

ONTARIO MEDIA DEVELOPMENT CORPORATION

INDUSTRY PROFILE

BOOK PUBLISHING



Ontario

Ontario Media Development
Corporation

Société de développement
de l'industrie des médias
de l'Ontario

www.omdc.on.ca

Introduction

Ontario has the largest book publishing sector in Canada. Its operating revenues are more than twice those of Quebec's publishing sector—the second largest provincial book publishing industry in Canada—and Ontario's profits are more than two-and-a-half times higher.¹ The Canadian-owned book publishing industry in Ontario is comprised mainly of small to medium-sized firms. The largest book publishers operating in Canada are foreign-owned.

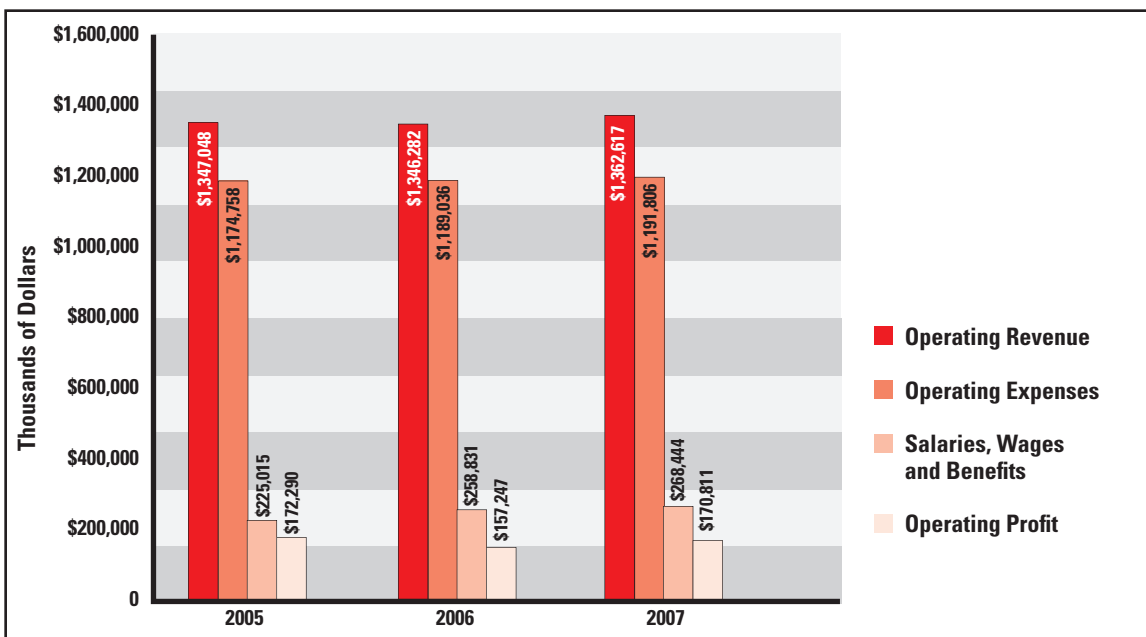
Domestically owned book publishers in Ontario face demanding market conditions, including the relatively small size of the Canadian market, the impact of technological changes and strong competition from large international publishing companies.

Ontario authors and publishers regularly receive accolades for their work. Ontario author John Ibbitson won the 2008 children's literature Governor General's award for his debut novel, *The Landing*. Gil Adamson, another Ontario author, won a number of awards for her debut novel, *The Outlander*, published by Ontario-based House of Anansi Press. Adamson received the Amazon.ca/Books in Canada First Novel Award, the Hammett Prize for Crime-Writing, the Drummer General's Award and the ReLit Award. The novel was also a finalist for Canada Reads 2009, and was shortlisted for the Trillium Book Award and Commonwealth Writers' Prize (Canada and the Caribbean): Best Book in 2008.

INDUSTRY SIZE AND ECONOMIC IMPACT

(N.B. The figures for Canadian-controlled publishers contained in this profile include a very small number of large Canadian-controlled corporations whose characteristics are frequently different than those of small and medium-sized Canadian-controlled book publishers.)

Ontario Book Publishers 2005-2007



Source: Statistics Canada, "Book Publishers 2007," Catalogue no. 87F0004X, Table 1, April 2009.

