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Study of the Canadian K to 12 Educational Book Publishing Sector



Glenn Rollans and
Michel de la Chenelière

August 2010

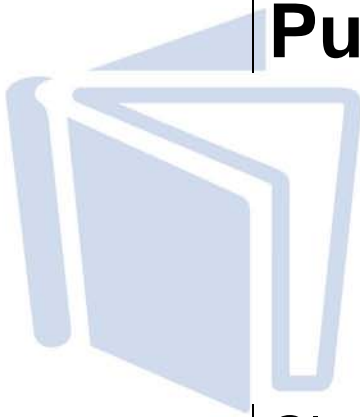


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Catalogue No. CH44-139/2010E
ISBN 978-1-100-15817-4



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Introduction and Methodology

Introduction

Canada's book industry has changed dramatically over the past decade and continues to evolve in a number of significant ways. These transformations have been very strong in the schools portion of the educational sector of the industry; it has been subject to significant consolidation, shifts in provincial curriculum requirements, changing provincial education budgets, and growth in the market for supplementary educational materials. Furthermore, this sector's business model appears to be especially vulnerable to emerging formats and production technologies, such as digital resources and print-on-demand publishing, which will drive new sales and distribution channels.

In this context of change, the Department of Canadian Heritage commissioned the current study to deepen its understanding of the Canadian-owned and -controlled educational publishing sector in Canada, to identify current and forthcoming trends, and to assess the effectiveness of current federal policy measures in place for the sector.

While the educational sector as a whole includes publishers who create materials for the primary and secondary school levels (kindergarten to grade 12, referred to here and in the industry as "K to 12"¹) as well as for the post-secondary level, the K to 12 group is the focus of the current study.

This study was conducted between February and May 2009. It is intended to provide useful information rather than recommendations. Some portions of the study containing proprietary data were annexed from the published version of the study and retained for departmental use only.

The authors owe a debt of thanks to the many people in the K to 12 publishing sector in Canada — in both industry and government — who gave their time, knowledge and experience to this study. We are also very grateful to the officials of the Book Publishing Industry Development Program (BPIDP) for commissioning this work, placing their trust in us for its completion, introducing us to the very valuable information in their database, and bringing their own considerable expertise to this study.

¹ While the term "K to 12" is used here to refer to the primary and secondary school levels across the country, it should be noted that in the province of Quebec, these levels are organized differently, from kindergarten (maternelle) through to secondary grade 5 (secondaire 5).

Methodology

Research team

Glenn Rollans was the designated lead on this project. He worked closely throughout with Michel de la Chenelière, who brought his skills, advice, and experience to all aspects of the project, but who focused on Quebec and French-language publishing for schools outside of Quebec.

Rollans and de la Chenelière were both active as owners and publishers in the educational-publishing industry until shortly before the study began; both remained in close touch with the industry but had no direct continuing interests in the educational publishing industry during the term of the study.

Approach

The authors' overall approach to the research was to:

- pool the knowledge and experience of the project team through close consultation between Rollans and de la Chenelière;
- draw on their networks of contacts in the Canadian educational systems to complete a comprehensive profile of the existing situation and a survey of expectations for the future;
- review published sources to corroborate or challenge their preliminary findings; and
- coordinate and consult closely with Canadian Heritage staff to make the best possible use of their expertise and information resources, particularly the BPIDP database and previous studies of Canada's educational publishing industry.

General constraints

One general constraint for this project was the contrast between an enormous scope of work on the one hand, and scarce resources of time and published information on the other. This imposed practical limits on the comprehensiveness and verifiability of the information assembled during this project.

A second general constraint relates to all sections that discuss changes, trends and directions in K to 12 publishing. Any discussion of the future, however well based in current and historic information or expert opinion, is speculative.

Interviews

The authors conducted open, relatively unstructured interviews with their contacts in the Canadian educational system designed to allow interviewees to raise and comment on their own concerns. The authors presented their credentials to potential interviewees in these or similar terms:

“We are working on a study of the Canadian K to 12 educational resource publishing sector as background information for the Department of Canadian Heritage.

“We are hoping you would be willing to talk with me briefly about your own knowledge and experience. We believe your perspective should be represented in our report.

“We have been asked to report on history, players, product categories, business models, and financial health. We have also been asked to prepare analyses of trends in new technologies, ownership, and markets, and the effectiveness of current support to the industry from the Book Publishing Industry Development Program.

“We will not be making any recommendations to Department.

“Although we have extensive experience in educational resources publishing, we are not now working in that sector. We are required by the Department to treat any proprietary information we encounter during this project as strictly confidential.”

The authors also made a general commitment of confidentiality to interviewees: they informed interviewees that they would be listed as sources for this study, but that their comments and responses would not be attributed specifically to them unless the authors first obtained subsequent specific permission for attribution.

The BPIDP data set

The BPIDP database organizes a wealth of information collected annually on a standardized application form from the more than 200 companies participating in the program since the 1992-1993 application year. It nonetheless presents some significant challenges for this study.

Most importantly, while it tracks sales of educational titles, it does not distinguish between K to 12 and higher-education titles, because BPIDP applications and reports do not make this distinction. As a result, the database classifies companies into “Educational”, “Hybrid” or “Trade” categories with no distinction between K to 12 companies and higher-education companies.

In addition, the BPIDP database identifies minority-language publishers (meaning predominantly French-language publishers outside of Quebec and/or predominantly English-language publishers inside of Quebec) and Aboriginal publishers, but it does not identify publishers with titles or programs in more than one language, nor does it track sales volumes by language of publication. All companies in the data set, of course, can be categorized by the location of their headquarters. Those considerations, plus strong distinctions observed in general between data related to K to 12 companies headquartered inside of Quebec and those headquartered elsewhere in Canada, led to the authors’ decision in this study to look in some instances separately at companies in Quebec and companies in the rest of Canada.

For this study, the full database of more than 200 companies for each of the 17 available application years (1992-1993 to 2008-2009) was sorted to identify all companies with *active* educational programs (meaning at least one new eligible educational title). The researchers then sorted those companies to identify companies with *dedicated* educational programs (meaning those generating at least half of their total sales from eligible educational titles), and those with *substantial* educational programs (meaning those with sales of eligible educational titles sufficient by themselves to qualify for the BPIDP: \$200,000 per year for most years).

Based on these three criteria, the authors then selected all those companies in each application year that were active *and* either dedicated or substantial, or active *and* both dedicated and substantial. This process captured some companies that were coded as “Hybrid” or “Trade” if they had active, substantial educational programs, and it eliminated some companies coded as “Educational” if they did not have active programs in the application year.

The authors then reviewed these lists in detail to code each company as K to 12 or not K to 12, based on whether, to their knowledge, they had or have significant K to 12 programs, excluding those companies the researchers knew to be purely higher-education publishers, or professional-education publishers.

After a final review to verify surprise inclusions or exclusions, the authors finalized the BPIDP-based data set. To the best of their knowledge, it includes active K to 12 companies that have dedicated and/or substantial BPIDP-eligible programs. It does not attempt to exclude the higher-education or trade portion of their sales or titles; there is no practical way to do so.

Unless otherwise identified, charts and data in this study are based on this data set.

A Note on Sources

The summary of the history of K to 12 publishing in this report draws on *The Perilous Trade* by Roy MacSkimming (Toronto: McClelland & Stewart Ltd., 2003), and two very useful articles in the print version of *The Canadian Encyclopedia* (Edmonton: Hurtig Publishers, 1988): “Book Publishing, English-Language” by James Marsh (pp248-9), and “Book-Publishing, French-Language” by Maurice Lemire (pp249-50).

Two Government of Canada studies, “Evaluation of the Book Publishing Industry Development Program (BPIDP), Study on Educational Publishing” (Ottawa: Government of Canada, Department of Communications Program Evaluation Division, 1992) and “Scholarly and educational publishing in Canada: An industry profile” (prepared for the BPIDP by Ira Wagman and David Hunt, 1999) also help inform remarks on history, as well as being referenced elsewhere in this report.

Michael Tamblyn’s excellent paper, “Modeling the Impact of eBooks on Consumer Spending in the Canadian Book Industry” (Toronto: BookNet Canada, 2008), is the main source for the summary of digital business models in this report.

Chapter One. Overview

A. A Brief History of the K to 12 Educational Publishing Sector in Canada

Early history

The early history of K to 12 publishing in Canada comprises much of the early history of book publishing in Canada.

Along with newspapers and religious works, schoolbooks were among the first uses for Canada's earliest printing presses. William Brown and Thomas Gilmore set up Canada's first printing press in Quebec City in 1764 to produce the *Quebec Gazette / La Gazette de Québec*, but they also produced an alphabet primer among their early publications. Fleury Mesplet set up a printing press in Montreal in 1776, and before long was also producing textbooks. Like most printers of the day, they filled all the roles that now define a publisher: they edited, distributed and sold what they printed.

Communities need educational resources, and when it proves difficult or inconvenient to acquire exactly the resources they need, they find ways to create them. The challenges of importing textbooks to eighteenth-century Quebec certainly created an opportunity for publishers to produce textbooks locally, but imported textbooks would already have been a poor fit with the unique qualities of the emerging country. Homegrown publishers were in a better position to understand the need and then create the books to fill it.

Many of the now-familiar names in K to 12 publishing began to emerge from the mid-nineteenth century to the early twentieth century:

- The Methodist Book Room and Publishing House was founded in Toronto in 1829; it became the Ryerson Press in 1919, was purchased by McGraw-Hill Co. of Canada in 1970, and today still operates as McGraw-Hill Ryerson.
- Beauchemin was founded in Montreal in 1842 and published as an independent company until 2005, when it was purchased by Chenelière Éducation.
- Copp Clark began under another name in 1841 and was eventually purchased by Pitman in 1963 after becoming a very successful K to 12 publisher; Pearson acquired Copp Clark Pitman in 1985.
- Toronto bookseller and publisher A and R Miller became W.J. Gage in 1880; after several changes in ownership, Thomson Nelson purchased its assets in 2005.
- Oxford University Press set up in Canada in 1904.

