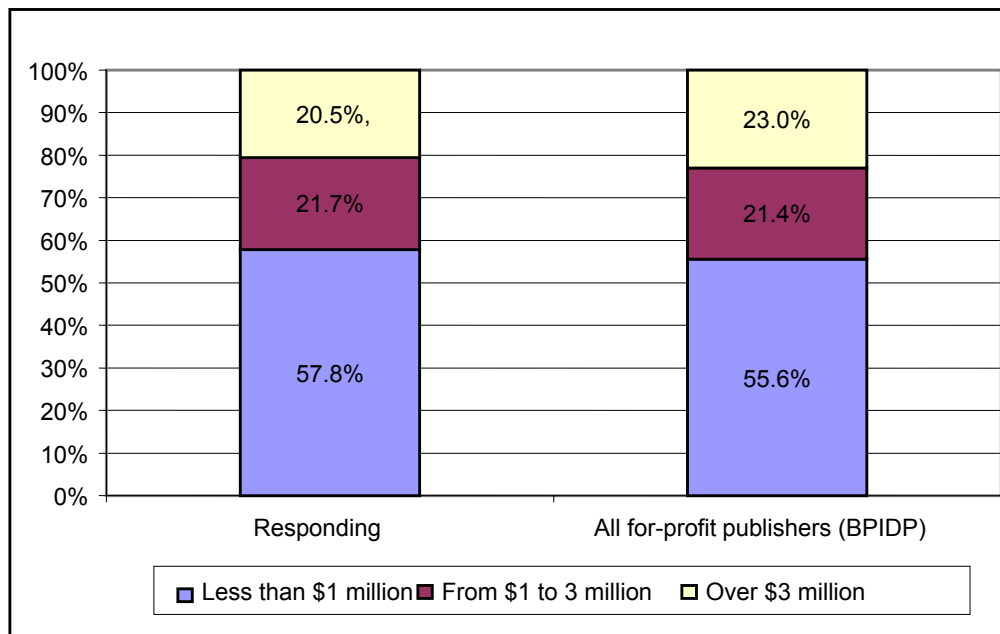
Figure 4. Distribution of Responding Publishing Companies by Age



Source: EEC Canada

The distribution of publishing companies by volume of business (total net revenue) is also very similar to that of all for-profit Canadian publishers (as determined from their access to BPIDP assistance) as shown in Figure 5, below.

Figure 5. Distribution of Publishing Companies Responding to the Survey and BPIDP Publishers by Sales Figures



3. Profile of responding shareholders’ publishing companies

A total of 128 shareholders from 83 publishing companies responded to the survey⁶. This section presents the following characteristics of these publishers:

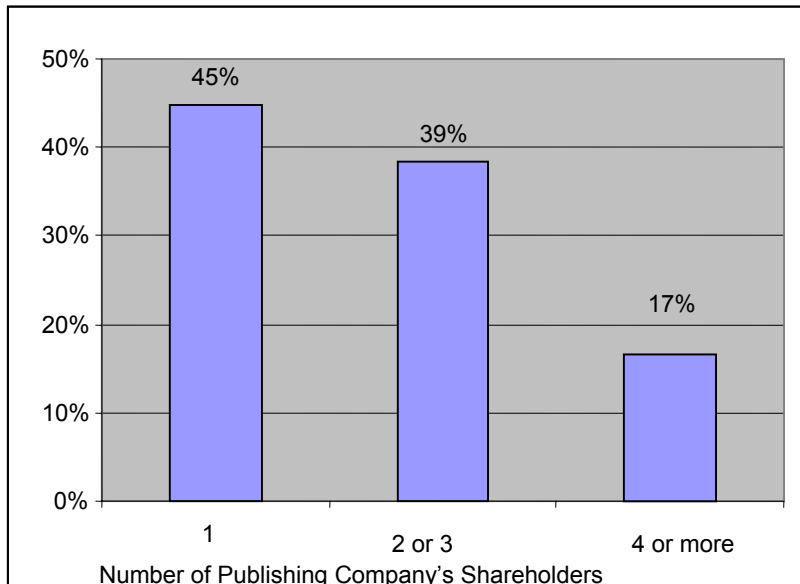
- distribution by number of shareholders;
- distribution by the percentage of voting shares in the company held by the respondents.

3.1 Number of shareholders per publishing company

The vast majority of responding publishing companies had a relatively limited number of shareholders. In fact, almost half (45%) of the companies have a sole owner and more than 4/5ths (or 83%) have 3 or fewer owners (see Figure 6).

⁶ This section is based on 118 valid responses from 80 publishing companies.

Figure 6. Distribution of Publishing Companies by Number of Shareholders



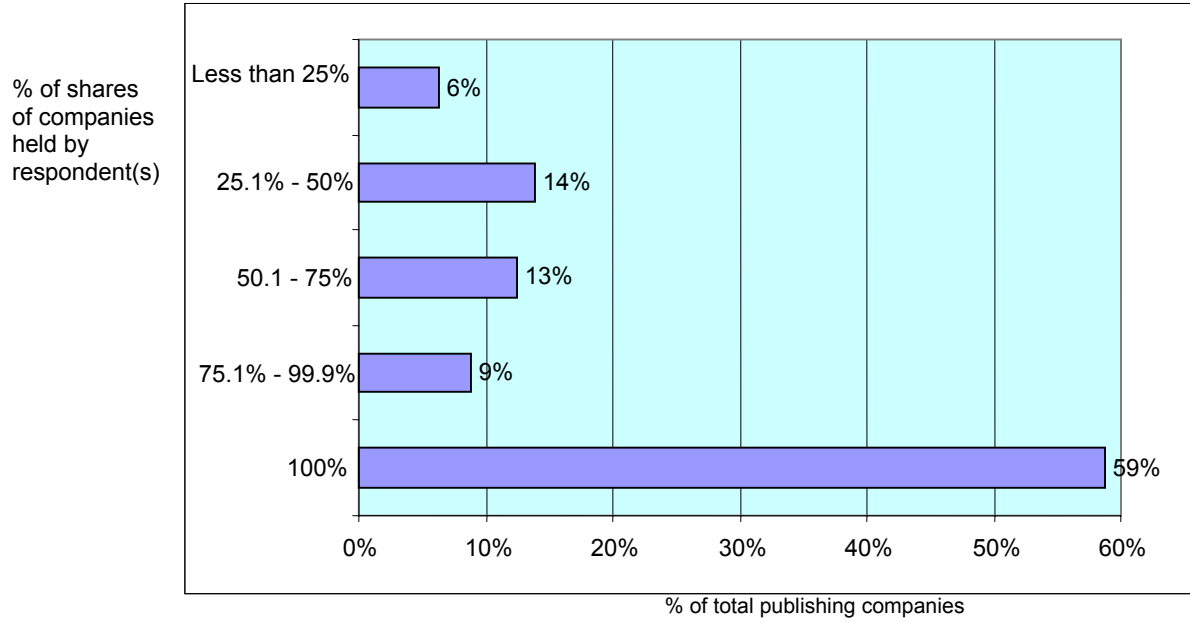
Source: EEC Canada

This profile has an effect on the question of succession. Quite simply, in the case of the 45% of companies concerned, the option of leaving by means of sale/disposal of their shares to co-owners is impossible because they are sole owners.

3.2 Percentage of voting shares held by respondents

As mentioned above, this survey had a solid response from the owners of the publishing companies contacted (and 40% of the companies contacted submitted at least one completed questionnaire). In the case of the 56 of 80 publishing companies with more than one shareholder, some co-owners may not have responded to the survey. However, as shown in Figure 7, the responding shareholders represent over 50% of voting shares in the clearly greatest proportion of 81% of all responding companies.

Figure 7. Distribution of Publishing Companies by
Percentage of Shares Held by Respondents



Source: EEC Canada

4. Profile of shareholders

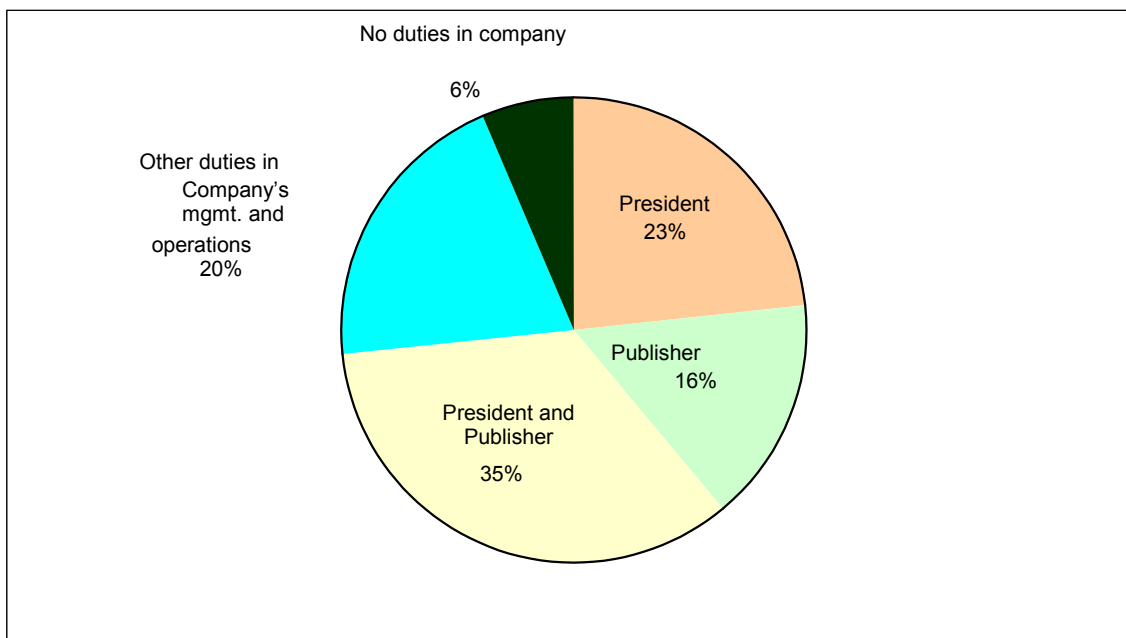
This section provides a profile of the shareholders of publishing companies⁷ who took part in the survey based on the following characteristics:

- the duties/responsibilities of the shareholders within the publishing company;
- their original connection with the company;
- their age group;
- their prior experience as an entrepreneur and manager;
- their level of education.

4.1 Duties/responsibilities of shareholders

Almost three-quarters (74%) of responding owners fulfilled the duties of president and/or director of their publishing company and 4/5ths of the others also had duties relating to the company’s management and operations. Only 6% of respondents were solely shareholders (see Figure 8).

Figure 8. Duties/Responsibilities of Company Shareholders



Source: EEC Canada

Therefore, the majority of publishing companies have a limited number of shareholders who are generally involved in the day-to-day management of their businesses.