Employment and wages

- It is estimated that in 2005, the most recent year for which these numbers are available, 1,324 book publishing firms were operating in Canada, 479 of which were located in Ontario.² In 2004, 8,844 full time and part time workers were employed in the sector nationally, with just over half of those—4,729 or 53%—being employed in Ontario.³ These figures do not include freelancers employed in the sector.
- In 2007, Canadian publishers paid out \$405.8 million in salaries, wages and benefits, up from \$396.0 million in 2006. Ontario publishers

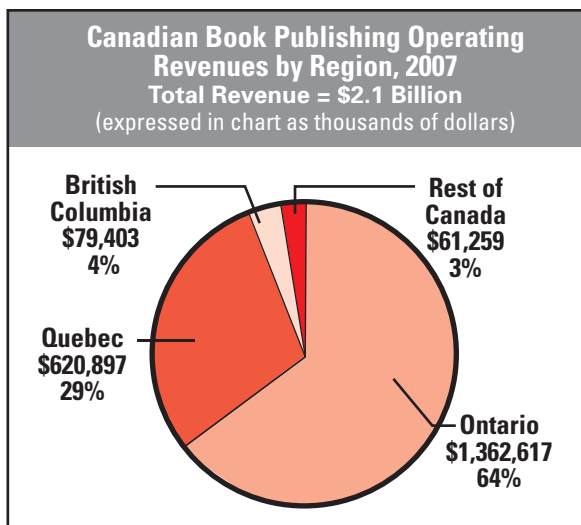
accounted for 66% of these wages, salaries and benefits, for a total of \$268.4 million 2007.⁴

Revenues

- Book publishers operating in Canada reported \$2.13 billion in operating revenues in 2007. This marked a slight increase from 2006, when book publishers reported \$2.12 billion in revenues.⁵ Canadian-controlled book publishers accounted for \$1.22 billion (58%) of those 2006 revenues.⁶
- Ontario book publishers reported \$1.36 billion in operating revenues in 2007, up slightly from the \$1.35 billion reported in 2006.⁷

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Source: Statistics Canada, "Book Publishers 2007," Catalogue no. 87F0004X, Table 1, April 2009.

- Canadian-controlled book publishers' revenues from export and other foreign sales accounted for 20.5% of their total operating revenue in 2006.⁸

Profit margin

- Profit margins for Canadian book publishers dropped between 2005 and 2007, from 11.9% to 10.4%. However, the percentage of publishers showing a profit rose during the period, from 67.7% to 77%. Within that group, Canadian-controlled book publishers fared slightly worse than their foreign-owned counterparts, with a drop in profit margin from 9.7% in 2004 to 8.3% in 2006. Seventy-six percent of Canadian-controlled companies showed a profit in 2006, up from 67% in 2004.⁹
- All Canadian publishers (including both Canadian-controlled firms and multinationals) reported \$240.9 million in operating profit in 2007; Ontario publishers account for \$170.8 million of this amount. This resulted in an operating profit margin of 11.3% for Canadian publishers as a whole, up from 10.4% in 2006, and a

margin of 12.5% for Ontario publishers, up from 11.7% the previous year.¹⁰

- The bulk of the revenue and profits in the Canadian publishing industry tend to be earned by a smaller group of larger publishers. The top ten publishers in Canada earned 62% of the total revenue reported for 2007. Ontario and Quebec's publishing companies accounted for the majority of the Canadian book publishing industry's profit, earning 97% of the Canadian industry's profits in 2007.¹¹
- Statistics compiled by the Book Publishing Industry Development Program (BPIDP) based on the financial statements of Aid to Publishers clients indicate that median profit margins for those clients were 2.99% in 2006-07, 2.96% in 2007-08 and 2.20% in 2008-09. Ontario-based 2008-09 BPIDP recipients had a median profit margin of 1.84%.¹²

Consumer market

- The global consumer and educational publishing market – defined as retail spending by consumers on consumer books and by institutions and students on educational books and textbooks – is estimated to have risen by 1.0% in 2008 to US \$114 billion. This is significantly lower than the 6.4% gain in 2007, which was due in part to strong sales for the seventh and final Harry Potter title. The Canadian market is projected to rise 1.6% in 2008, to a total value of US \$1.64 billion.¹³
- In 2008 Canadian book sales remained strong, despite difficult financial times. The number of units sold in the fourth quarter was up 6% and dollars spent was up 2% over figures for the same period in 2007. The average list price for the top 500 titles was down 6% in the same period, accounting for the discrepancy between the growth in units and the growth in dollars spent.¹⁴

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TRENDS AND ISSUES

Growth rate and related trends

- According to consumer surveys, household spending on books in Canada has increased over the past decade or so. The average household spending on books was \$86 in 1998, rising to \$111 in 2005. In 2006 it fell slightly to \$108. This increase was in notable contrast to the steady decline in household spending on newspapers, magazines and periodicals. Residents of Ontario, Alberta and British Columbia were the most avid book buyers, with spending on books in these provinces rising above the national average.¹⁵
- The global consumer and educational book publishing market is anticipated to grow at a compound annual growth rate of 2.8% to US \$129.8 billion by 2012. While print sales will still account for the lion's share of the market over the next five years, electronic publishing will be a large growth area. In Canada, the compound annual growth rate is expected to be 3.3% for a US \$1.9 billion market by 2012.¹⁶