- Macmillan of Canada opened in 1905, was purchased by Maclean-Hunter, and then acquired by Gage's ownership in 1980; its remaining list went up for auction in 2002.
- Thomas Nelson and Sons was already well established in Scotland when it opened in Toronto in 1913; after several incarnations and many acquisitions of other Canadian K to 12 publishers, it now operates as Nelson Education. Nelson is the largest educational publisher in Canada and is majority owned by OMERS Capital Partners, a Canadian-owned pension fund. In this study, when discussing a previous incarnation of the company, Nelson is referred to by its former name, Thomson Nelson.
- Clarke, Irwin spun out of Macmillan in the 1930s as a publisher with both trade and textbook programs, and it continued in business until the end of an Ontario Government loan-guarantee program in 1983. Its assets were purchased by the Book Society of Canada, which (confusingly) took the name Irwin in 1984. Irwin was purchased by Stoddart in 1988. When Stoddart's assets were sold in 2002, Thomson Nelson acquired Irwin's very strong K to 12 program.

English-speaking Canada: 1920s to 1990s

Provinces in English-speaking Canada had, by the 1920s, moved to centralized buying of school resources through bid systems. Companies often joined forces to increase their capacity to meet these bids; Macmillan and Ryerson worked together against Gage and Nelson to compete on a series of readers, for example. Centralized buying created substantial business opportunities that fueled the development of substantial companies.

Beginning in the 1930s, textbook and trade publishers developed alliances: Oxford worked with Clarke-Irwin, for example, and McClelland and Stewart worked with J.M. Dent and Sons. Under Jack McClelland's leadership, which began in 1952, McClelland and Stewart ended the alliance with Dent in 1956 to launch its own schoolbook program. That program, though profitable, gradually languished during the 1960s as McClelland focused his resources and talents on trade publishing.

During and after World War II, American subsidiaries had enormous success selling K to 12 resources into English-speaking schools in Canada, and by the 1950s, roughly 60 percent of textbooks in those schools were either American, or directly based on American resources. Companies including Prentice-Hall, D.C. Heath, Addison-Wesley, and Holt, Rinehart and Winston – all of which had been sold in the Canadian market by Canadian companies — ended their agency deals with Canadian publishers and set up subsidiary operations in Canada.

By the 1960s, all of the largest book publishers in Toronto – not just the nominally educational firms — had substantial K to 12 operations, and just over half of those were subsidiaries of British or American companies: Macmillan, Oxford, J.M. Dent and Sons (Canada), Thomas Nelson and Sons (Canada), McGraw-Hill Co. of Canada, and Holt, Rinehart and Winston of Canada. The others were Canadian-owned companies: W.J. Gage, Ryerson, Copp Clark, and Clarke, Irwin. The publication of core materials (resources that deliver substantially all of the requirements of a program of study) continued as the main contributor to the business strength of Canada's book publishers. Core resources were typically printed in runs of 50,000 for national sales in the hundreds of thousands of units.

Because of its large student population and its practice of deciding at the provincial level on substantial expenditures on educational resources, Ontario set the template for most other English-speaking jurisdictions in Canada from the very beginning. K to 12 resources developed for Ontario were sold to, or versioned for, other provinces.

The K to 12 industry suffered a huge setback when Ontario ended dedicated funding in 1969. Print runs dropped by 90 percent, and companies were stuck with unsellable inventories. Suddenly, K to 12 publishing disappeared as the reliable engine of book publishing. Many companies shifted their emphasis to trade publishing. For example, Clarke, Irwin, which had focused roughly 75 percent of its business on schools publishing, moved to the trade. They were in the midst of shifting back to education when they lost their operating credit and went out of business in 1983.

Douglas and McIntyre (D&M) entered the core K to 12 resource market in the 1980s with six grade levels of social studies resources that sold very strongly. D&M sold those assets to Nelson in 1989.

Textbook publishers were at centre stage of some high-profile foreign acquisitions the 1980s. In 1985, the U.S. media conglomerate Gulf & Western acquired Prentice-Hall of Canada. Paramount in the U.S. then bought schools publishers Ginn and General Learning, but, as required at the time by Canadian foreign investment policy for the book industry, was forced to divest their Canadian assets; the Canadian Development Investment Corporation acquired the assets in 1989. U.K.-based Pearson bought Prentice-Hall in 1999 and merged it with Addison-Wesley to create Pearson Education Canada.

Quebec: 1920s to 1990s

In Quebec, the government gave the church responsibility for education, and in the middle of the nineteenth century the religious communities took over much of the publishing of school resources. A resurgence of the non-religious publishing

houses during and after WWII focused on educational publishing, led by companies such as the Centre pédagogique (founded 1940), the Centre de pédagogie et de psychologie (CPP, founded in 1945), the Centre éducatif et culturel (CEC, founded in 1959 and now owned by Quebecor), Éditions du Pélican, Éditions du Renouveau pédagogique (ERPI, founded in 1960 and now owned by Pearson), and Guérin, Éditeur (founded 1970), who joined by then long-standing publishers such as Beauchemin, Granger Frères, and Fides.

In the 1960s, following the implementation of recommendations contained in the 1964 Bouchard Report, the Quebec K to 12 publishing sector became far more open to competition. The Bouchard Report discussed the dissemination of culture in Quebec and made numerous recommendations, including recommendations for the book publishing and bookselling industries. The most significant change for the K to 12 industry came from the recommendation that the Ministry of Education should take on the responsibility of approving books for schools. In response, the Quebec educational market saw an influx of new players.

In the 1960s, France's publishers began entering the Quebec market. Hachette, Éditions Hatier, Marcel Didier and Les Éditions Bordas, for example, all opened K to 12 programs in Quebec.

McGraw-Hill opened a subsidiary in Quebec in 1966, which was purchased by Les Éditions de la Chenelière in 1995.

Diffulivre began as Éditions Trécaré, a branch of Bordas, but was purchased by Gage's ownership in the 1980s and then by Quebecor in the 1990s.

Holt, Rinehart and Winston opened a subsidiary in Quebec in 1968, HRW, which published both K to 12 and higher-education resources. Harcourt, Brace, Jovanovich opened a branch in 1975, Éditions Études vivantes, which also developed both K to 12 and higher education programs.

Harcourt bought Holt, Rinehart and Winston in the 1980s, leading to a merger of HRW and Études vivantes. In the 1990s, a management buy-out of HRW was financed by the sale of Études vivantes to Beauchemin. HRW surrendered the HRW name in the 1990s, and created the new imprint Le Grand Duc within the company, which is now Éducalivres.

Les Éditions de la Chenelière was founded in 1984, focusing primarily on French-language K to 12 resources outside of Quebec, but now has programs inside and outside of Quebec. Acquired by Canadian printing giant Transcontinental in 2006, Chenelière Éducation now stands between Quebecor-owned CEC and Pearson-owned ERPI as one of Quebec's three largest K to 12 resources publishers, and Chenelière's higher-education business is Quebec's largest. Overall, Chenelière is Canada's largest publisher of French-language

educational resources. The company publishes under the imprints Chenelière Éducation, Beauchemin, Gaëtan Morin, Graficor and Chenelière/McGraw-Hill.

Key government programs: 1960s to 1990s

Since public education predominates throughout Canada, the public sector has had a key role in shaping K to 12 publishing. The industry's main markets are education ministries, school boards and schools: arguably a near-monopsony, where a small group of customers — the provinces — shape the market. These customers have the market strength to stimulate or discourage publishing through their buying practices, the availability or lack of direct subsidies, and other measures. They can also regulate publishing through stipulating, for example, authorship and printing requirements, approvals processes, and market access.

In part, it was the demand from these customers for Canadian-authored resources to replace imported resources that led to programs of direct government support for Canadian publishing as an industry.

After the creation of the Canada Council in 1957, the 1960s, 1970s and 1980s saw a rapid expansion in the numbers of Canadian-owned publishing houses across the country — including many companies beyond the borders of Ontario and Quebec. The creation of the forerunner of the BPIDP in 1979-1980, the CBPDP, bolstered that trend. Between 1982 and 1988, for example, the number of English-language textbook companies participating in the program grew from 22 to 33.

With some exceptions, these new publishing houses stayed away from competing for core-resource adoptions in educational publishing. The great rewards of core-resource adoptions — where, if successful, a publisher could rely on selling one textbook per student to entire provinces — had, decades earlier, created intense competition among the largest and best-capitalized companies, which in turn created rising expectations among the provincial buyers. All of this made core-resource publishing capital-intensive and high-risk, and therefore a difficult sector to enter.

Internationally owned companies retained the lion's share of the overall market (roughly 60 percent in 1985), but Canadian companies took the lead in new Canadian-authored titles (roughly 80 percent in 1985). In K to 12 publishing, however, buyers' preferences steadily increased the internationally owned companies' dedication to Canadian authorship, and the profitability of their educational businesses kept many of them heavily involved in K to 12 publishing.

Provincial policy in Alberta, including strong initiatives in Aboriginal education, encouraged the development of the second-largest centre of K to 12 core-

resource publishing in English-speaking Canada in the late 1980s and 1990s. Six substantial companies emerged — Arnold, Weigl, Reidmore, J.M. Lebel Enterprises, Plains and Duval — all publishing for national K to 12 markets, and some for international markets as well. After one closure, one relocation and three acquisitions by Thomson Nelson, by 2007 only Weigl remained in business in Canada with a substantial supplemental program.

K to 12 recipients of BPIDP: 1990s to present

An examination of the K-12 firms that received BPIDP funding during the past 17 years reveals many of the changes that occurred in the K to 12 sector during that period. Publishers in the BPIDP database represent a subset of book publishers in Canada: those that meet the eligibility requirements of the program (including requirements related to ownership business volume), and those that choose voluntarily to participate. Except for one major exception in English-language publishing (in 16 of the 17 years of data; in the other year there are no exceptions) and one major exception in French-language publishing (also in 16 of the 17 years of data; in the other year there are two exceptions), the authors believe the BPIDP database includes all active, substantial Canadian-owned K to 12 book publishers in Canada. These publishers are the focus of this study.