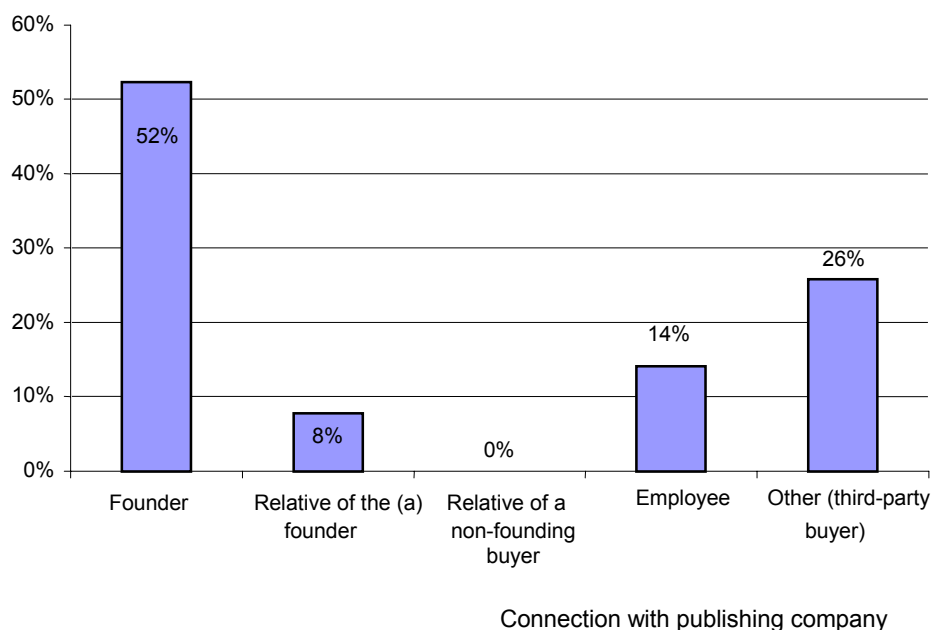
⁷ The results presented cover 118 owners for whom all data concerned were available and valid.

4.2 Original connection with the company

Approximately half of the shareholders were the founders of their publishing firm. As well, 10% were relatives of the founder, or of one of the founders of the company. Among the 40% of shareholders who were neither the founder nor related to the founder, approximately 2/3 came from outside the company, while the other third was made up of employees who became shareholders. No shareholder was the related to a non-founding owner (see Figure 9).

Figure 9. Distribution of Shareholders by Connection with the Publishing Company

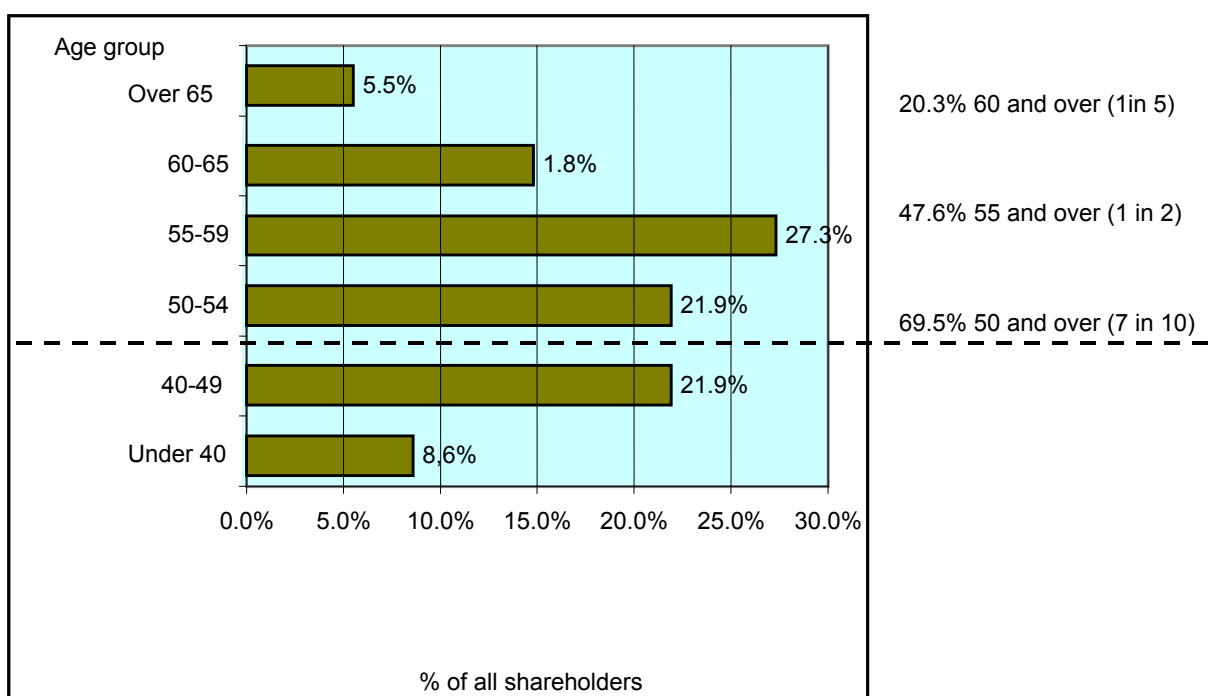
Proportion of all shareholders



4.3 Age of shareholders

Less than 10% of the owners of publishing houses who took part in the survey were younger than 40. Slightly more than 20% of them were in their forties. Thus, approximately 70% of owners were 50 or older. More specifically, half of owners were in their fifties and a majority of that group were closer to 60 than 40. Finally, among the 20% or so who were 60 and older, approximately three-quarters were in their early sixties, with those 65 and over making up the other quarter (see Figure 10).

Figure 10. Distribution of Shareholders by Age Group



Based upon the data presented:

- the majority of publishing houses (62%) were founded between 20 and 40 years ago;
- most have only a small number of shareholders (83% with 3 or fewer co-shareholders, more than half of which have a sole owner);
- half of these shareholders (52%) are also their company's founder;
- these shareholders play a very large role in the management of their company as president and/or CEO (74%) or play a role in management and operations;
- almost half of these owners are in their sixties or older (20%) or are approaching their sixties (27% aged 55-59).

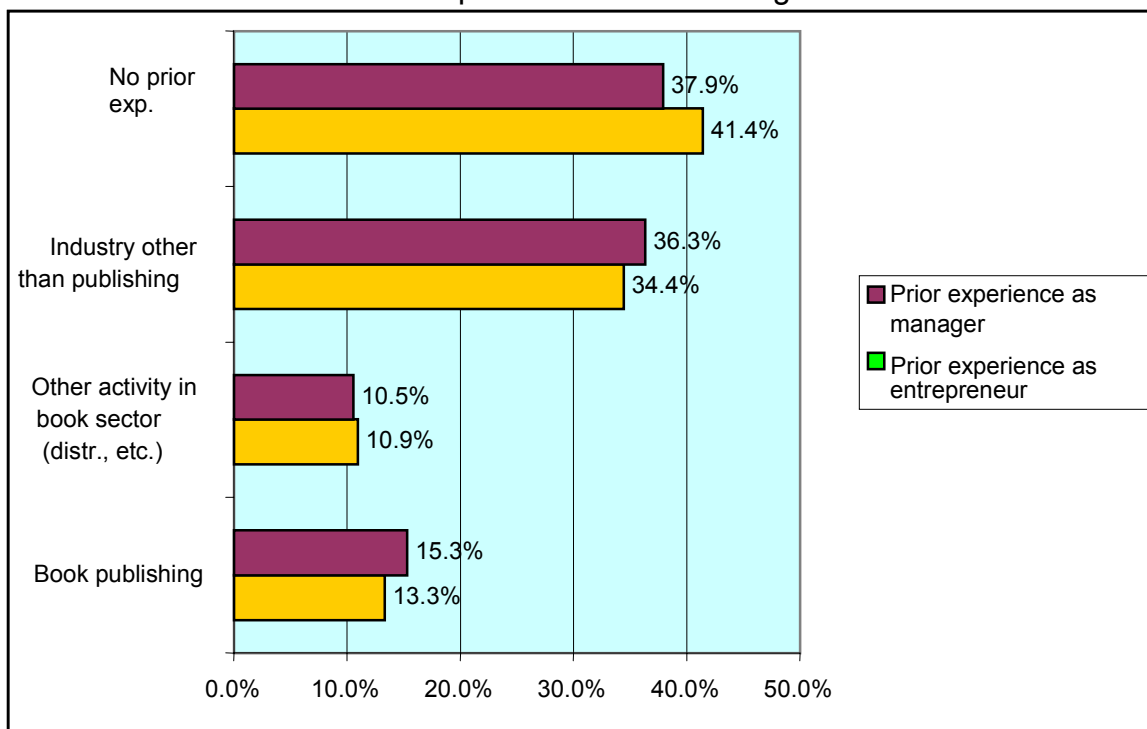
4.4 Prior professional experience and training

The majority of respondents had had prior business and managerial experience before founding their publishing company or entering the company as an owner (see Figure 11).

This being the case, those without this kind of experience, either as an entrepreneur (41%) or as a manager (38%), were in a real minority among all respondents.

As well, slightly more than a third of shareholders with such experience did not acquire it in the book industry, but in some other industry. In fact, a small minority of owners had previously been directly involved in book publishing as an owner (13%) or manager (15%).

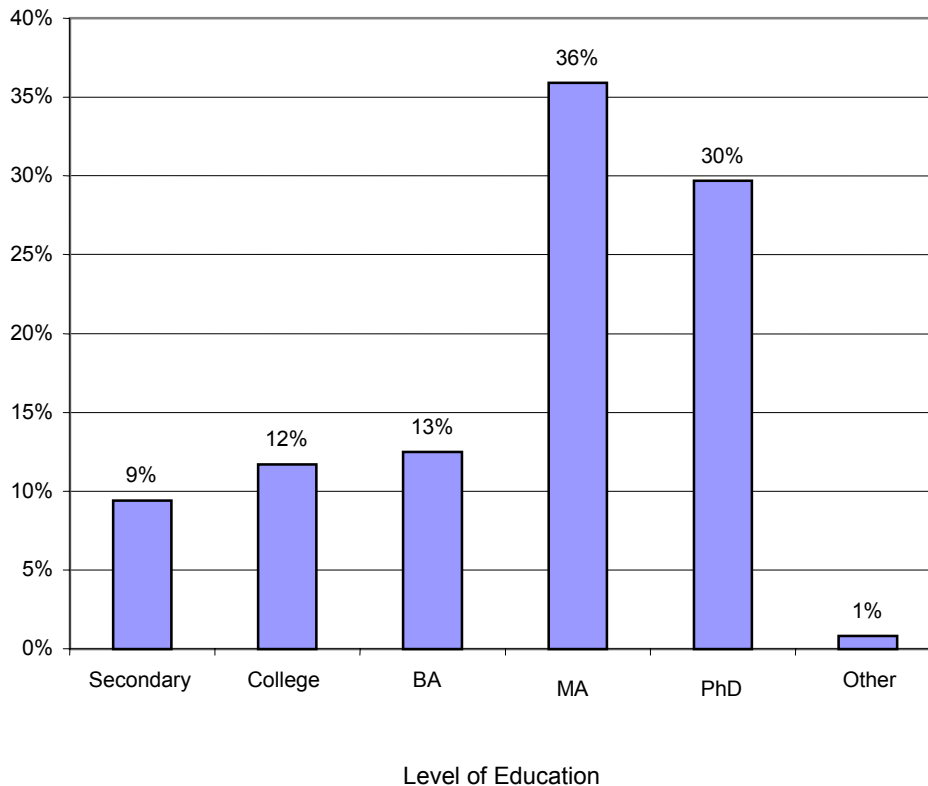
Figure 11. Prior Experience of Shareholders/Publishers as Entrepreneurs and/or Managers



Source: EEC Canada

The majority of publishing company owners had a university education (79%) and 2/3 also had a master's or doctoral degree (see Figure 12).