Consolidation

- In Canada, massive consolidation of retail outlets for bookselling over the past decade has resulted in less and less accessible shelf space for domestic books. This is a particular concern for Ontario publishers who rely heavily on retailers as their primary avenue to reach consumers.¹⁷ New business models, such as e-books and print-on-demand, are expected to drive growth and enable new levels of customer interaction in the future.¹⁸

Technological development

- New developments in electronic publishing formats offer potential benefits to publishers. However, the market is still evolving and there are not yet

standard business models for the sale of e-books and content. The industry leaders in the field tend to be the large, multinational aggregators and distributors who have the capital to take risks, such as Google, Sony, Amazon and the Canadian-based Harlequin Books.¹⁹ Canadian-owned Ontario publishers have limited access to capital and are therefore often forced to defer digitization. They also often have difficulty acquiring, retaining, managing and exploiting ownership and control of digital rights.²⁰

- Print-on-demand (POD) technology is evolving and may ultimately offer publishers the ability to do "just in time" publishing which could dramatically reduce or even eliminate the wasteful returns regime which is currently the standard in the industry. In the shorter term, it offers a cost effective option for some niche and short run titles, particularly in academic publishing.²¹
- In February 2009, Canadian book retailer Indigo Books and Music Inc. released Shortcovers, a web service for people who want to view their reading material online or on a mobile device. Shortcovers provides sample chapters of books for free. Interested readers can then purchase additional chapters for \$0.99, or buy the entire e-book at discounts of up to half the publisher's listed price.²²

Economies of scale

- Canadian-owned Ontario publishers also run into difficulties because of issues of scale and competition. Ontario publishers must compete at price points set by U.S. competitors who have lower costs due to greater economies of scale. These reduced prices lead to diminished margins and an inability to offer competitive remuneration to their authors. As a result, these publishers tend to lose successful Canadian authors to multinational corporations who are able to offer higher remuneration and access to larger markets.

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Therefore, while Ontario firms are generally able to survive, it is difficult for them to generate any substantial profits to reinvest in their content, operations or future growth.²³

Global financial crisis and current events

- The global recession and market instability has had severe repercussions in the international book publishing sector. A major upheaval in the U.S. publishing industry in December 2008 saw massive layoffs and restructuring at Random House and Pearson, among others. On the heels of this major restructuring in the U.S., a number of multinational publishers operating in Canada have announced similar plans, with layoffs, wage freezes and other restructuring measures.²⁴
- In early February 2009, Reed Exhibitions Canada announced that it was cancelling BookExpo Canada. Reed has also abandoned plans for a consumer event in Toronto in the fall. Reed cites lack of interest among Canadian booksellers and publishers, who it says no longer find the event useful, as reason for the cancellation. Instead, Reed plans to focus on making sure that BookExpo America serves the needs of the North American publishing industry and bookselling community as a whole.²⁵ The Canadian Booksellers Association (CBA) has announced it will be offering a replacement Summer Conference; at this time it is uncertain how many publishers will be participating.²⁶
- A January 2009 study by the U.S. National Endowment for the Arts indicates that after a quarter-century of precipitous decline in fiction reading, Americans are turning their attention back to books. Just over half of American adults surveyed were currently reading some sort of literary work (novels, short stories, plays or poetry). While these numbers are still lower than they were in 1997, they represent an increase from 2002. Notably, the most significant growth was among 18-to-24-year-olds, the group that had previously shown the largest decline.²⁷

Readership among Canadians has remained consistently strong,²⁸ but this is the first signal that an appetite for literature may be returning in the U.S.

- A 2005 study indicated that 87% of Canadians had read at least one book for pleasure in the past year, and that 54% of Canadians read virtually every day. The average time that Canadians spent reading was 4.5 hours a day—a figure that had remained unchanged since 1991.²⁹

Government assistance³⁰

- Reports indicate that the federal government plans to make \$2 million in cuts to the Book Publishing Industry Development Program (BPIDP), \$1 million in 2008-09 and \$1 million in 2009-10.³¹ Publishers are also affected by the end of the Department of Foreign Affairs and International Trade's PromArt program, which covered the costs of international travel for authors and agents.³²
- In 2008-09, Ontario publishers had access to provincial funding through the Ontario Book Publishing Tax Credit, the OMDC Book Fund, the OMDC Export Fund and the OMDC Entertainment and Creative Cluster Partnerships Fund.
- The OMDC sponsored Trillium Award, now in its twenty-second year, recognizes excellence among Ontario writers. The Trillium is the province's leading award for literature. Past Trillium winners include Margaret Atwood, Michael Ondaatje, Timothy Findley and Anne Michaels.
- The federal government also provides financial support to book publishers through Canada Council grants. At the provincial level, the Ontario Arts Council has a grant program, and in January 2009, the Ministry of Education announced that it would provide \$15 million to school libraries in the province.³³

Profile current as of April 7, 2009.