Although the BPIDP database identifies educational publishers, it does not identify the firms within that group that are K to 12 publishers. By identifying and tagging active K to 12 publishers in each of the 17 years of the database, this study extracted a running account of Canadian-owned, BPIDP-recipient companies entering and leaving the K to 12 sector from 1992-1993 to 2008-2009. (See the Introduction and Methodology section above for a full description of how these terms are defined for the purposes of this study).

In 1992-1993, 37 publishers with active K to 12 programs that could be described as “dedicated” or “substantial” qualified for the BPIDP.

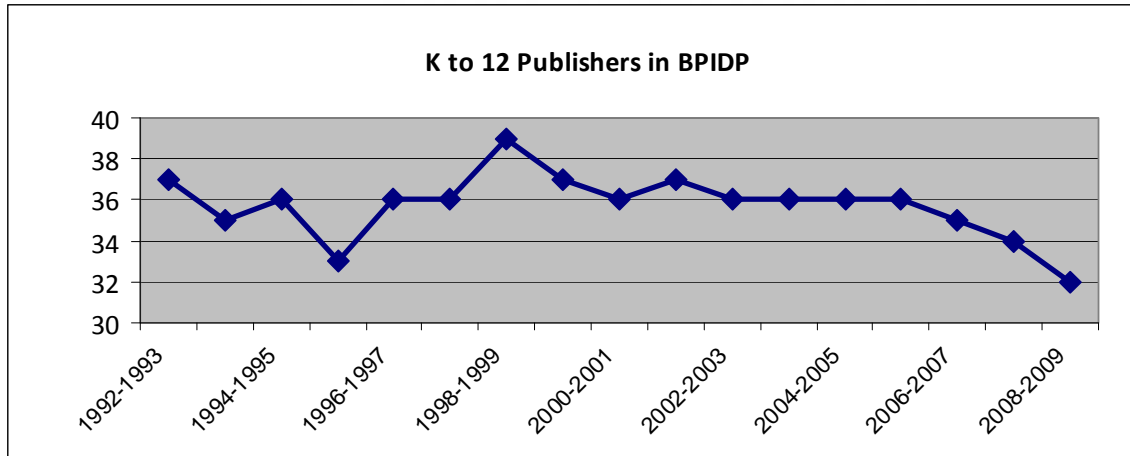


Chart 1

From 1992-1993 to 2008-2009, their numbers have remained between 32 and 39, roughly half in Quebec and half in the rest of Canada, and roughly half classed as English-language publishers and half classed as French-language publishers.

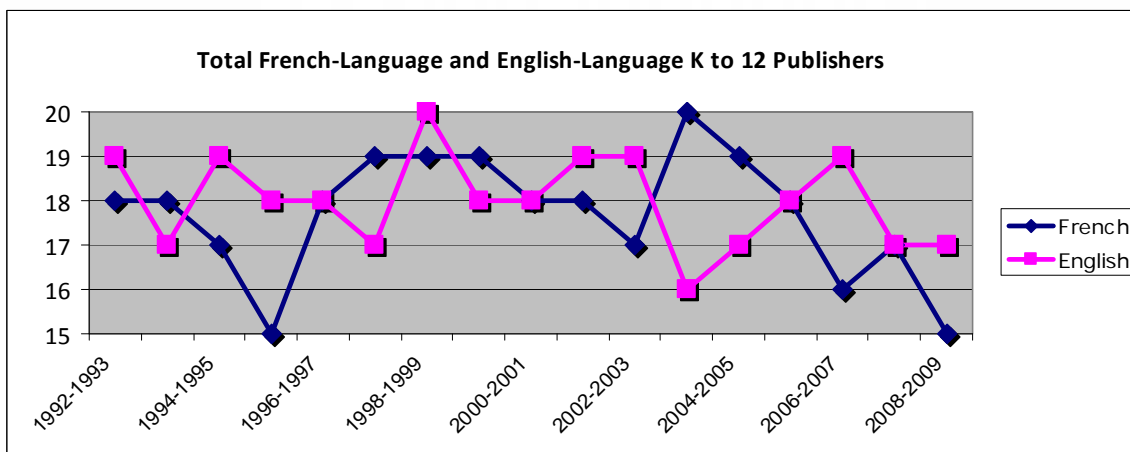


Chart 2

Even in periods of stability in the total number of K to 12 recipient publishers, individual companies entered and left the K to 12 sector as defined in this study as their educational sales fluctuated from year to year.

Developments over the last decade

Beginning in 2000-2001, the K to 12 sector witnessed more dramatic changes in its makeup and structure:

Thomson Nelson purchased the assets of Reidmore, which began in Alberta in the late 1970s as a trade house and grew to a substantial core-resource publisher in Canada's K to 12 sector and a leading regional publisher.

Thomson Nelson then acquired the assets of Irwin Publishing — a Canadian-owned, core-resource publisher with a very long heritage — when the Stoddart-General group, of which it was a part, collapsed in 2002.

Thomson Nelson also purchased the list and imprint of Gage, another long-standing, large, core-resource publisher. The heads of both Gage and Irwin had recently presided over the Canadian Educational Resources Council, the national association of large K to 12 publishers, including both foreign-owned and Canadian-owned firms.

In the years that followed, Thomson Nelson purchased the assets of two more leading Alberta educational publishers: Tortoise (formerly Arnold Publishing) and Les Éditions Duval. Duval published K to 12 core resources in both French and English, had Canada's largest list of K to 12 Aboriginal resources, and developed core English-as-a-second-language resources for schools in China. Duval's operation closed in Alberta, and its Montreal operation became part of Modulo, which had itself been purchased by Nelson.

On the French-language side, Chenelière purchased Graficor in 2003 and Beauchemin in 2005.

At the same time, a number of publishers emerged in the K to 12 sector, or expanded their presence. This list includes R.K. Publishing (an Ontario company specializing in core French-as-a-second-language resources), Les Éditions des Plaines (an existing French-language Manitoba company that built up a school program, including some core resources) and Rubicon Publishing (a substantial Ontario publisher with a specialization in supplemental cross-curricular literacy resources).

Arguably, market fragmentation resulting from the many new, smaller companies that sprang up over the years in the K to 12 sector made consolidation inevitable. As will be discussed later in this study, new K to 12 titles increased dramatically during this period, and revenue per title fell dramatically. Quebec clients of the BPIDP can be said to have fared well through this process — in particular, Chenelière grew in size and strength while acquiring companies rather than assets. But in the rest of Canada, consolidation has reduced the involvement of BPIDP-recipient companies in core-resource publishing and eliminated some regional publishers as independent companies participating in the BPIDP. The most-active buyer of English-language publishers, Nelson, is majority owned in Canada. The other comparably sized publishers are foreign owned and therefore not permitted, under the Government of Canada's foreign investment rules for the book industry, to acquire Canadian-owned publishers.

Core-resource and supplemental publishers in the twenty-first century

A key concept in the K to 12 publishing business is the distinction between core and supplemental publishing. As noted earlier, core resources deliver substantially all of the requirements of a program of study, while supplemental materials help deliver curriculum requirements and build skills, but are not comprehensive reflections of a curriculum.

Since about 1995, supplemental resource publishing has grown as an opportunity for Canadian publishers. Demand for skills-building series of “little books”, particularly curriculum-linked literacy resources, grew rapidly and has remained strong. As well, library resources, including themed sets of library resources, have always helped fill the needs of some teachers who prefer not to teach from core resources, and the needs of schools that may need to focus their purchasing on shared resources because of tight budgets. Shareable, curriculum-linked but non-core resources are attractive in today’s changing markets.

Over the same period, the provinces’ expectations for core resources have risen steadily, creating a host of factors that have added to the expense and risk of developing core resources: the complexity of competitions to win the right to develop resources, the production values of those resources, their level of customizing to regional curricula, their response to advances in pedagogy, the extent and complexity of their teacher-support components, their inclusion of multimedia and internet-based components, their response to diverse learning styles, and their use of new technologies.

Supplemental resources are less closely tied to jurisdiction-specific curricula than are core resources, so they tend to be less expensive to develop, and they can be sold in more markets without revision, including export markets. They are rarely purchased in large-scale adoptions, however, and they are more often purchased through wholesalers, which tends to make supplemental resources a smaller, steadier business opportunity, without the dramatic cycles of core resources.

These supplemental opportunities are available to all K to 12 publishers — large and small, Canadian-owned and internationally owned, French-language and English-language — and most have taken advantage of them, even those whose main business is core resources.

Smaller, newer, Canadian-owned K to 12 publishers have tended to concentrate on supplemental resources as they built their businesses over the last quarter-century. As well, some smaller core-resource publishers have shifted to

supplemental publishing since 2000, reporting that they are unable to compete with large publishers on core resource adoptions.

The world of core K to 12 resources has therefore become steadily more the territory of larger, older companies. Outside Quebec, most of these are internationally owned companies.

The K to 12 publishing sector has been highly profitable and influential and in turn has helped build highly profitable and influential companies. Many of these companies were members of the Canadian Book Publishing Council (now the Canadian Publishers Council, or CPC), which became largely but not exclusively the association for foreign-owned Canadian publishers after the creation of the Independent Publishers Association in 1972 (which became the Association of Canadian Publishers in 1976).

K to 12 publishing is very different from higher-education and trade publishing: it has different customers, different business models (see section B below), and a more direct and dependent relationship with government, since governments are its main customers and set out the requirements for K to 12 publications. For these reasons, the K to 12 divisions of CPC companies formed the Canadian Educational Resources Council (CERC), which proceeded to recruit as members Canadian-owned companies with shared interests and substantial programs. CERC's goal was a national association that could serve as a meeting place for the K to 12 industry, a "one-stop" point of contact with government, a spokesman for the industry's contribution to education in Canada, and an advocate for the industry. The education committee of l'Association nationale des éditeurs des livres (ANEL) served a similar purpose in Quebec.