Figure 12. Distribution of Publishing Company Shareholders by Level of Education



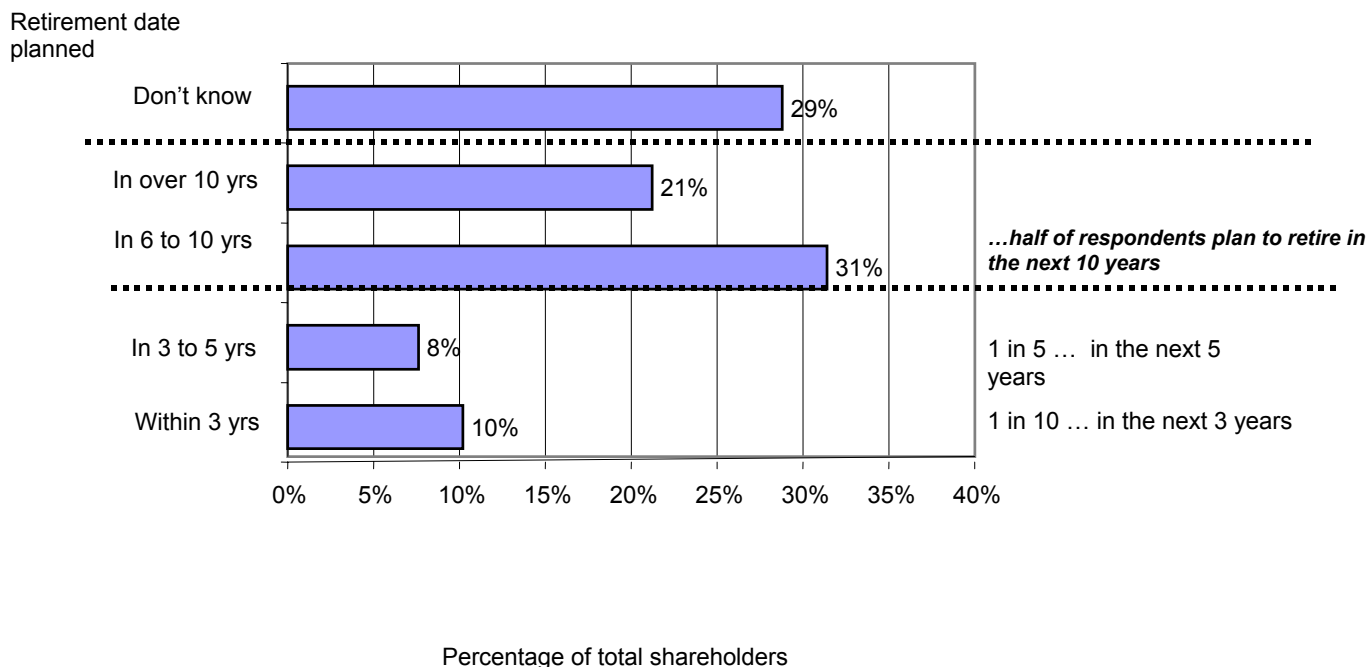
5. Importance and urgency of the question of succession

5.1 Planned retirement date

Half of the publisher-shareholders (49%) planned to retire sometime in the next 10 years. Among these, over a third planned on retiring within 5 years, and 1 in 5 planned to retire during the next two years.

As a percentage of all respondents therefore, 10% of shareholders plan to retire very soon (within three years) and 8% quite soon (between 3 and 5 years from now). Close to a third of respondents (31%) planned to retire in within 5 to 10 years, while 21% plan for retirement later than this (see Figure 13).

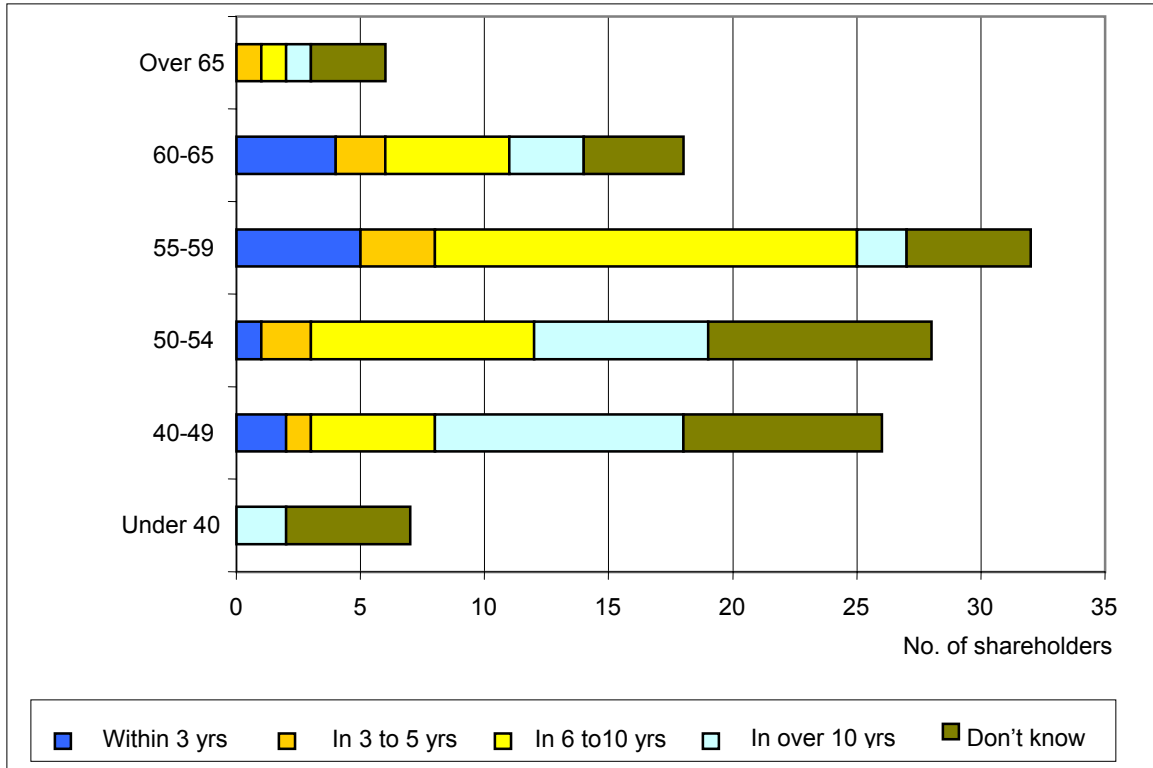
Figure 13. Planned Retirement Dates of Publishing Company Shareholders



This being the case, a very significant percentage of respondents (29%) indicated that they did not know when they were going to retire. It is difficult to interpret such data. Figure 14 shows that the percentage of owners who “did not know when they would retire” is significant in all the age groups considered. However, as Figure 15 demonstrates percentages are clearly higher for two age categories: shareholders

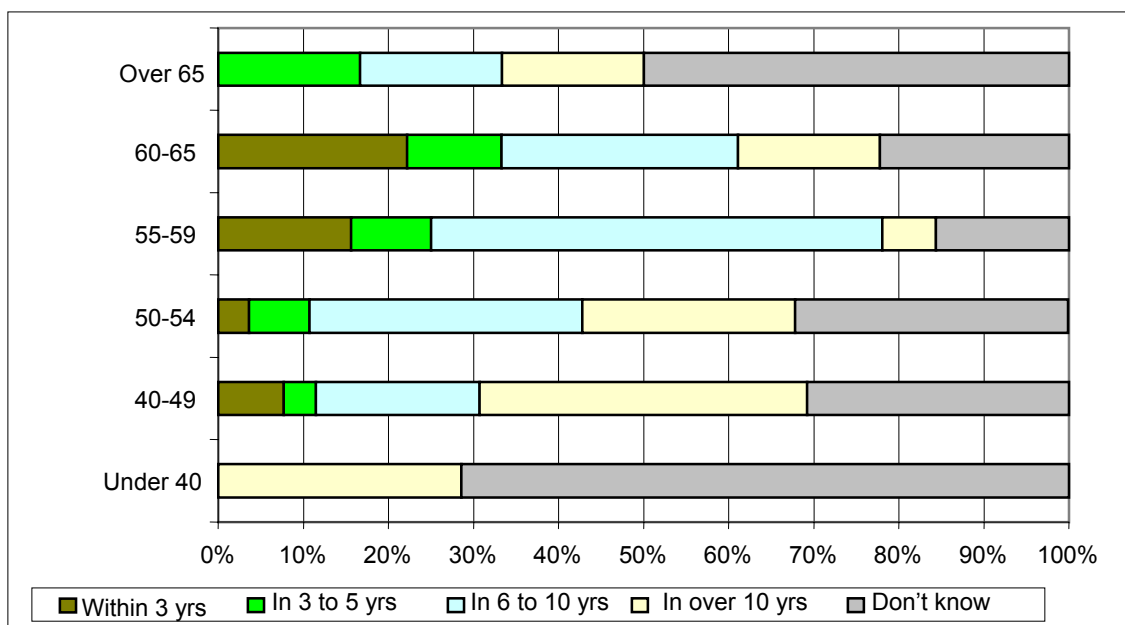
who are under 40, which is not surprising, but also those 65 and older, which might be more unexpected.

Figure 14. Planned Retirement Dates of Shareholders by Age Group



Source: EEC Canada

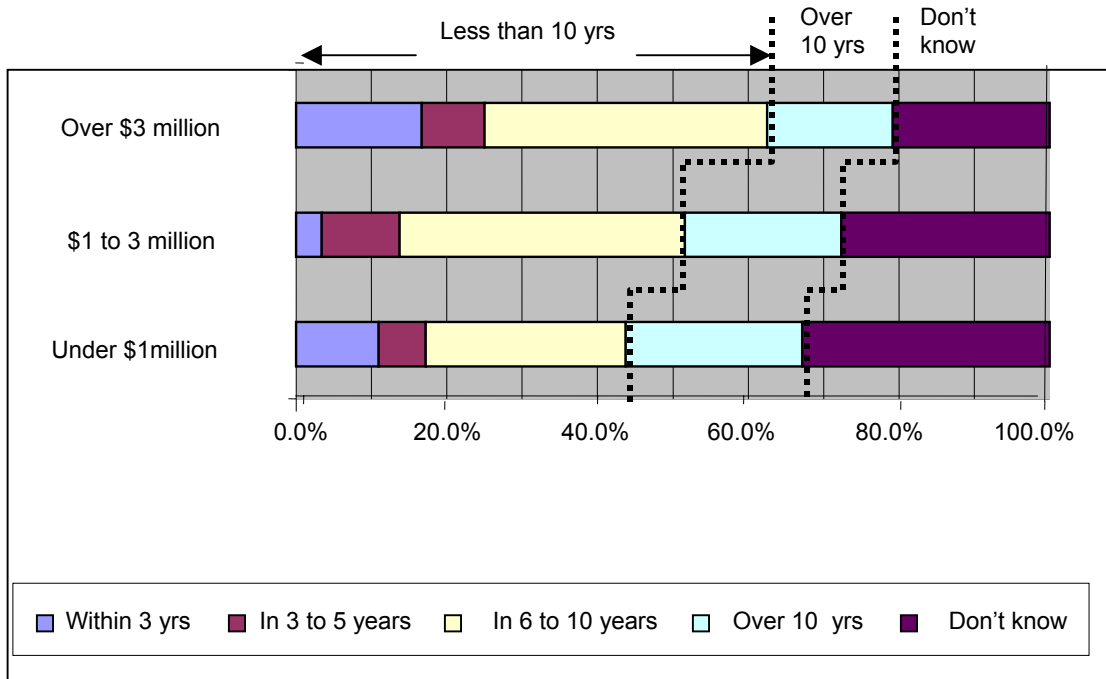
Figure 15. Distribution of Shareholders by Planned Retirement Date by Age Group



Planned retirement dates and size of publishing companies. The planned retirement dates of shareholders differs significantly by the size of the company (based on sales figures). The percentage of owners who plan to retire in the very near future (in the next 3 years) is higher among those who own the largest companies (see Figure 16). As well, the percentage of owners who see themselves retiring in the course of the next 10 years tends to increase with the size of their companies, while the percentage of those who “don’t know” when they will retire decreases with size. One could presume that this results from a certain correlation between the average age of the owners, the age of their companies, and the average size of their companies. However, it was previously demonstrated that the relationship between age and size of publishing company is not very consistent (section 2, page 5).

Whatever the case might be, it appears that the question of succession is not limited to smaller publishers, but that it is apt to be an equally critical problem for the larger companies.