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(Endnotes)

- ¹ Statistics Canada, "Book Publishers 2007," Catalogue no. 87F0004X, Table 1, April 2009.
- ² Statistics Canada, "Survey of Service Industries: Book Publishers 2005," Table 1, March 29, 2007.
- ³ Statistics Canada, "Annual Survey of Service Industries: Book Publishers, 2004," Catalogue no. 87F0004XIE, Tables 3 and 6, June 2006. Figures in these tables are based on Statistics Canada's survey portion of their data collection, which captures the companies that generate the top 95% of revenues in the Canadian book publishing sector.
- ⁴ Statistics Canada, "Book Publishers 2007," Table 1.
- ⁵ Statistics Canada, "Book Publishers 2007," Table 1.
- ⁶ Statistics Canada, "Book Publishers, 2006," Catalogue no. 87F0004X, Tables 1 and 10, March 2009. Figures in these tables are based on Statistics Canada's survey portion of their data collection, which captures the companies that generate the top 95% of revenues in the Canadian book publishing sector.
- ⁷ Statistics Canada, "Book Publishers 2007," Table 1.
- ⁸ Statistics Canada, "Book Publishers, 2006," Table 10.
- ⁹ *ibid*, Tables 2 and 10.
- ¹⁰ Statistics Canada, "Book Publishers 2007," Table 1.
- ¹¹ *ibid*, p. 5.
- ¹² Numbers provided by the BPIDP, Department of Canadian Heritage, using the *Publishing Measures* report, based on the financial statements from a range of fiscal years received in April 2008.
- ¹³ PricewaterhouseCoopers (PwC), *Global Entertainment and Media Outlook 2008-2012*, p. 51.
- ¹⁴ Press Release, "Year Over Year, Canadian Holiday Book Sales Up in 2008," Booknet Canada, January 19, 2009.
- ¹⁵ Statistics Canada, *The Daily: Book Publishing Industry 2006*, July 10, 2008.
- ¹⁶ PwC, pp. 51-52.
- ¹⁷ Castledale Inc., in association with Nordicity, *A Strategic Study for the Book Publishing Industry in Ontario*, September 2008, p. 5.
- ¹⁸ SECOR Consulting, *Ontario Media Development Corporation: Towards a Strategic Plan*, September 2008, p. 10.
- ¹⁹ Castledale Inc., p. 6.
- ²⁰ Diane Davy, *The Impact of Digitization on the Book Industry*, A Report Prepared for the Association of Canadian Publishers, August 2007.
- ²¹ Castledale Inc., p. 7.
- ²² "Indigo Books targets e-book market chapter by chapter," *cbc.ca*, March 2, 2009.
- ²³ SECOR Consulting, pp. 9-10.
- ²⁴ Scott MacDonald, "Kids Can lays off Brunsek, two others," *Quill and Quire Omni*, December 5, 2008; Stuart Woods, "Layoffs at S&S, wage freezes at Penguin and HarperCollins," *Quill and Quire Omni*, December 9, 2008; James Adams, "Books: Price wars, layoffs and new works from Canadian stars," *globeandmail.com*, January 2, 2009.
- ²⁵ Jim Milliot, "Reed Drops Canadian Publishing Events," *Publishers Weekly*, February 2, 2009.
- ²⁶ Stuart Woods, "Publishers unsure about CBA Summer Conference," *Quill and Quire Omni*, April 7, 2009.
- ²⁷ Motoko Rich, "Fiction Reading Increases for Adults," *New York Times*, January 12, 2009.
- ²⁸ *Reading and Buying Books for Pleasure: 2005* report by Creatac+ for the Department of Canadian Heritage, cited in Castledale Inc., p. 6.
- ²⁹ *Reading and Buying Books for Pleasure: 2005* report by Creatac+ for the Department of Canadian Heritage, cited in Turner-Riggs, *The Book Retail Sector in Canada*, September 2007, pp 14-15.
- ³⁰ The information included in this section is an overview of some of the government assistance to the book publishing sector. This is not intended to be a comprehensive list of government assistance available.
- ³¹ Scott MacDonald, "Heritage planning BPIDP cuts," *Quill and Quire Omni*, August 19, 2008.
- ³² Stuart Woods, "Axe travel grants leaving publishers and agents at loose ends," *Quill and Quire Omni*, August 15, 2008.
- ³³ Press Release, "Elementary Students Get 750,000 Gifts of Reading," Ontario Ministry of Education, January 20, 2009.