By 2002, CERC had 11 full members, including Gage, Irwin, Nelson, Pearson, McGraw-Hill Ryerson, Oxford, Scholastic, Chenelière, Beauchemin, Harcourt, and Duval.

Today, as a result of consolidation in the K to 12 industry, CERC has just seven full members: Nelson, Pearson, McGraw-Hill Ryerson, Oxford, Scholastic, Chenelière, and second-language-materials publisher AIM. The last 25 years or so have seen the rise (and sometimes the fall) of a diverse group of Canadian-owned K to 12 publishers, spread to some extent across the country, working primarily in supplemental materials. But at the end of a quarter-century of growth, diversification, stress and consolidation, more than 80 percent of sales of Canada's K to 12 core resources sold outside of Quebec, measured by titles, units and sales volume, are of resources published by the first six of these seven companies.

Inside Quebec, after a proportionately more-significant period of growth and expansion, and at the end of a similar period of concentration and consolidation, roughly 85 percent of the core K to 12 market is now held by just five companies: CEC (owned by Quebecor), ERPI (owned by Pearson), Éducalivres (owned by

Harcourt until a management buyout in 2003), Modulo (now owned by Nelson), and Chenelière, now called Chenelière Éducation.

B. The Business of K to 12 Publishing

Business models

Although educational resources have incorporated digital and multimedia elements to a much higher degree than have trade publications, business models in K to 12 publishing remain dominated by processes that culminate in unit sales of physical products.

Core resource publishing

In core-resource publishing, product sales are typically preceded by extensive product research, market research and relationship building (see the section “Determining Product Feasibility” below), and often by a formal proposal or bid process. Publishers then invest heavily for up to three years in product development, dedicating relatively large editorial and production teams to projects in addition to retaining authors.

Publishers gamble on recouping their heavy investment in product development and market development through securing large, dedicated markets that buy resources in large quantities in year one of publication, and then continue to refresh their inventories for the following seven to 10 years with annual purchases of roughly 10 percent of year one.

A successful single grade of a core resource also puts a publisher in a better position to sell additional grades, invest in versioning the resource for additional jurisdictions (a universal goal, which is most often realized when provinces have cooperated in creating shared curriculum, such as the Pan-Canadian Science Protocol), and sell new editions of the resource at the end of its lifespan.

Supplemental resource publishing

Supplemental resource development sometimes proceeds exactly as core-resource development does, with extensive early research and market development and heavy investment in product development, especially in situations where buyers have clearly indicated a willingness to purchase in substantial quantities if the resources meet their needs. Some ambitious supplemental literacy and numeracy resources, for example, have been published for this kind of receptive market.

Typically, however, supplemental resources are conceived and designed to sell a few copies each to dispersed customers in many jurisdictions over a relatively long period of time, rather than the core model of selling many copies quickly to a few customers in a single jurisdiction. Publishers of supplemental resources therefore tend to invest more cautiously in both marketing and development, and plan to recoup their investment over a longer term than do core-resource publishers, even when the long development phase of core resources is taken into account.

Digital business models

Business models for digital products have emerged in both trade and educational publishing markets. The following six types of digital models are all in use by K to 12 publishers in Canada, although mostly by the larger, core-resource publishers outside of Quebec — since, as mentioned below in section D, digital sales remain very low among BPIDP-recipient publishers in the data set.

- **Sales by unit.** In this model, entire publications are sold as downloads, often copy-protected, and sometimes in propriety formats matched to proprietary hand-held devices. They tend to be priced 45 to 65 percent below the price of a similar print product.
- **Licensing.** Titles or blocks of titles are licensed to ministries, schools or districts, usually for screen-based delivery. Licenses usually require an initial fee as well as, in some cases, per-use fees, and can confer fixed-term or permanent rights. Licenses may include revisions, upgrades, additional services, or some other form of active relationship with the developer.
- **Subscriptions.** Access to single titles, groups of titles or periodicals is sold to ministries, districts or schools on a per-school or per-student basis, usually for screen-based delivery, for a renewable fixed term. The publisher may charge a separate fee, or the subscription may be included with the purchase of a print resource. Like licenses, subscriptions may include revisions, upgrades, additional services, or some other form of active relationship with the developer.
- **Sales of partial works.** In this model, individuals or institutions purchase portions of works for a portion of the unit-sales price, sometimes for assembly as part of a collection or course-pack.
- **Promotions and “discovery support”.** In this type of situation, publishers or aggregators (such as Google Books) offer searchable browsing of large lists, with page limits, for free.
- **Free access.** Some ministries and publishers make resources fully available for free as downloads, sometimes to serve their users with no expectation of sales, and sometimes on the theory that readers who find the downloads unsatisfactory

will buy the print version or enter into some other form of relationship with the supplier.

(This section draws on Tamblin, Michael. “Modeling the Impact of eBooks on Consumer Spending in the Canadian Book Industry”. Toronto: BookNet Canada, 2008, p8.)

Advantages of K to 12 publishing

K to 12 publishing enjoys some significant advantages over trade book publishing, including direct contact with well-known customers, low-to-no discounts, and low-to-no returns of products.

- **Direct contact with well-known customers.** K to 12 publishers in Canada can learn, with far more precision than trade publishers, exactly what their customers want. Their key customers comprise the education ministries of 10 provinces and three territories, rather than Canadian consumers in general. Even though K to 12 publishers must penetrate beyond the ministries to understand priorities and buying decisions in specific subject areas, and at the district and school levels, they can meet their markets face-to-face through regional and subject-specific displays and conferences. This allows for relatively well-founded business planning.

- **Low-to-no discounts.** Although supplemental publishers often rely heavily on wholesalers or “jobbers” – and, in the province of Quebec, on bookstores as well – most core K to 12 publishers make the majority of their sales directly to their customers, bypassing the wholesale and retail levels and therefore avoiding discounts. Note, however, that they still incur distribution costs – most through self-distribution, and some through distribution or agency agreements.

K to 12 publishers may publicize a “list price” and a somewhat lower “net” or “schools” price, but in practice, customers very rarely buy at list price. The net price is the normal selling price, since almost all customers are schools customers. A textbook priced for schools at \$50 adds \$50 to the publisher’s revenues.

There are some exceptions. Most publishers negotiate discounts on bulk sales to a ministry or district, but these discounts rarely exceed 10 percent. In Quebec, some schools and districts (representing 15 to 20 percent of educational sales) prefer to buy educational resources through local bookstores, but these transactions proceed on a “sell-through” basis: discounts from the publisher to the bookstore range from 0 to 15 percent, the bookstore may then mark up from the net price, and the resources are often delivered direct from publisher to school. Sales through jobbers may be made at discounts up to 25 percent in Canada, although wholesalers in the United States are now asking for 40 to 50

percent, and even higher in rare cases. Sales through wholesalers represent a small fraction of sales for most core K to 12 publishers, but even those supplemental publishers who rely heavily on wholesalers enjoy better discount rates than do trade publishers.

- **Low-to-no returns of products.** The BPIDP database has collected returns data since the 2004-2005 application year. Over that period, K to 12 publishers reported average returns of 3.8 percent. Typically, K to 12 sales are firm sales. Publishers accept returns on mistaken orders, when enrollments fall slightly below expectations, and in other negotiated circumstances, but buyers have no automatic right to return purchases and — since they are also the end users and tend to buy only what they know they need — no strong interest in doing so.

Risks in K to 12 Publishing

Despite its advantages, K to 12 publishing also involves substantial risks.

- **Increasingly decentralized buying decisions.** As will be discussed in further detail below, the process for purchasing educational resources varies from province to province and generally involves a number of different actors. K to 12 publishers depend on education ministries or their designates for the authorization of their resources, but must then sell to customers such as school boards and schools who may have other priorities for educational resources or budgets. Although there are exceptions in some provinces, governments typically do not invest in new K to 12 resources until the resource has been authorized for purchase — in other words, until all development and production costs have been incurred by the publisher. Stipulations by various government funding bodies and purchasers, such as those regarding authorship (for example, title eligibility for BPIDP funding is almost entirely restricted to Canadian-authored books), content (such as 85 to 100 percent adherence to provincial curricula in some provinces) and manufacture (such as incentives or requirements in some provinces to manufacture in that province or in Canada) are to some extent compensated by government assistance, but they nonetheless present a substantial risk.

- **Market fragmentation.** The K-12 market is fragmented by many participating companies and a growing number of available titles. Chart 3 and Chart 4 below show that, among BPIDP-recipient publishers, new educational titles per year and educational titles in print have both risen dramatically during the years included in the data set.