Figure 16. Distribution of Shareholders by Planned Retirement Date and Size of Their Publishing Company

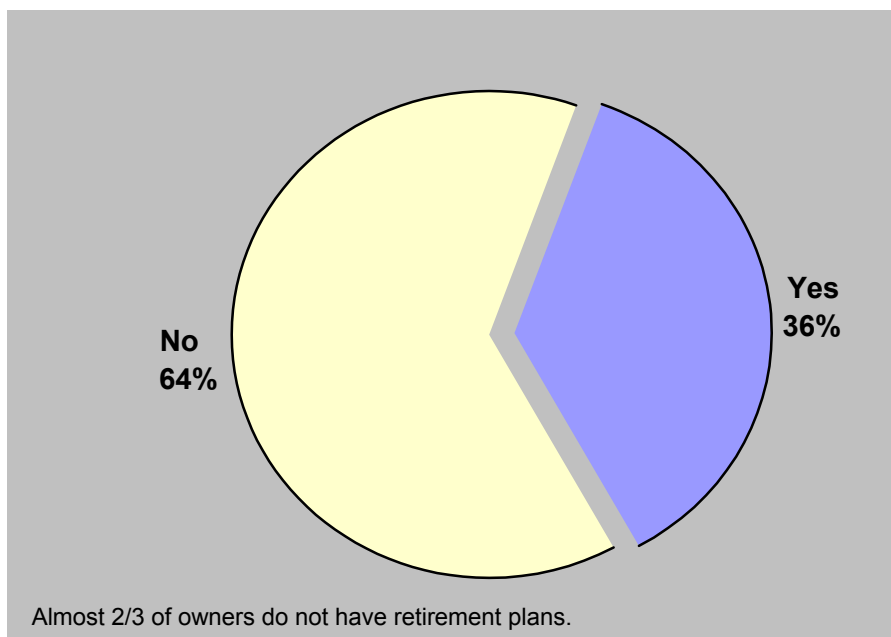


Source: EEC Canada

5.2 Existence or lack of retirement plan

The vast majority of publishing firm shareholders do not have retirement plans (see Figure 17).

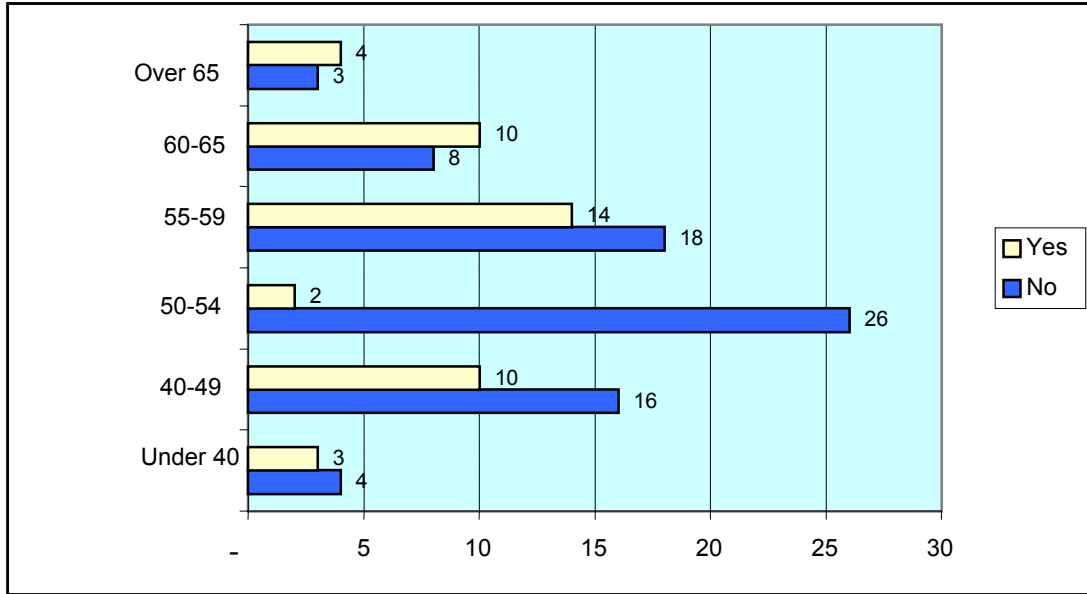
Figure 17. Do shareholders have retirement plans?



Source: EEC Canada

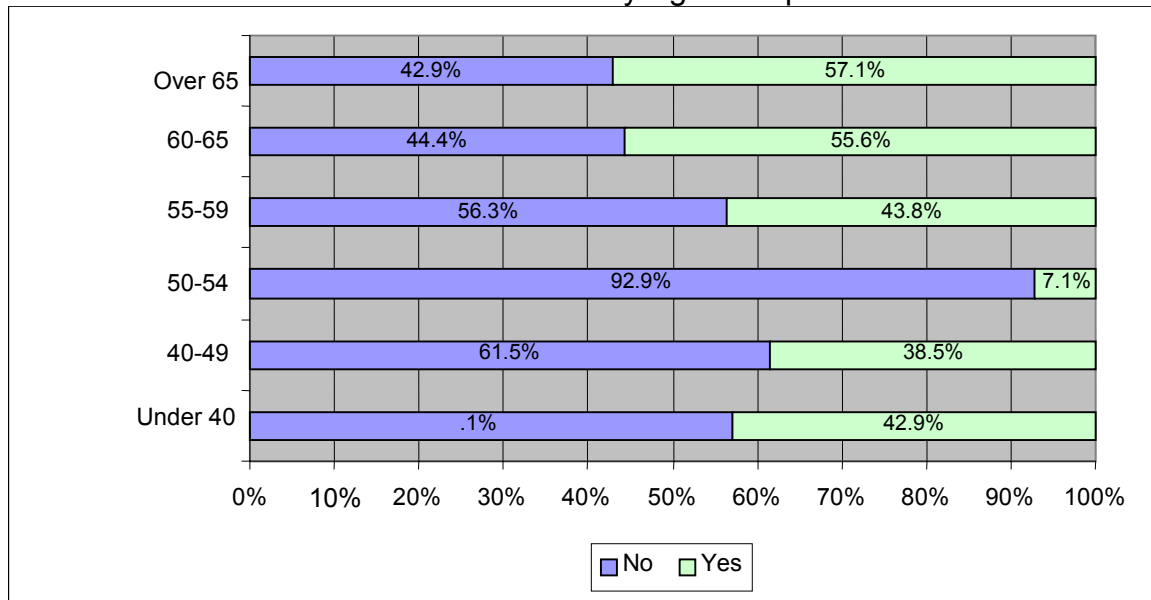
Succession plan and age of shareholders. The percentage of shareholders without retirement plans is very significant in all age groups (see Figure 18). This is the case with the majority of those “under 40” (57%) and those who are in their forties (61%), but also those in their fifties, in particular among those “50 to 54”, 93% of whom have no plans; the percentage is 56% for those in the “55 to 59” group. As well, a very significant percentage of owners in the “60 to 65” and “over 65” groups (44% and 43% respectively) have no retirement plans (see Figure 19).

Figure 18. Number of Shareholders With and Without Retirement Plans by Age Group



Source: EEC Canada

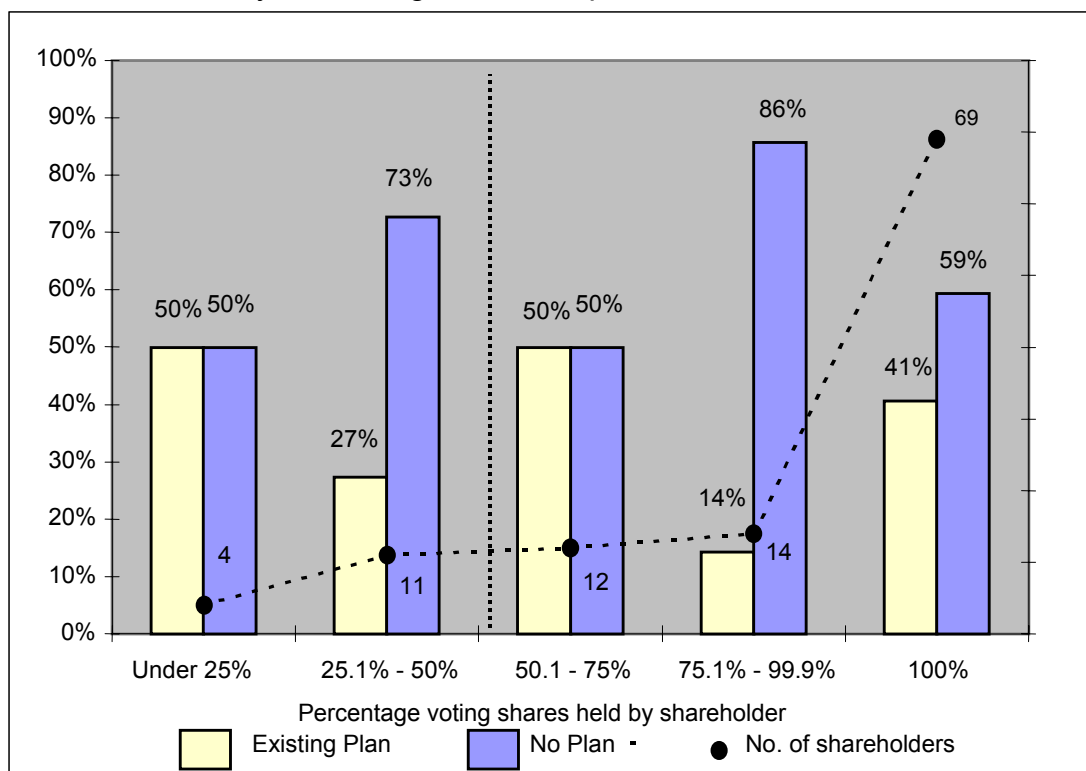
Figure 19. Distribution of Shareholders With and Without Retirement Plans By Age Group



Source: EEC Canada

Succession plan and percentage of ownership. Regardless of their ownership share, half or more of shareholders do not have a succession plan. Among those who hold between 25% to 50% of the voting shares of their publishing company, almost three-quarters are in this situation (see Figure 20). Among those who hold the majority of shares in their company (86% of respondents), more than 6 out of 10 (62%) have no succession plan.

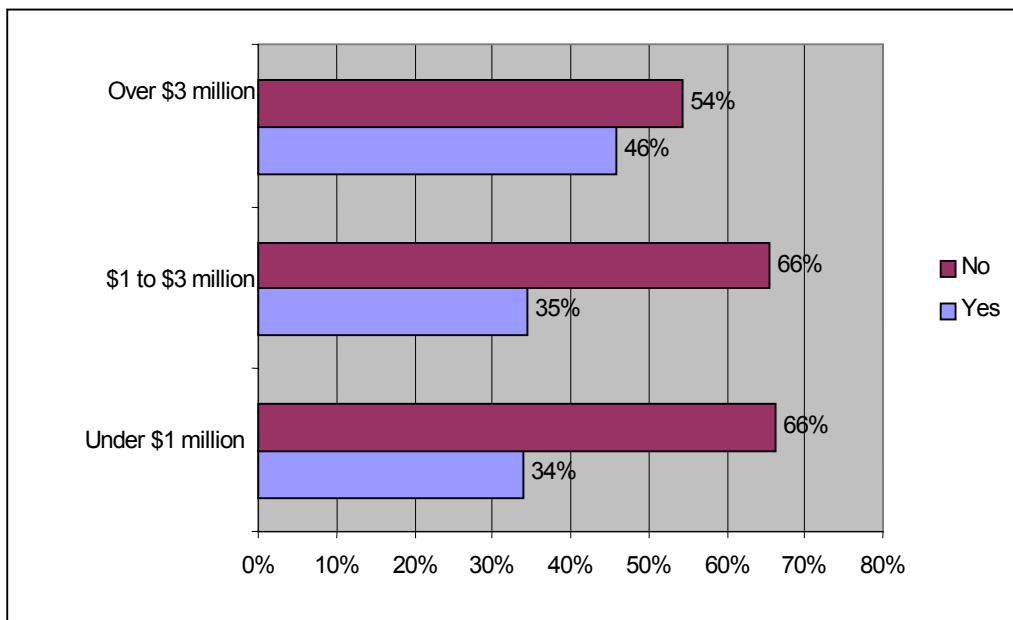
Figure 20. Existence or Lack of a Succession Plan By Percentage Ownership of Shareholders



Source: EEC Canada

Succession plan and size of publishing company. The size of the company (based on sales) is not a very important factor in whether or not there is a plan for succession/retirement. Certainly the percentage of shareholders who have such a plan is higher among those in larger publishing firms (over \$3 million in sales), but this percentage remains a minority (46%). Also, for both shareholders of publishing houses with sales of “less than \$1 million” and those with sales of “\$1 million to \$3 million”, 2/3 stated that they did not have established retirement plans (see Figure 21).