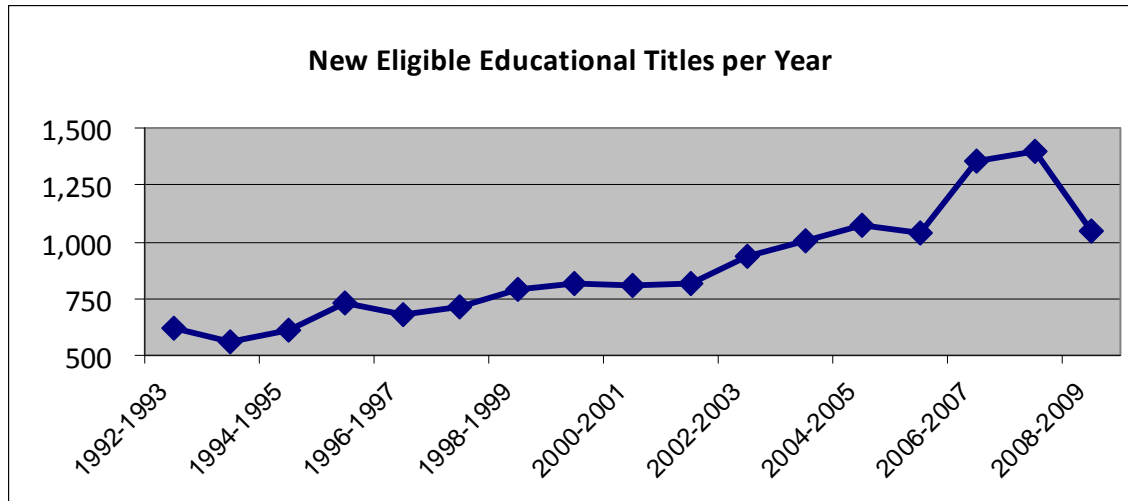


Chart 3

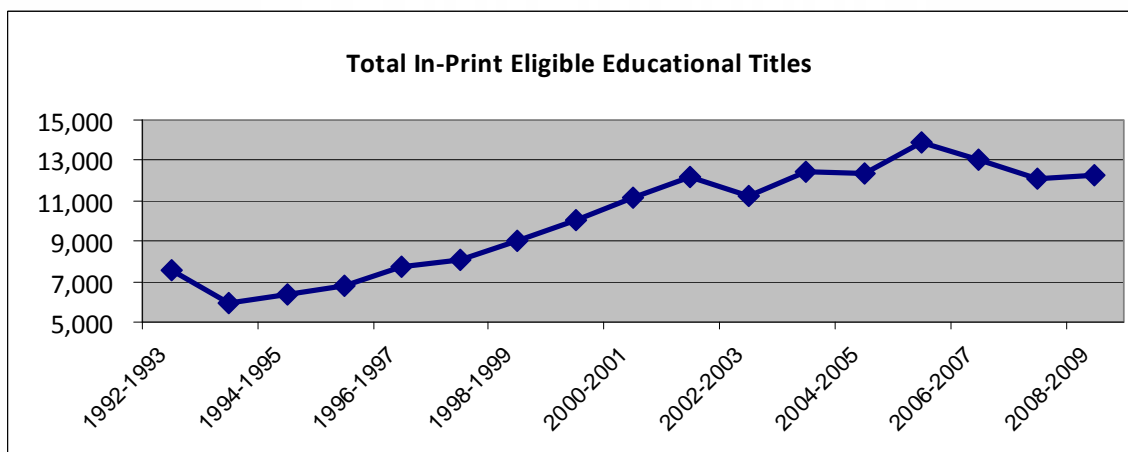


Chart 4

During the same period, total sales of educational titles have remained very flat, meaning revenue per title has gone down dramatically (see section C of this report).

- Long pilot periods in Quebec.** Industry standards in Quebec allow schools to pilot new resources for up to two years before making a purchase decision. This adds to Quebec publishers' already significant risks and marketing costs, and delays their return on investment. There is at least a three-year delay between the time the publishers start investing in the development of the product and the time that significant sales are generated. As a result, unit prices in Quebec are generally higher than elsewhere in Canada.

- Increased use of alternative and digital resources.** In addition to published resources, schools also use resources that are discovered or developed by the ministries, school boards and/or schools themselves. Such resources have fewer

formal restrictions on use, revisions, modifications, and repurposing. It is difficult to quantify their use, since tracking the in-house costs for resources is much tougher than tracking money spent on outside resources. Nonetheless, these factors put pressure on purchases from publishers, especially in times of budget restraint.

“Found” digital resources are another growing phenomenon. Especially when they are free, these resources come under less scrutiny and can meet lower standards than resources commissioned or purchased from publishers. K to 12 publishers sometimes find themselves incurring very high costs to meet very high authorization standards, while their potential customers are choosing — or, some would argue, are forced by tight budgets to settle for — free or less-expensive resources they find on or assemble from the internet, share through peer networks, or acquire through non-profit, open-source suppliers. Typically, these “found” resources are not required to meet the same authorization standards, and their real costs in staff time, printing and photocopying are not accounted for as educational resource spending.

In addition, sharing teacher-developed — and even student-developed — resources is facilitated by some school districts as a means of increasing participation and engagement, and saving on resource purchases.

- **Rising buyer expectations paired with falling sales.** The current market for educational resources places difficult demands on K to 12 publishers. Buyers want leading-edge resources — including born-digital resources with expanded functionality — customized with a high degree of correspondence to regional curricula. At the same time, total annual resource purchases are flat, despite the fact that, on a national level, funds nominally budgeted for resource purchases appear to be rising.

- **A hard-to-predict future requiring heavy investment now.** A bad match between long development schedules, often taking several years, and rapid changes in technology and buyer behaviour means that K to 12 publishers have to invest heavily now in a very hard-to-predict future.

Barriers to entry

Some of the risks of K to 12 publishing can also be seen as significant barriers to entering the industry. Barriers to entry strengthen the business position of established publishing houses by limiting competition.

- **Shortage of working capital.** The 1999 study by Wagman and Hunt, “Scholarly and educational publishing in Canada: An industry profile”, notes that a shortage of working capital “restricts smaller and Canadian-owned publishers to ‘niche’ categories of supplementary materials.” Particularly in the English-

speaking K to 12 sector, this holds even more true today. Wagman and Hunt note that high pre-production and marketing costs, plus market uncertainties, keep smaller publishers out.

On the other hand, not all “niches” are supplemental niches. Companies both within and outside Quebec that have assembled enough working capital or credit to enter core publishing through lower-enrollment subjects, minority languages or other “niche” routes have demonstrated the capacity to then build capital through operations.

- **Difficulty obtaining financing.** The K to 12 industry is driven by intellectual property, making external financing difficult. Lenders do not normally accept work-in-progress or copyright as security.

- **Long development lead times.** It takes up to three years to develop a new core resource. Supplemental resources, though usually smaller and simpler than core resources, are typically developed in series of tens or even hundreds of titles, with carefully conceived links to curricula in multiple jurisdictions, and this process also typically takes a year or more. New K to 12 publishers need considerable staying power to realize their first sales.

Long pilot periods in Quebec add to this barrier to entry for new core-resource publishers in Quebec.

- **Irregular sales cycles.** Sales cycles of both core and supplemental resources in K to 12 publishing follow curriculum cycles, which are never perfectly regular or coordinated among the provinces. This again means that K to 12 publishers need financing to fall back on when sales are low.

- **Intense competition from established publishers.** Established publishers in the K to 12 industry invest continually and substantially in building stable business relationships, strong author relationships, well-established sales networks, experienced staff and contractors, and their working capital. All of these factors make it difficult for new entrants to the industry.

- **Shortage of skilled and experienced staff.** K to 12 publishing requires all the skills of book publishing in general, plus exceptional project management skills, specialized knowledge in specific subject areas, knowledge of pedagogy, and familiarity with the K to 12 system in Canada. Good project managers and K to 12 editors are in high demand across Canada, and those in the profession are greying quickly.

Publishing processes

Determining project feasibility

Although supplemental resources are distinguished from core resources by lower development costs, shorter timelines, less rigorous requirements for approval, and less stringent correspondence to curricula, most of the points below generally hold true for both major supplemental (such as a series of illustrated levelled readers) and core resources (such as a full grade level of a core subject such as social studies).

It should be noted that supplemental resources can be as simple as a single, unillustrated book; in those cases development processes and costs would resemble a substantial trade title. Multimedia projects are almost infinitely variable and therefore harder to describe, but since markets have fairly inelastic budgets, overall costs cannot range too far above those for print resources produced for a similar market.

In the area of publishing processes, some observations from the 1992 Department of Communications study, “Evaluation of the Book Publishing Industry Development Program (BPIDP), Study on Educational Publishing”, are still relevant today. The study identifies the high stakes that continue to shape decisions about project feasibility in K to 12 publishing, for both supplemental and core resources:

- Products in K to 12 publishing are differentiated by their level of prepublication costs, level of effort to obtain market information, and their development and production costs, which even in 1992 were described as ranging from \$20,000 per title to \$2 million per title.
- Relatively large production runs enable spreading fixed costs, but the onus is on the publisher to guess right. If a publisher anticipates spreading fixed costs over a sale of 40,000 copies, for example, and instead sells 5,000 because of tough competition or unexpected pressures on schools’ available budgets, the project will fail to recover its costs, let alone any profits.

In Canadian K to 12 publishing, a feasible project must meet specific customers’ specific needs. This means originating a new title or series, adapting or translating an existing title or series, or acquiring a suitable existing title or series. The last option is now unusual for core resources in Canada because of buyers’ strong preferences for Canadian authorship, but it is very common in supplemental resource publishing.

Before deciding to develop or translate a major resource, K to 12 publishers

carefully review the curricula of target jurisdictions in order to determine what the new needs are, analyze competitors' existing titles, and then develop a detailed proposal for the new resource.

Because the stakes are so high, K to 12 publishers typically apply a rigorous internal process to determine a project's feasibility:

- They describe the publishing opportunity and the resource: that is, its contents, structure and features, its authors and their previous experience.
- They analyse the competition, including all similar existing titles or titles in development, their publishers, their prices, their sales, and the strengths and weaknesses of each work.
- They consult experts in order to validate that there is interest for a new book and to understand the needs that a new work must meet.
- They analyse the remaining market to determine the number of institutions that might be interested in the resource and the target student population.
- They do a profitability projection including the number of units that could be sold each year over the life of the work, the unit sales price, a development cost budget for each production stage and the gross margins that could be achieved.

Proposing and developing projects

When a publishing proposal is created in response to a request for proposals (RFP) from a prospective customer, it needs to conform to a specified format. Buyers often require full detailed outlines and a substantial sample of the proposed resource — typically a full chapter — and it is not unusual for a K to 12 publisher to spend up to \$100,000 on the proposal stage alone.

After the proposal stage, which may itself take six months to a year, original titles often take from one to two years in development. This schedule overlaps with advance marketing, and often includes piloting near-finished resources in real classrooms.

Translation and adaptation schedules (a common consideration, since many core titles will eventually be published in both official languages, and some are implemented simultaneously in both French and English) vary from six to 12 months.

K to 12 resources almost always have named authors (normally educators), but publishers support those authors with extensive editorial and production teams. A development team for a major resource seldom includes fewer than 10 to 15 people, and may literally include hundreds of contributors and reviewers.

Fixed development costs for original core resources typically range from \$400,000 for a full-year primary-school resource to \$800,000 for a full-year secondary resource. Author royalties, coming after sales of products, are additional to these costs.

Fixed development costs for translations typically start at about \$150,000 for a full-year resource and range upwards, depending on the length of the student and teacher resources. Translators are normally paid by the word as part of the fixed costs, and original authors receive royalties as a variable cost depending on sales.

Scheduling and managing production

Following the decision to publish, K to 12 publishers refine their development plans and marketing plans. They assign the execution of their plans to project managers, who draw up project schedules and manage the various stages of production of the work.

In order to maintain flexible capacity, most K to 12 publishers contract out much of their development and production operations. Translation, editing, proofreading, illustration, photography, computer graphics and printing services are often contracted out to suppliers with whom the publishers maintain good business relationships. Many publishers have internal design and layout departments because guaranteed capacity and time-critical responses are especially important in that area.

Budgeting for development and production

Production costs are either fixed or variable. Variable costs include the cost of paper, printing and binding, and royalties, for example, because they vary with the number of copies manufactured or sold. Fixed costs include all development costs that do not vary with quantity, such as author advances, translation, editing, proofreading, expert review, indexing, illustration, computer layout, and digitization.

Charts 5 and 6 below describe typical percentage costs in the development of original and translated K to 12 resources. These budgets include fixed production costs as well as first-run printing costs.

Original K to 12 titles are very expensive in the initial planning and advance-marketing stages. Substantial royalty payments are also incurred at this stage in the form of author advances; additional royalties are paid as a variable cost if unit sales exceed the advance. As full-colour, heavily illustrated resources they are

also costly in the areas of illustration, photography, design and layout, and are expensive to print.

The figures in these charts are based on the authors' extensive experience developing both original and translated resources for Canadian schools.

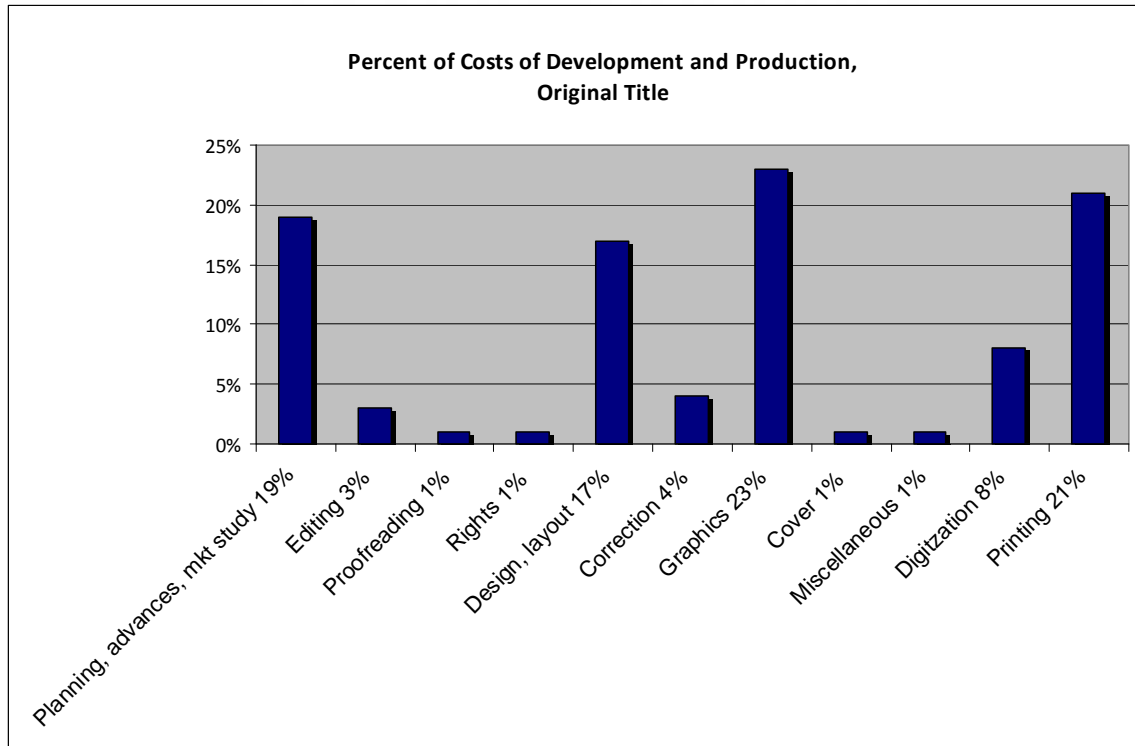


Chart 5

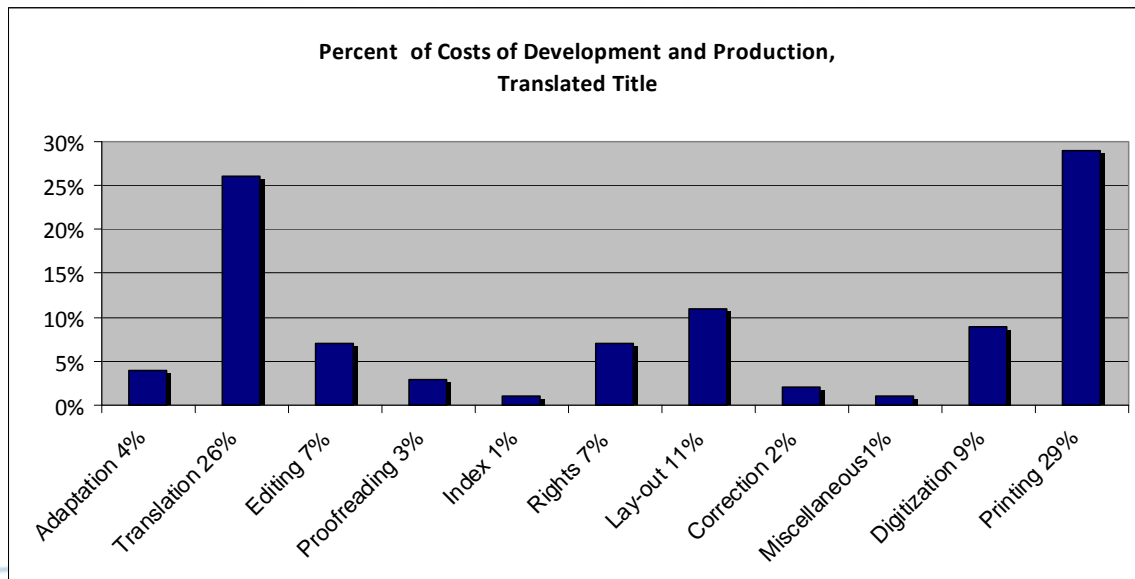


Chart 6

Translation itself is very expensive, and translation costs are fixed, because they are incurred before publication and, unlike royalties, they vary per word rather than per copy sold. The translating publisher normally pays a reduced royalty to the originating publisher as copies of the translation sell, but publishers rarely pay advances for the right to translate resources into the minority official language for a jurisdiction, because the economics of those translations are already difficult. Because of smaller print runs of full-colour illustrated resources to serve smaller student populations, printing translated resources is also relatively expensive.

Sales, marketing and customer relations

Overall trends and characteristics

Sales, marketing and customer relations in K to 12 publishing are in many ways unique to the sector. In decentralized-purchasing jurisdictions, which account for most of the buying in Canada, even when a publisher wins a competition to develop resources or has a resource authorized, they must then market and sell to their customers, board by board and school by school.

Diminishing role of jobbers

The 1992 Department of Communications study mentioned above describes the four types of participants in the textbook market as publishers, jobbers, purchasers and users. Jobbers are wholesalers in the book trade which position themselves as preferred vendors to major accounts, such as libraries or schools. They offer “one stop shopping” for books from multiple publishers at or near the publishers’ prices for direct sales, and they sometimes add value in the form of metadata in the customer’s preferred form, improved bindings, or other services. To earn a profit within this business model, jobbers require discounts from publishers. In the years since the 1992 study, the role of jobbers has substantially diminished in K to 12 publishing in Canada; K to 12 publishers still sell to jobbers, but they make every effort to sell directly to their customers, avoiding jobbers’ discounts.

Cycles of curriculum review and reform, and sales patterns

Regular reviews and reforms of individual curricula drive a cyclical pattern in K to 12 publishing. Curriculum reforms occur at intervals of roughly seven to 10 years,

although in rare cases a curriculum may remain in place for decades, as was the case in Quebec.

Quebec, Ontario, the Atlantic provinces and the Western provinces each review their curricula at different times, on planned schedules, but typically without coordination among regions. Most jurisdictions review one major subject area at a time, and revise one or more grade levels per year over a period of years. Quebec tends to reform all major subjects for a block of grades over a period of a few years.

The result tends to be a somewhat irregular, cyclical pattern to the total Canadian market: in years when several major reforms coincide, overall sales peak; in years without major reforms, sales fall off dramatically. Any publisher focusing on a single jurisdiction or a single subject area may see a more regular, more dramatic cycle, unbuffered by the processes going on in other provinces or subjects.

K to 12 publishers develop resources based on the latest curricula established by each jurisdiction in order to be eligible for approval and sale to schools. Ministries typically keep publishers informed on planned changes in draft form, and publishers sometimes begin development before a curriculum is finalized.

In Canada, ministries, schools and school boards buy most educational resources using provincial money. Provincial and regional economic conditions can have a significant impact on sales, and can sometime slow curriculum renewal, lengthening the time between initial investment and eventual product sales for K to 12 publishers.