Figure 21. Existence or lack of Succession/Retirement Plan by Size of Shareholder's Publishing Company (based on sales figures)



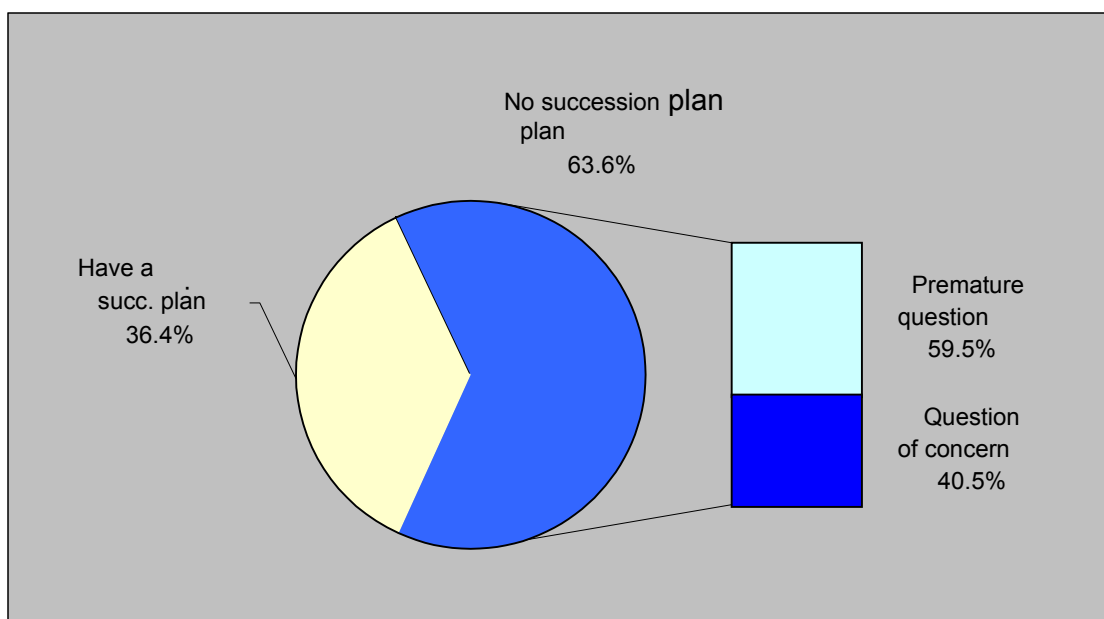
Source: EEC Canada

5.3 Lack of succession plan: a premature question or a concern for shareholders?

Two-thirds of owners do not have a retirement plan. Is this because they consider it premature to establish such a plan, or are they concerned about their succession, but have not yet been able to establish a plan?

Among the 2/3 of shareholders who stated they did not have a succession plan, the greatest number considered that it is in fact premature for them to establish one, since the issue of succession would not arise in the near future. Succession was a matter of concern to 40.5% of owners who had not yet made a plan, representing close to one in four s (25.4%) of the total number of shareholders who responded to the survey (see Figure 22).

Figure 22. Succession: a premature question or a concern?



Source: ECC Canada

Age and concern with lack of plan. One might presume that age is a factor that should influence when a shareholder feels that it is premature for him or her to establish a succession plan. Figure 23, below, shows that all shareholders who are under forty consider it too soon to establish one.

The figure also shows that when there is no succession plan, shareholders are nonetheless increasingly concerned with this question when they are in their forties (19%), in their early fifties (39%) and especially as they approach their sixties, when 72% expressed this concern. However, and surprisingly at first glance, this concern was cited less frequently among those in their sixties and older, even if they did not have a succession plan. Nevertheless, it should be noted that a majority of owners in these age groups already had succession plans established (see Figure 19 repeated to right of Figure 23). This is not at all the case among owners in their “early fifties”: the vast majority (92%) of them do not have a plan and a solid minority were already concerned about it (39%). But these results for those in the latter half of their fifties (72% of those “concerned”) suggest that this group in their early fifties could become increasingly concerned about their succession and retirement in the next few years.

Figure 23. Succession: a premature question or a concern for owners who do not have a plan? Distribution by age

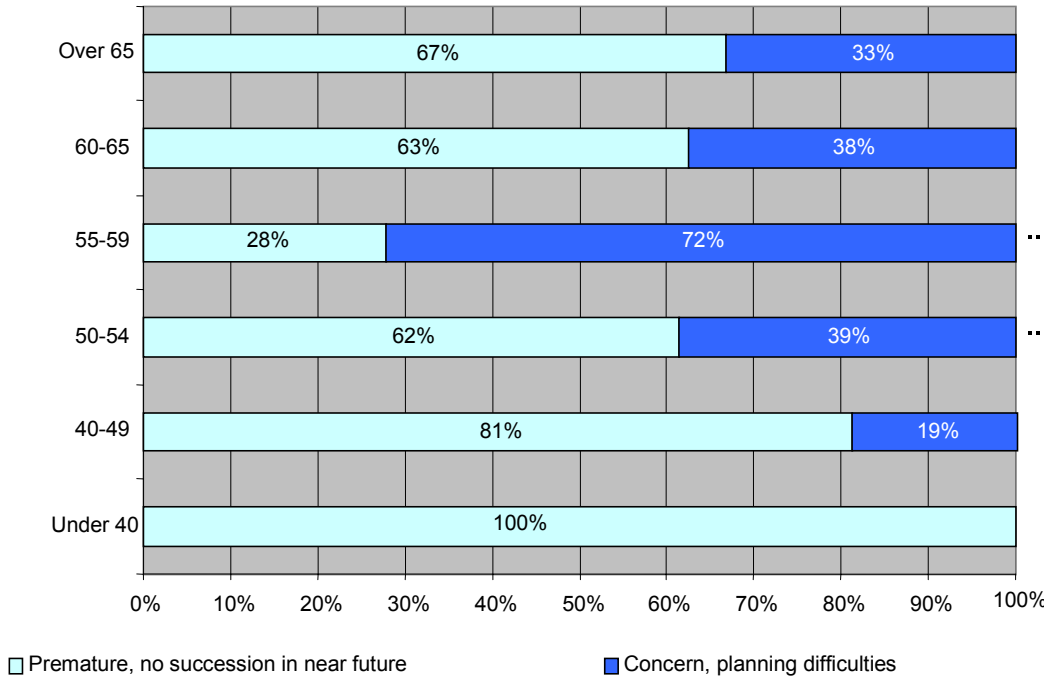
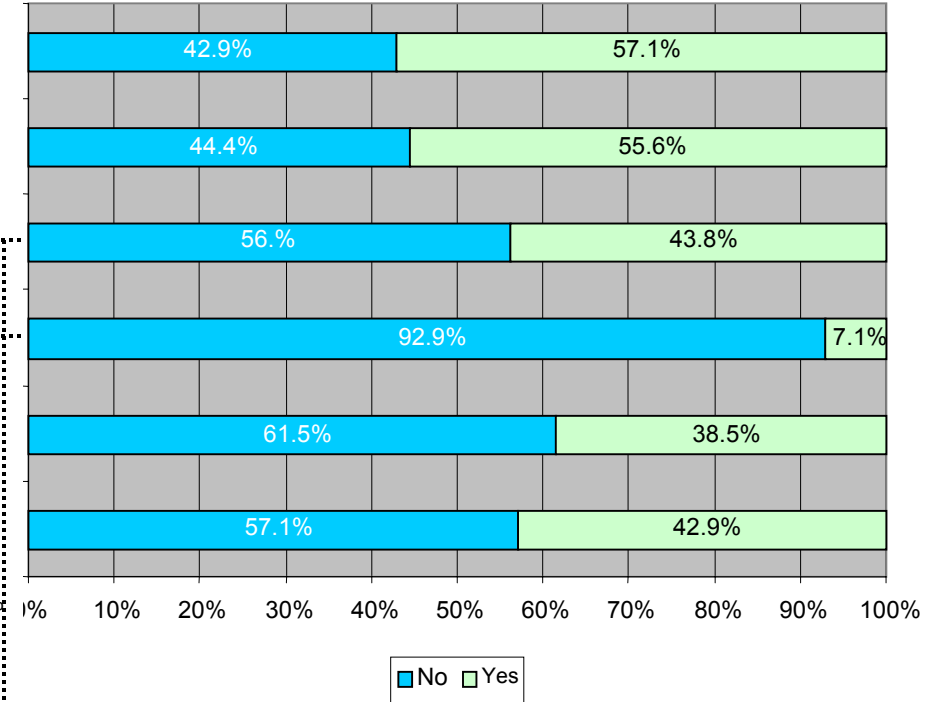


Figure 19. (repeated for comparison) Succession plan established or not? Distribution by age of shareholders



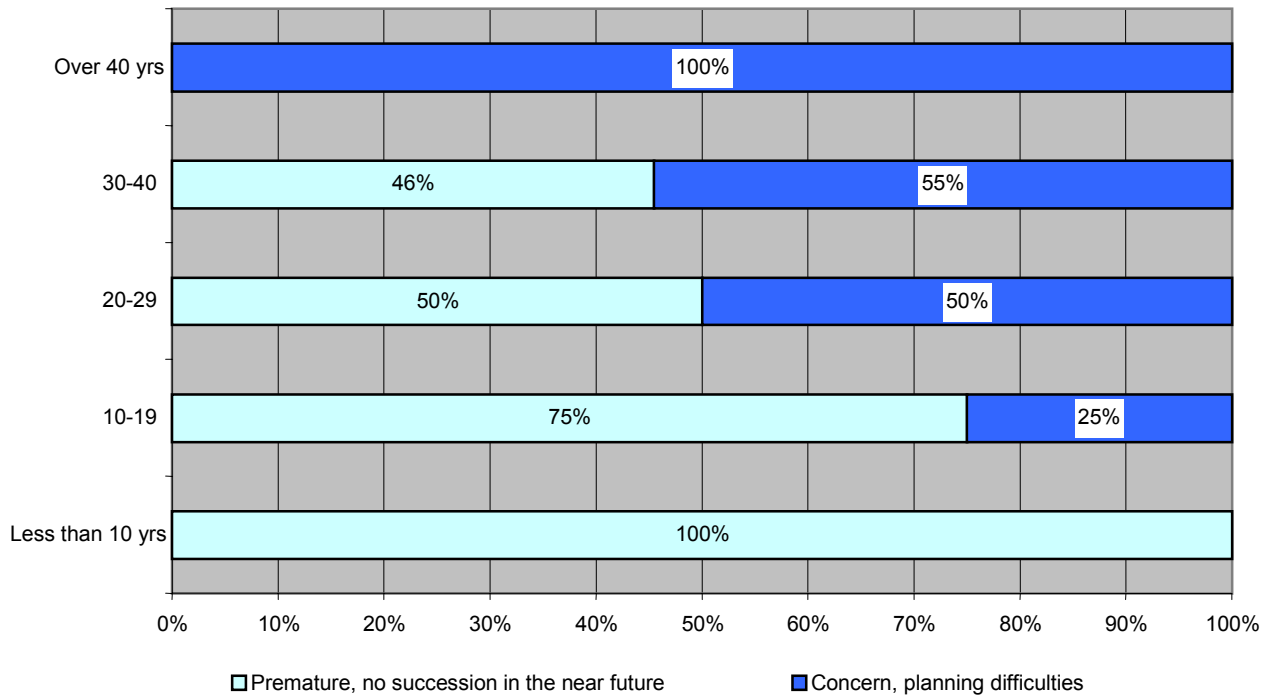
93% of those in their early fifties do not have a succession plan and 39% of them are concerned about the issue of succession.

56% of those in their late fifties do not have a succession plan, but 72% of them are concerned about it.

Source: EEC Canada

The percentage of shareholders who do not have a plan, but are concerned about the issue of succession, appears to be strongly related to the age of their publishing companies (number of years in operation) (see Figure 24).

Figure 24. Percentage of Shareholders With No Plan Who Are Concerned About Succession; by Age of Their Publishing Company



Source: EEC Canada

6. Difficulties and obstacles encountered with respect to succession/retirement planning

What were the difficulties encountered by shareholders who have no succession plan and are concerned about it? To identify these problems, the questionnaire had a multiple choice (7 choices) question, asking respondents to identify and rate the three major difficulties. The results shown below revealed: (i) the distribution of difficulties cited first (difficulty no. 1), (ii) the distribution of all difficulties mentioned, regardless of their rating (as no. 1, no. 2 or no. 3), and (iii) the distribution similarly established using all difficulties mentioned, but weighting them by their ranking⁸.

Difficulties cited as No. 1. “*There is no third party interested in acquiring the company as a whole*” clearly predominated among the difficulties ranked as number 1 (31% of all mentions in this tier) Combined with “*There is no third party interested in acquiring my shares*”, which represented 13.8%, the weakness – if not total lack – of outside demand was thus by far the most important difficulty mentioned by shareholders⁹ (44%, or close to half of all difficulties mentioned as the main difficulty perceived) (see Figure 25).

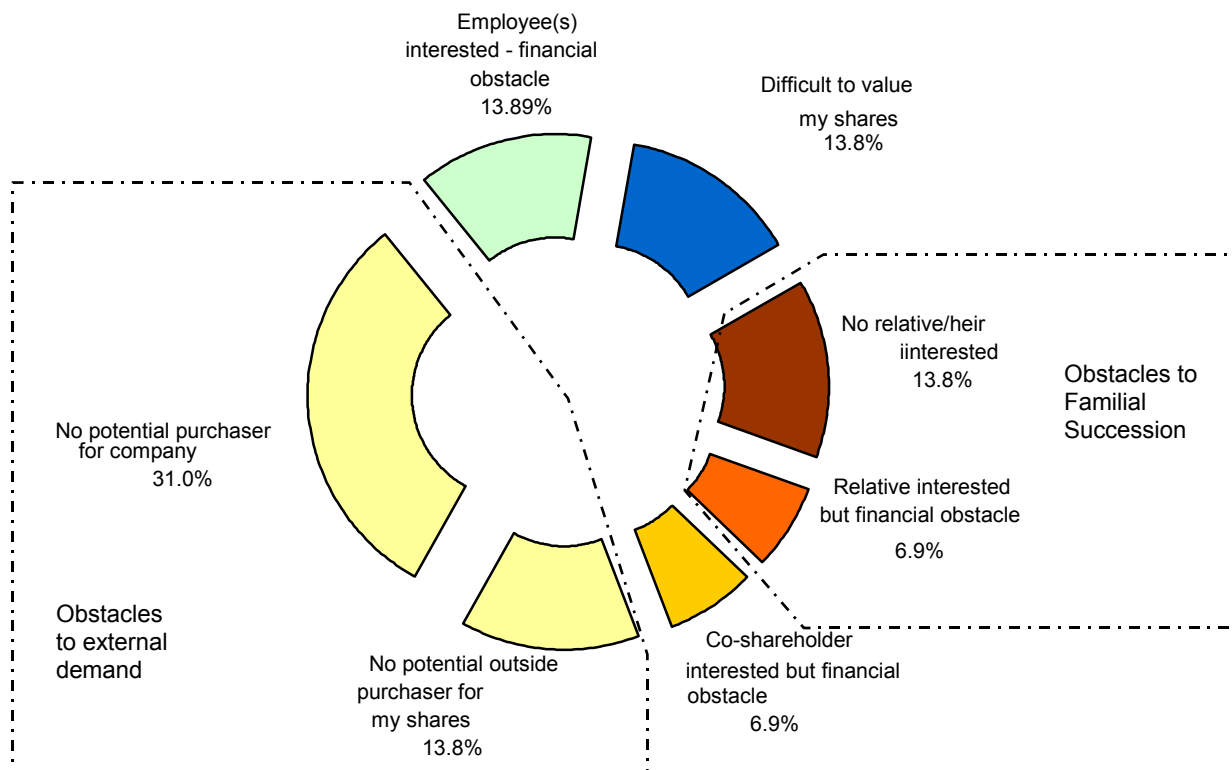
Obstacles to ensuring family succession were ranked second. They represented 20.7% of all mentions identifying the main difficulty shareholders face. These difficulties are: “*No relative/heir is interested in taking over*” (13.8%), and “*A relative is interested, however there are financial obstacles to the purchase*” (6.9%).

“*Co-shareholder(s) interested in taking over, however there are financial obstacles to the purchase*” accounted for only 6.9% or half the percentage of “*Employee(s) interested, however there are financial obstacles to the acquisition*” and “*Difficult to value my shares*” which each accounted for 13.8% of difficulties ranked in the first tier.

⁸ This weighting gives a value of 3 to the difficulty ranked as no. 1, 2 to the difficulty ranked as no. 2, and 1 to the difficulty ranked as no. 3.

⁹ Remember that these were shareholders who stated they did not have an established succession plan, but that they were concerned about the issue.

Figure 25. Major Difficulty with Establishing a Succession Plan
Shareholders Concerned with the Issue of Succession (without a Plan)



Source: EEC Canada

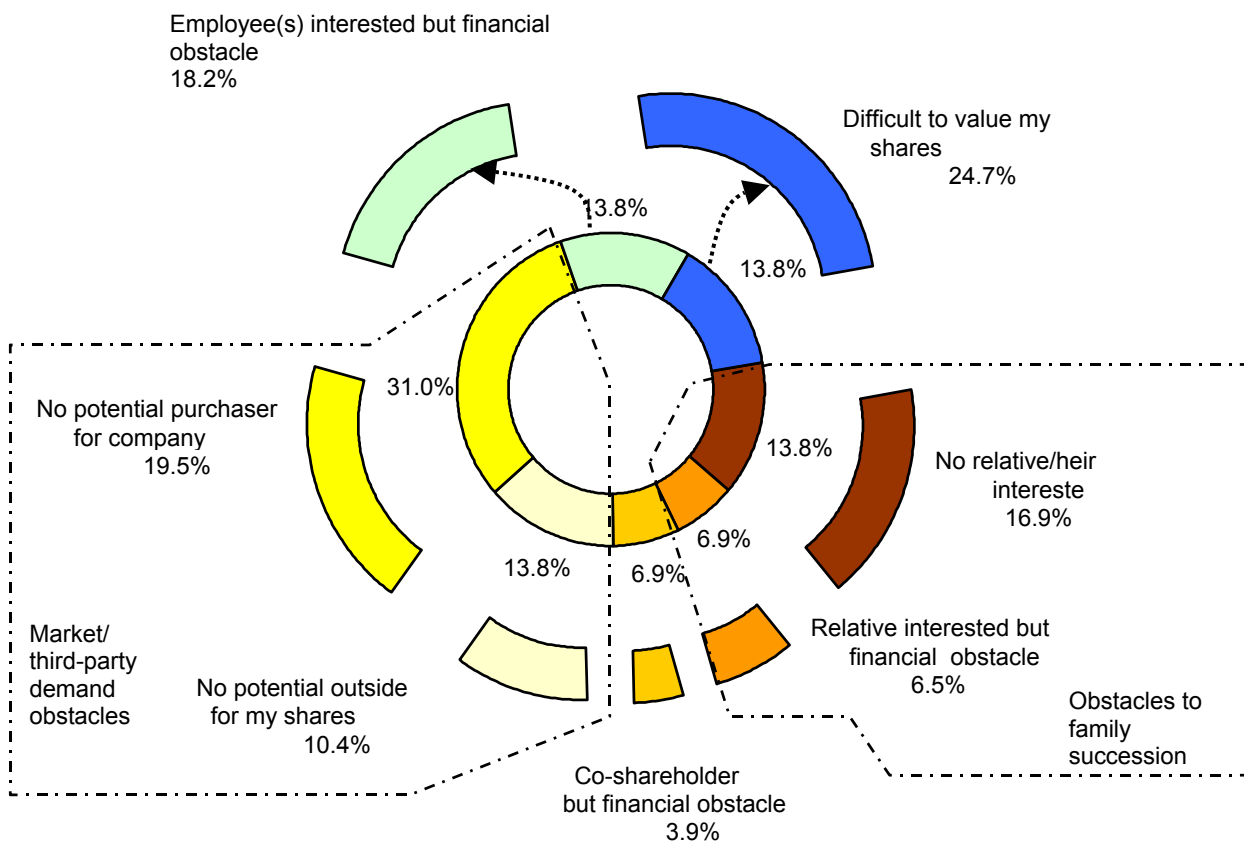
All difficulties mentioned. When we look at the difficulties ranked second and third, the relative importance attributed to the various difficulties encountered differs considerably. Figure 26 provides a comparison of the distribution of all difficulties mentioned with that of the difficulties rated as number 1 (Figure 25 above).

Weak third-party demand again appears as the main obstacle to establishing a succession plan. *“There is no third party interested in acquiring the company as a whole”* and *“There is no third party interested in acquiring my shares”* together account for 30% of all difficulties mentioned. However, this percentage is lower than that for these difficulties cited as the main difficulty (44%) because they were mentioned fewer times than others in the second and third tiers.

This was not the case with “*Difficult to value my shares*”, which was most often mentioned as no. 2, and which finally represents a quarter (24.7%) of the total number of difficulties mentioned (although it was mentioned as no. 1 in 13.8% of cases).

“*Employee(s) interested, however there are financial obstacles to acquisition*” represented 13.8% of all first tier mentions, but 18.2% of total mentions

Figure 26. Principal Difficulties with Establishing a Succession Plan / Distribution of Difficulties Cited Owners Concerned with Issue of Concession (With No Plan)



Inner circle: distribution of difficulties ranked as No 1.
 Outer circle: distribution of all difficulties mentioned (rated as no. 1, 2, or 3)

Source: EEC Canada

Table 2, below, gives more details on the distribution of the difficulties mentioned by ranking (1, 2 or 3) and adds to their overall distribution a frequency variant weighted by ranking.