Sales of any particular resource are not evenly distributed during each curriculum reform cycle; they tend to be concentrated in the first year, followed by strong but lower sales during the next year or two, with sales in subsequent years coming mostly from replacement of damaged or lost resources. Although publishers do tend to print relatively high numbers of copies of full-colour, illustrated K to 12 resources, to lower unit costs, most K to 12 publishers now try to match their inventory to the demand at each stage of these cycles, rather than deliberately manufacturing enough copies of a resource to last for the entire cycle.

In total, this replacement market can be nearly as important as the initial market for a resource. K to 12 publishers, therefore, have very durable backlists.

In this environment, K to 12 publishers with small lists tend to experience large fluctuations in year-by-year sales. As they grow, they even out those fluctuations by developing and publishing many resources with overlapping schedules, or by taking their existing resources into new jurisdictions over time.

Most resources sell in the months from May to September. Although they market year round, K to 12 publishers realise 80 percent of their sales between May to September, when schools are looking ahead to the new school year.

Returns of elementary and secondary school resources are negligible, since school boards purchase textbooks based on known numbers of enrolled students.

Sales and marketing techniques

Attendance at conferences and displays is key to sales. Most K to 12 publishers attend an extensive round of conferences and displays across Canada over the course of the year, focusing on the regions and subjects for which they are publishing, but also exploring new ground. Teachers expect to see publishers at their meetings, and to have the chance to review and comment on new or coming resources.

Editorial staff often travel from their editorial offices to these displays; larger publishers may also maintain or retain their own marketing teams across Canada. By attending displays, publishers combine marketing and product research — displays are a chance for publishers to meet and interact with their markets. K to 12 publishers often sponsor events to build relationships with key contacts in their target markets.

Larger K to 12 publishers employ sales representatives across Canada who may double as marketers, typically on a base salary plus commission basis. This can work very well, depending on the local curriculum cycle and the effectiveness of the sales representatives, but it is also very expensive. Smaller publishers may contract independent sales agents who represent several lists.

For many years, a standard promotional expectation for a new title launch in major markets has been a mailing of free copies to potential school customers. For a primary-school, English-language resource in Ontario, this means mailing almost 4,000 free copies, at a typical cost of \$70,000 to \$80,000 in product and shipping costs. Digital review copies and other strategies are beginning to be acceptable substitutes in the eyes of potential customers, but most teachers and administrators involved in buying decisions still demand free copies of their options, and most publishers still supply them.

All K to 12 publishers do centralized marketing by telephone, fax (still very common, since it generates a durable record of communication), catalogue or sample mailings, and e-mail. Most also purchase some space advertising in professional publications.

Most K to 12 publishers deliver professional-development or “in-service” sessions to introduce teachers to their products. Individual teachers often have a say, sometimes by formal vote, in the resources chosen by their school or district.

Larger publishers also sponsor professional-development sessions with broader scope, intended to explore trends in education and build relationships, rather than to sell particular products.

Strong working relationships between publishers and their customers will grow in importance if, as most expect, digital-resource markets grow. License and subscription business models rather than unit-sales business models emphasize continuing relationships in which the publisher provides a service rather than selling a product. Strong relationships with key leaders in their target markets, therefore, are an important path to publishers' futures.

Principal events and conferences attended by K to 12 resource publishers in Canada

There is no simple answer to the question of where and how K to 12 publishers meet potential buyers, authors, and potentially influential promoters of their works. Most K to 12 publishers develop their networks as carefully as they do their resources, because in fact the two are closely linked.

By cultivating and listening carefully to their networks, they stay abreast of trends in education, and they also learn of resource needs, meet potential authors, often have the chance to promote their current and upcoming resources, and often have the chance to learn about their competitors' resources and plans.

Without claiming to be exhaustive, the list attached as Appendix B notes some of the influential events and conferences in Canada of interest to K to 12 publishers in various subject areas and resource categories, and several key U.S. events that some Canadian K to 12 publishers attend.

Purchasing considerations

As described throughout this report, the K to 12 education system is the principal purchaser of products from the K to 12 publishing sector in Canada. Typically, ministries of education and school districts and boards:

- set the standards for resources,
- specify the content framework through curricula,
- dictate style, approach, formats and media,
- specify acceptable prices,

- encourage investment in new educational products while reserving the right to reject the results,
- identify the characteristics of acceptable authors,
- designate whether the book must be printed in Canada, and
- in many other ways shape the work of publishers.

The K to 12 educational system also has the capacity to create its own resources, and it sometimes reserves the right to invest in or to leverage that capacity when it determines that publishers have not met their needs. In short, the principal purchaser of products from Canada's K to 12 publishers is in a very strong position.

Purchaser models

As has been noted, there has been a general trend towards the decentralization of purchasing decisions since the 1960s. Despite some exceptions, ministries rarely dedicate funds for resource purchase. Instead, they fund students through overall allocations that are then managed at the school level. Even though spending on educational resources amounts to between one and two percent of total educational spending, it is one of the few elastic items on school-based budgets; principals do not have a choice about paying the heating bill, for example, but they can spend more or less on textbooks. This situation varies from province to province, as will be discussed in more detail below.

The provinces use a variety of strategies for ensuring their K to 12 resource needs are met:

- **Calls for Resources**, where ministries issue specifications and invite developers to either submit existing resources or develop new resources for authorization under the specifications.
- **Requests or Calls for Proposals (publisher's risk)**, where ministries issue specifications for new resources, invite publishers to submit proposals for developing those resources, and then choose one or more publishers to develop the resources at their own risk for eventual sale. This category can be referred to as "market-driven publishing", because that is the income model.
- **Requests or Calls for Proposals (subsidized)**, which resemble number 2 above except that, normally because of smaller student populations, ministries choose only one publisher to develop the resources, and then offset but do not extinguish the publisher's risk by a direct subsidy. The publisher then sells the resources to schools.

- **Fee-certain contracts**, where ministries select a publisher through competition to develop specified resources for a fixed fee under supervision by the ministry. Some ministries seek to acquire copyright in fee-certain arrangements. The ministry may then distribute the resources within their province at no cost to users. This is sometimes referred to as “custom publishing”. Some K to 12 publishers focus on fee-for-service opportunities; this reduces their risk without eliminating it, since they must still successfully complete the contracted resources in order to be paid. Buyers may offer fee-for-service arrangements when the costs and risks of development are not offset by the demonstrated market opportunity. In the Canadian K to 12 market, fee-for-service contracts have been common in multimedia, digital resources, and minority language and culture resource contracts.
- **In-house development**, where the staff of ministries, districts or schools develop resources and distribute them at no cost to users.
- **Partnered development**, where publishers and ministries both contribute to the development of authorized resources and share the copyright and imprint, but the publisher sells the resources to schools at market prices.
- **Guaranteed-purchase development**, where publishers are chosen by competition to develop resources at their own risk, in return for a guaranteed minimum purchase at an agreed price when the resources are approved. The publisher retains the right to sell additional copies.
- **Open development**, where teachers and other users contribute without compensation to the development or enhancement of resources through wikis or other networks, and these resources are then distributed free to other users, through informal or coordinated networks.

Provincial decision makers and processes for K to 12 resource approvals and acquisitions

K to 12 publishers can and do build expertise in learning how to navigate the people and processes through which educational resources are requested, reviewed, authorized and purchased in Canada. The challenges of deciding what to publish and who will buy it is more approachable in K to 12 publishing than in the book trade, but that is not to say that it is simple, standardized, or unchanging.

Most successful K to 12 publishers devote enormous amounts of time and energy to learning about how decisions are made and who makes them in each market area where they are active, and to keeping that knowledge current.

This section provides a national sketch; its inconsistencies and complexity mirror the inconsistencies and complexity of Canada's K to 12 marketplace.

British Columbia

The process governing resource approvals and acquisitions in British Columbia is highly decentralized. The provincial ministry of education (BCME) sets curricula (sometimes in collaboration with the other western provinces and the territories through the Western and Northern Canadian Protocol, or WNCP) and policy, but leaves many decisions to districts or coalitions of districts.

BCME evaluates resources and creates a list of recommended resources. BCME works with committees of teachers to evaluate resources for inclusion on its list.

The Educational Resource Acquisition Consortium (ERAC), formed in 2003, is funded by the BCME and has broad membership representing public schools in BC and some independent schools. It evaluates and negotiates preferred pricing for some educational resources, and works in collaboration with the Alberta Learning Resources Centre to provide cost-effective, one-stop access to some BC-approved learning resources. ERAC posts its list of recommended resources on its website. This list also shows BCME-approved resources, separate from ERAC-approved resources.

Districts and schools make purchasing decisions. They must choose resources that are provincially or locally approved, but local approvals give them enormous flexibility. They can buy direct from suppliers, from private wholesalers, or from the Alberta Learning Resources Centre.

Alberta

The process of resource approval and acquisition in Alberta is partly decentralized. Alberta Education (AE), the provincial ministry, sets curricula and actively guides resource development. It rigorously authorizes resources through some of its branches, but also delegates this authority to boards and branches that can establish their own processes for authorization.

Alberta also participates in developing regional curricula and supervising corresponding resources through the WNCP. Alberta Education is the lead agency for mathematics under the WNCP.

Alberta Education issues calls for proposals to fill some resource needs, and has a hands-on process for the development of resources to ensure fit with curricula. Review teams of educators and AE staff choose one or more publishers to develop resources in English, and at least one to develop corresponding

translated and adapted resources in French to meet immersion and francophone needs. Review teams then work with the publishers to complete the resources. At the end of a development process, AE reviews the resulting resources for authorization.

AE also issues calls for existing resources for some programs of study, and will review publisher-submitted resources for possible authorization at any time.

The Alberta Learning Resources Centre (LRC) is a provincially run wholesaler that offers all authorized and some unauthorized resources for purchase, sometimes with discounts. AE makes a small per-student grant of dedicated funds available to schools and school boards that can only be spent on authorized resources purchased through the LRC. Nonetheless, school boards and schools make their own decisions about whether to buy resources, and which to buy.