Table 2. Principal Difficulties with Establishing a Succession/ Retirement Plan
Distribution by Difficulties Cited
Shareholders (Without Plan) Concerned with Issue of Succession

	No relative/heir interested	Relative interested but financial obstacle	Co-shareholder interested but financial obstacle	No potential purchaser for my shares	No potential purchaser for the company	Employee interested but financial obstacle	Difficult to value my shares	Total
Difficulty 1	13.8%	6.9%	6.9%	13.8%	31.0%	13.8%	13.8%	100%
Difficulty 2	8.0%	4.0%	4.0%	12.0%	8.0%	24.0%	40.0%	100%
Difficulty 3	30.4%	8.7%	0.0%	4.3%	17.4%	17.4%	21.7%	100%
Total mentions	16.9%	6.5%	3.9%	10.4%	19.5%	18.2%	24.7%	100%
Total mentions - Frequency by ranking	14.4%	6.3%	5.0%	11.9%	21.9%	17.5%	23.1%	100%

Source: EEC Canada

Based on these results, it appears overall that shareholders see the lack of potential buyers as the main obstacle to their succession planning. Nevertheless, “*Difficult to value my shares*” also stands out among those difficulties most often mentioned.

These results show the weakness – if not total lack – of actual demand for the purchase of publishing companies. At the very least, the demand expressed (perhaps even potential demand) was not considered significant by the shareholders surveyed.¹⁰

In such a context, these shareholders are also not inclined to express the potential offering of shares which they own. In effect, when they cite “*Difficult to value my*

¹⁰ These owners represent 40% of those concerned with succession among owners who do not have an established plan, with the latter group representing 2/3 of all owners.

shares” as one of the main difficulties in establishing a succession plan, this may refer to the difficulty of entering what they may perceive as being a buyer’s market the without a good reference market valuation of their shares.

On this point, the results of this survey tend to indicate that there is a potentially significant supply of shares in publishing firms, a supply that could materialize over the next few years. A significant portion of these will come from the large number of publishing companies founded between two and four decades ago that have been maintained and developed up to the present.

On the other hand, questions arise about the reasons for the actual lack of demand (assets undervalued? effectively limited potential for increasing the value of shares and synergy for those acquiring them? lack of perspective? lack of means?) and about the volume of potential demand for purchase of publishing companies (Is there an unexpressed interest, or is there no interest?)

To return to the “disposition value of shares”, the selling publisher will certainly not be able to make the best of his or her position without a well-founded “fair market” valuation of his or her company or shares. Support of a reference valuation is thus required to initiate transactions. This being so, to what extent can the valuation of the economic value of a publishing firm be seen as “difficult”, as many of the owners perceive it?

Estimating the market value of a publishing company is far from being a spontaneous activity or a simple bookkeeping exercise. Nor can it be reliably determined by applying a single, simple method regardless of the situation or context. This exercise may in fact be remarkably complex, both analytically and technically¹¹.

¹¹ Information on the conditions regarding merger transactions, acquisitions, disposal of shares or specific assets of Canadian publishing firms is in most cases strictly confidential between the parties concerned. If it were less confidential, the points of comparison with recognized market values could nevertheless be limited, given the marked differentiation between sub-markets and specializations based on categories of works. Valuations must thus essentially be based on the company’s potential to make sales, a solid business plan and well-established and credible predictions of results. A well-conducted valuation consists above all in prudently determining the factors that generate value. Moreover, from a sales perspective, as in other sale or merger circumstances, value relies on identification of buyers or partners while optimizing all synergies that may arise in such contexts. Thus, an evaluation that allows the seller to make the best of his position is one that judiciously takes into account the conditions and potential for increasing the value of shares for the identified potential purchasers. While the information available to the seller is often initially relatively limited, it is generally possible to identify some potential buyers with regard to the possible increase in the value of the assets to be sold. However, the intrinsic evaluation the shareholder may make of his company (excluding a merger or acquisition) – based on recognized and approved methods – will often already be sufficient for the shareholder to enter the marketplace and make contacts with a view to transactions. In spite of everything, it could well be that this evaluation is not up to his or her expectations. In this case, if the shareholder finds it unacceptable, there is no other option but to devote more effort and resources – to establish a more solid valuation based on the opportunities for potential buyers to increase the value of assets (unless he or she is put off by the cost and uncertain net benefits of the exercise).

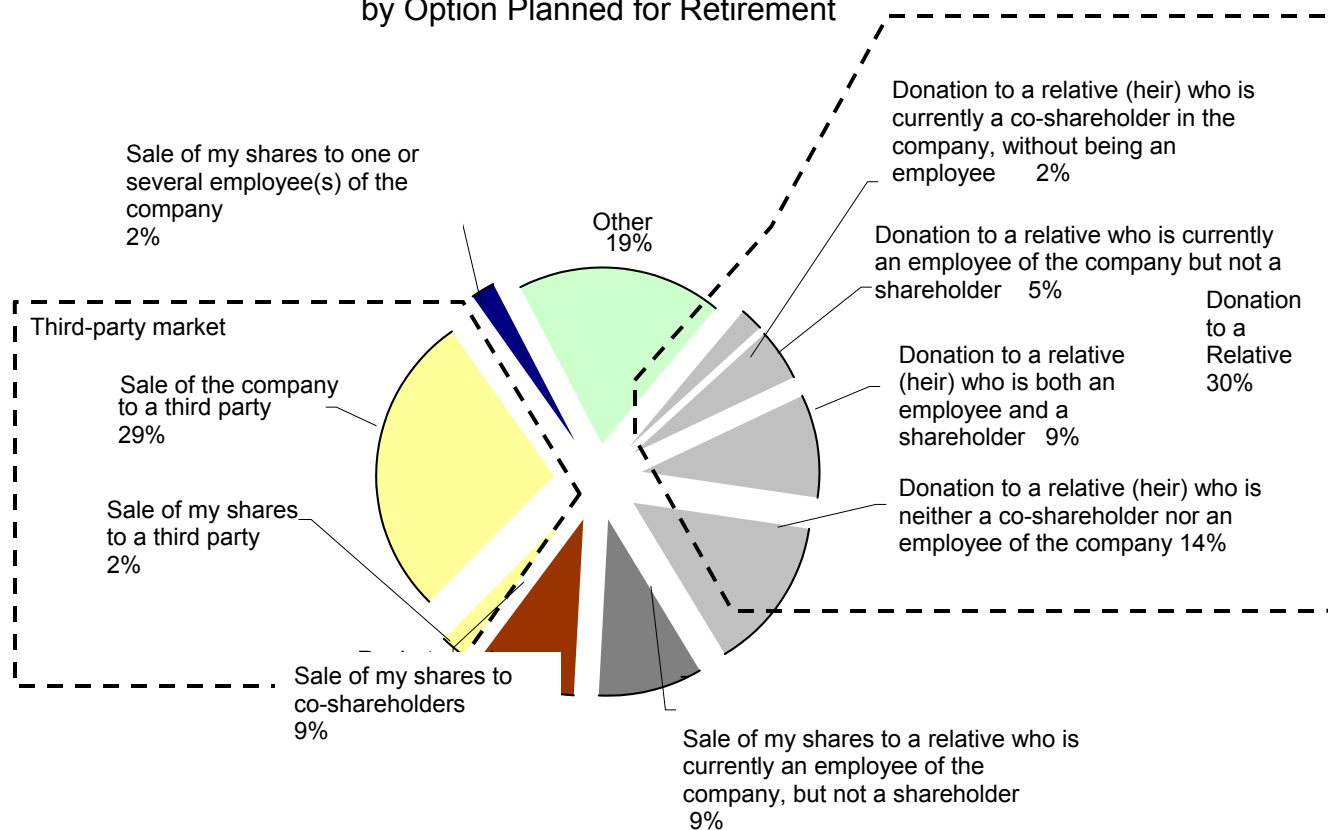
Some publishers may think that it is virtually impossible to arrive at a solid assessment of the value of their (or any other) publishing company using the available methods and techniques. On the other hand, for those who recognize the feasibility and usefulness of this action, we are led to presume that the “*difficulty of valuing shares*” refers to the issue of the cost of evaluation services (combined with the perceived risk of a net benefit that is not absolutely guaranteed).

7. Established succession plans

Approximately a third of shareholders had an established succession plan. What were the “solutions” they had planned? Figure 27 shows that the owners’ succession plans covered a range of options.

“Family succession” was mentioned most often (39%). But three times out of four, the option was a donation to a relative. Purchase by a relative already working in the publishing company (but not yet a shareholder) represented only 9% of all established plans.

Figure 27. Succession Plans - Distribution of Shareholders by Option Planned for Retirement



The option of purchase by co-shareholders was infrequent. Only 9% of plans utilized this option.

For the great majority of publishing firms with a single owner (59% of all companies in the survey and 40% of shareholders with a succession plan), there is naturally an intrinsic limit on the potential use of the mechanism of purchase by one or more co-shareholders. Age could also be a factor. While 48% of all owners are 55 or older, 70% of those who have a plan fall into this age group. It may thus be that in a number of companies, co-shareholders are not interested in the purchase formula because they are from the same generation and age group, so that they have therefore planned to dispose of their shares and planned their succession at more or less the same time. However, this assumption has not been verified.

There may also be obstacles, particularly financial ones, that explain the lack of success of the purchase by co-shareholders formula. But this has only been documented for the group of shareholders without a plan, as dealt with in the following section of the report.

Sale to a third party in the marketplace was much more common in succession plans (31%), as common as donation to a relative (30%). It clearly predominates among all options for disposing of shares (excluding donation, but including “other”), with 40%. It should be clarified that sale to an outside third-party buyer/investor almost entirely consists of *sale of the company* (very seldom sale by a co-shareholder of his or her shares to an outside investor). This is not only because those with this plan are all sole owners of their publishing companies, but also – in a third of cases – co-shareholders of the publishing company.

This being the case, while the sale of their company is the plan for half of sole shareholders, only 18.5% of those with co-shareholders have planned to sell to an outside investor (the great majority following the option of selling the company and a very small minority choosing to only sell their share).

Sale of shares to one or more employees is a marginal option (2.3%). Finally, it should be noted that a considerable percentage (19%) of established plans use *other formulas* or mechanisms besides those mentioned above. However, in the framework of this survey, it was not possible to document these “other” means.

8. Summary of the situation and the problem

This section provides a summary and an analysis of the results.

8.1 Number of successions expected in the next few years

Existence of a group of objective conditions that tend to indicate that a good number of Canadian publishing firms will likely change hands in a more or less short period of time over the next ten years:

- the majority of publishing companies (62%) have been in operation for between 20 and 40 years;
- most of them have few shareholders (83% with 3 or fewer co-shareholders, half of those with a single owner);
- half of shareholders (52%) were also founders of their publishing houses;
- these owners play a very large role in the management of their company, as president and/or CEO (74%), or play another role in management and operations (20%);
- close to half of these shareholders are sixty or over (20%) or are close to sixty (27% in the 55-59 age group);

The information provided by the owners of publishing companies regarding their planned date of retirement tends to confirm this assumption, so that the potential supply of publishing shares is relatively high. One way or another, a markedly large supply – certainly much greater than previously – will appear in the coming years:

- almost half of publishers-shareholders (49%)¹² are anticipate retiring within the next 10 years¹³, including:
 - 18% in the coming 5 years
 - 31% in 6 to 10 years from now.

¹² At 49% over 10 years, the percentage of planned retirements may be considered very high from an intergenerational perspective (which is explained in large part by the distribution of groups of shareholders and publishing companies by age).

¹³ Note that 29% of respondents also said that they “did not know” when they would retire; over 60% of them were aged 50 and older and more than a third of them were 55 and older.

8.2 How widely is succession seen as a problem?

The majority of owners do not see succession as a problem. In fact, while slightly more than a third (36%) already have a succession plan, most of those without one are nevertheless not concerned about it (particularly because they consider it too soon to establish such a plan). **Succession is thus not – or is not seen as – a problem by three-quarters of shareholders.**

However, the issue of succession is nevertheless very significant in the publishing industry, since a quarter of shareholders are concerned that they do not yet have a succession plan.

- 36.8% of shareholders have a succession plan;
- 37.6% of shareholders have no plan, but are not concerned about their succession;
- 25.6% of shareholders have no succession plan and are concerned about it.

There is also reason to expect that a significant number of shareholders who do not have a plan will become more concerned about the issue of their succession in the next few years:

- the great majority (92%) of owners in their early fifties have no plan and 39% of them are concerned about it, compared to 72% of those in their late fifties. This suggests that the former could become increasingly concerned about their succession and their retirement in next few years.

Based on survey results, there is reason to expect that about thirty publishing companies may come up for sale over the next five years, and that between a third and half of existing for-profit publishing firms (80 to 90) may change hands in the course of the decade¹⁴.

¹⁴ Change of ownership also includes here transfer to a relative (gift or purchase), acquisition by another publishing house, merger, and other options. It is possible that certain companies could dispose of certain assets separately and be liquidated. Figures cited here are only a rough estimate to give an idea of numbers, not a solid, accurate evaluation.

This projection of a great increase in supply is not very encouraging for shareholders who have to plan their succession. The concerns that many of them (at least a quarter) have with respect to their succession and the future of their publishing company thus certainly appear well founded.

8.3 Established plans and obstacles to succession encountered

Figure 28 (on the following page) shows the results for the difficulties mentioned by the owners who are concerned about not having a plan (section 6) and the options included in established succession plans (section 7)¹⁵. The following observations and comments can be made.

The two most frequently mentioned options among planned successions were donation to a relative and sale of the company to an outside third party.

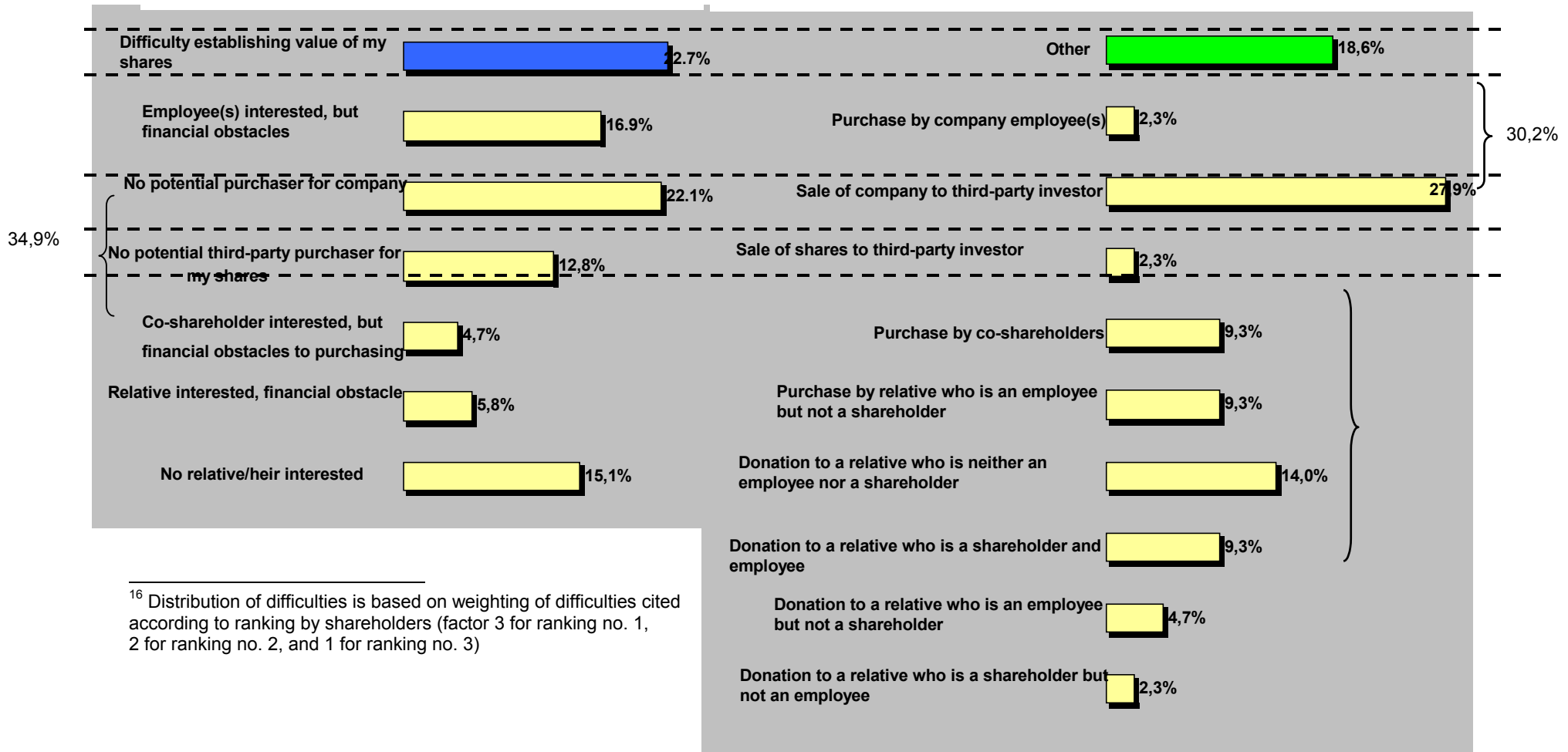
- Slightly over a third of owners had a succession plan. The “family” route for succession was most frequently mentioned (39%). That being so, in three-quarters of cases it was a gift to a relative (a “non-transactional” transfer). Purchase by a relative was planned in only 9% of all established plans.
- Sale in the marketplace to a third-party buyer was cited in close to a third of succession plans (30.2%), at the same level as donation to a relative (30.3%). It was clearly the predominant method among all transactional options for disposal (that is, apart from donation but including “other”).

¹⁵ In this figure, both series of results are compared. The comparison between the difficulties and the options taken in the established plans is not systematic. However, the similarity is significant and telling.

Figure 28. Difficulties Encountered by Shareholders With No Established Plan and Concerned About Their Succession¹⁶ and Options Selected by Those With a Plan Established

Distribution of difficulties/obstacles in establishing a succession plan

Distribution of options in established succession/retirement plans



¹⁶ Distribution of difficulties is based on weighting of difficulties cited according to ranking by shareholders (factor 3 for ranking no. 1, 2 for ranking no. 2, and 1 for ranking no. 3)

With regard to the primary obstacles mentioned by shareholders with no plan who are concerned about their succession, **the problem of finding third-party buyers is the major one, but others also stand out, in particular the difficulty of determining the value of shares.**

- With “*no third party interested in acquiring the company as a whole*” (22.1%) and “*no third party interested in acquiring my shares*” (12.8%), weak demand from outside the company was the major difficulty mentioned by owners (34.9%)¹⁷;
- “*Difficult to determine the value of my shares*” also stood out among the main difficulties mentioned (22.9%). This applied to all potential transactions considered, proposed price being at the core of any transactional initiative or operation. The difficulty of entering the market without a prior evaluation is perhaps seen here to be more serious because the actual demand is seen as very limited.

Obstacles to family succession do not seem to be a major factor in the problem of succession.

- “No relative/heir is interested in taking over” is certainly one of obstacles mentioned most often (15.1%), but it implicitly shows – among those who mentioned it – that they would have liked to have this option, but it was not open to them. They therefore had to consider other options for succession/retirement, which essentially left them with a market-related problem. That being the case, financial obstacles to the disposal of shares to an interested relative is a difficulty encountered by some (5.8% of the weighted total of difficulties mentioned). Also, as mentioned above, donation to a relative was predominant among the established plans. It is possible that this choice was made because of an inability to put in place a formula for purchase by the relative (unverified assumption).

The existence of financial obstacles to disposing of shares to interested employee(s) was a difficulty that appeared to be more significant and it can be seen that this is a difficult option to implement.

- Accounting for 16.9% of the weighted total of difficulties mentioned by owners concerned about their succession, purchase by an interested employee appeared to be a clearly greater possibility than purchase by an interested relative or co-shareholder. In fact, the financial obstacles to purchase only accounted for 5.8% of interested relatives and for 4.7% of one or more interested shareholders.

¹⁷ Percentages here are those established by weighting the number of difficulties ranked no. 1, no. 2, and no. 3 by factors 3-2-1 respectively.

- While the route of purchase by an interested employee thus presents considerable potential, it is found in only 2.3% of established plans, which could indicate that obstacles were encountered.

8.4 Overview of the problem and possible approaches

Overview of the problem. In conclusion, the basic problem is as follows. The survey's results point to a relatively high potential supply of publishing companies to be disposed of (and of portions of ownership or assets). **This supply is not yet strongly in evidence, but, one way or another, it will appear in the coming years**¹⁸. This expected increase in supply, which is in large part explained by the profile of the groups of publishing companies by age, tends to create circumstances that are likely to significantly intensify the succession problem¹⁹.

However, it should be noted that this situation could be exacerbated by the fact that actual demand appears to be relatively limited. It must be asked whether there exists a significant potential demand, which remains unexpressed due to the obstacles discussed in this paper. There is reason to assume that potential synergies, complementary relationships, consolidation of assets, and strengthening of the potential capacity through mergers and acquisitions are not fully reflected in the current actual demand.

The problem of succession is related to a market that lacks the flexibility for the required transactions to take place²⁰. Potential options should therefore focus on this aspect.

¹⁸ Figure 29 (page 39) demonstrates that this supply is still not strongly in evidence and, in cases where it has actually materialized, the majority of shareholders encountered difficulties.

¹⁹ However, it should be kept in mind that the phenomenon is relative and should be spread out over the mid to long term (approximately ten years) rather than being concentrated a critical disruption.

²⁰ The scarcity of information about market signals may be combined with a certain reluctance towards mergers and acquisitions and the real or perceived lack of options available as regards the financial services and expertise to achieve them.

Possible approaches? Based on the results of this survey on the question of succession in Canadian publishing companies, the potential approaches that could be considered should focus more specifically on the three following problems/themes:

- (i) establishing the value of publishing companies and the need for publishers to be better informed in order to establish this value and, more broadly, to be better prepared to enter the marketplace with a view to disposal of shares:**

 - information/training regarding the elements, methods and techniques used to establish the market value of a publishing company;
 - information on the process and measures for entering the market with a view to negotiating disposal, merger or acquisition;
 - information about the actual context and the market conditions for publishing assets (in the industry and in their segment);
 - information on conditions for accessing support expertise that may possibly be required;
- (ii) the potential demand from employees (related or not) to become shareholders and purchase all or part of the publishing companies where they are employed, as well as the obstacles encountered to be overcome:**

 - informing publishers and interested employees about the financial mechanisms or arrangements that could be considered;
 - information on the opportunities that specialized financial or funding agencies or institutions could provide to carry out such arrangements;
 - joint development (publishing industry – target financial organizations) of instruments/mechanisms that are more suited to overcoming the financial obstacles to purchase;
- (iii) potential demand for acquisitions and mergers from existing publishing companies (when potential supply is significant)**

 - providing information and making people aware of the market situation and the opportunity for publishing companies to direct their

strategic perspectives for consolidation/development towards mergers and acquisitions;

- informing interested publishers (potential buyers) about the financial mechanisms and arrangements that could be considered;
- providing information on the opportunities that existing financial institutions and specialized funds might provide to devise, prepare and carry out such arrangements.

At first glance, and at least in a first phase, the possible approaches mentioned above would thus consist mainly of providing information and training so that the “potential supply for disposal” and “the potential demand for acquisitions” take shape and become more evident. That should help to ensure more flexible and smoother management of the market, which is more likely to preserve our rich publishing heritage and the diversity of voices in the face of the upcoming reconfiguration.

Figure 29. Prior Experience or Not with Selling Shares and Results Obtained by Shareholders of Publishing Companies