The LRC offers all authorized resources with the following financial incentives:

- Early Order Discount: 10 percent on most resources, if ordered before a spring deadline for fall delivery.
- Learning Resources Credit Allocation: in 2009, this was \$12.07 per student and could be applied against 25 percent of a school's purchases.

Schools and districts can buy directly from suppliers. They are not obliged to buy authorized resources unless they are spending funds designated for authorized purchases.

Saskatchewan

Saskatchewan also has a partly decentralized system for resource approval and acquisition. Saskatchewan Education (SE), the provincial ministry, sets curricula, reviews and authorizes resources, and coordinates and commissions some resource development, but schools and districts decide what they will buy. Saskatchewan participates in the WNCP, but normally reserves the right to "adopt or adapt" the resulting curricula and resources.

SE evaluates resources using teacher-evaluators, and creates lists of recommended resources for all schools (including English-language, immersion, and francophone schools).

Schools can buy resources directly from suppliers, including publishers and wholesalers. Schools are not obliged to buy resources recommended by SE, but they do have to comply with resource-acquisition policies set by school districts.

Manitoba

Manitoba is another province with a partly decentralized system. As in Saskatchewan, the provincial ministry — Manitoba Education, Citizenship and Youth (ME) — sets curricula, reviews and authorizes resources, and coordinates and commissions some resource development, but schools and districts decide what they will buy. ME also participates in the WNCP, and approves resources developed through WNCP.

When ME issues a call for proposals, an evaluation committee made up of staff from ME and the Manitoba Textbook Bureau chooses one proposal. In these situations, Manitoba normally ensures the availability of corresponding resources in French.

ME also issues calls for existing resources and then reviews resources submitted by publishers for curriculum fit. It uses teams of teacher-reviewers and creates lists of recommended resources, including English-language and French-language resources.

The Manitoba Text Book Bureau (MTTB) is a provincially run warehouse that offers ME-recommended resources for purchase, with some financial incentives. In 2007-2008, the Manitoba government put \$30 per student “on deposit” at the MTTB, half of an overall grant of \$60 per student, which can be considered a strategy for ensuring that at least half the grant is actually spent on resources of this kind.

There is no requirement for educators to select resources from the ME-recommended list, or to buy from the MTTB. Educators can buy directly from publishers.

Ontario

Resource approval and purchasing in Ontario is largely decentralized. The Ontario Ministry of Education (OME) sets curricula, but out-sources the process of resource review and approval to Curriculum Services Canada (CSC) for English-language resources, and to the Centre canadien de leadership en évaluation (CLÉ) for French-language resources. Both organizations charge K to 12 publishers for reviews. The OME allows for resource purchases in its funding model, and makes special allocations to resource purchases on an irregular basis, but districts and schools make their own spending decisions.

The OME sets policy and programs of study, but is not usually directly involved in the review or development of resources through calls for resources or proposals.

CSC reviews and selects English-language resources for a list of approved resources, called the Trillium List. CSC reviews completed resources for a fee —

in 2009, the fee was \$3,500 per review per resource — paid by the publisher. If a publisher hopes to list a resource for more than one course, the fee is required for each course. The fee is refunded if CSC concludes in a preliminary assessment that the resource is not worth reviewing. Otherwise the fee is non-refundable, whether or not a resource makes the list.

Le Centre canadien de leadership en évaluation (CLÉ) evaluates French-language resources for inclusion on the Liste Trillium. In 2009 it charged publishers \$400 per review.

Schools, boards and districts buy resources directly from suppliers, and they do not necessarily restrict themselves to the Trillium List except when spending specially designated funds. Boards are in theory responsible for ensuring that each student has a copy of required textbooks, but there are gaps in practice.

Quebec

The province of Quebec employs highly centralized processes. It uses industry-support programs and designated funding for resources matching new curricula to ensure that publishers develop competing resources that offer choice to schools and school boards.

Support programs for cultural industries fall under the authority of the ministry of culture (the ministère de la Culture, des Communications et de la Condition féminine), and most of those related to the publishing industry are operated by le Société de développement des entreprises culturelles (SODEC). The ministry of education (the ministère de l'Éducation, du Loisir et du Sport) approves resources, and schools and boards buy them.

Most of the content in Quebec resources is originally authored, rather than translated into French for the Quebec market, since that is the overwhelming preference of Quebec buyers.

The ministry of education reviews and revises its programs of study on a regular schedule, and then provides its schools with funds to purchase corresponding resources, leading to a strong cyclical pattern in K to 12 resource purchases.

The ministry of education in Quebec announced an overall curriculum reform for secondary levels in 2002. The reform process is now completed up to secondary grade 4. While it lasted, this reform added considerably to the annual revenues of Quebec's K to 12 publishers.

In a system unique to Quebec, schools in that province can pilot new resources for up to two years before making their purchase. If they are satisfied after the first year, they make a purchase. If not, they can pilot resources from a different publisher for a second year.

Despite Quebec's Law 51, the *Loi sur le développement des entreprises québécoises dans le domaine du livre*, which sets certain conditions for the way books are distributed and sold, K to 12 publishers in Quebec often deal directly with their customers – school districts and schools – to sell resources that match provincial curricula.

Atlantic Canada

The provinces of Atlantic Canada often coordinate their efforts in curriculum and resource development to create a substantial regional market through the Council of Atlantic Ministers of Education and Training (CAMET), and they tend still to make centralized buying decisions.

Newfoundland typically reviews resources at the ministry level using teacher committees, chooses a single approved resource per subject, and buys core resources in quantities sufficient for one per student. It rarely requires original resource development, except as part of CAMET, and instead buys “off the shelf”. It rarely pilots resources before buying.

Nova Scotia's education ministry operates a provincial Book Bureau, but the bureau tends to buy in quantities only sufficient to fill current orders, rather than operating as a wholesaler with standing stock. As the largest jurisdiction participating in CAMET, Nova Scotia tends to strongly influence CAMET decisions. It normally selects and approves a single resource in core subject areas, and on rare occasions buys centrally for the entire province. Schools normally purchase resources.

New Brunswick's education ministry has parallel francophone and anglophone arms each under its own assistant deputy minister. It normally selects and approves a single resource in each core subject area, and sometimes purchases centrally in quantities sufficient for one resource per student. Schools normally purchase resources.

Prince Edward Island, as a very small jurisdiction, relies on CAMET to stimulate the development of K to 12 resources for Atlantic Canadian students and programs of study.

Yukon, the Northwest Territories and Nunavut

As very small jurisdictions, Yukon, the Northwest Territories and Nunavut tend to rely on curricula established in other jurisdictions or in collaboration with other jurisdictions. Yukon uses British Columbia's curriculum in most subject areas, and the Northwest Territories and Nunavut use Alberta's. All three territories have pursued various strategies in collaboration with regional educators and

communities to develop K to 12 curriculum and resources that support their languages and cultures. Most K to 12 publishers relate to the territories as small extensions of the provinces whose curricula they use. Note, however, that the territories all participate in the WNCP and can use their participation in WNCP curriculum and resource development to shape programs of study and the content of approved resources.

Comparison to higher-education publishing

Although K to 12 publishing and higher-education publishing both fall within educational publishing, higher-education publishing functions very differently from the K to 12 sector.

Higher-education publishers typically sell through bookstores or student cooperatives (although sometimes directly to instructors or students), and students, not their schools, pay for the resources.

The post-secondary market segment has three separate school sessions: the fall and winter sessions and a much smaller summer session. This spreads buying patterns over the year to a greater degree than in K to 12 publishing.

The higher-education resource industry faces product returns because it is difficult for a bookstore or a cooperative to estimate the number of textbooks that will be sold due to competition from the used book resale market.

In order to minimize the demand for used textbooks, publishers have shortened the life cycle between new editions to a three to four-year cycle.

Although some programs — such as those offered by professional faculties or apprenticeship courses — follow standards prescribed by a governing authority, many post-secondary instructors set their own syllabus, and choose their own resources. Publishers, with their expert authors, track the content of courses being offered and then do their best to match their new or revised resources to the content. This creates many opportunities of many sizes for publishers. Large-enrolment programs attract intense competition as publishers seek adoptions at the instructor, faculty, or department level; smaller programs may attract no competition at all.

Post-secondary bookstores typically mark-up from publishers' net prices rather than buying at a discount from a notional retail price. The exception is in Quebec, where publishers must comply with the province's Law 51 and provide accredited bookstores a 30 percent discount on the retail price.

Most post-secondary institutions run course-pack operations, through which instructors can commission resources scanned or photocopied from many different sources and then assembled on paper or in digital form. These

operations normally work under license from Copibec (for the province of Quebec) and Access Copyright (for the other provinces of Canada), ensuring that copyright-holders are compensated for use, but they definitely eat into unit sales.

Post-secondary institutions and instructors are converting quickly to digital instruction strategies, including the use of digital resources. Many higher-education publishers now offer digital versions of their print resources, and, in the U.S., CourseSmart offers one-stop shopping for digital versions of many publishers' resources.

Because students purchase higher-education resources from their own pockets, and because those resources are often very expensive, buyers tend to resist and work around publishers' strategies to maintain their revenue streams. Students may be winning this battle, since most K to 12 publishers have had flat or falling sales results in recent years.

At least for now, however, higher-education publishing is a much larger sector than K to 12 publishing. Sales through the University of Alberta bookstore alone, for example, are roughly as large as all K to 12 purchases in the province.

C. BPIDP Recipients in the K to 12 Sector

This section delves into the specific characteristics of BPIDP recipients in the K to 12 sector for the period from 1992-1993 to 2008-2009. A number of considerations should be borne in mind when reviewing the data presented here.

It should be noted that the findings below reflect the fact that publishers enter and leave the data set in every year; this happens for a range of reasons, including shifts in business focus, changes in the level of educational sales, the creation of new companies, and changes of ownership. Some of the fluctuation in the observed activities and financial performance of K to 12 BPIDP publishers over time can be attributable, in part, to this fluidity in the recipient population.

In addition, publishers who apply for BPIDP funding report financial data to the program based on their own fiscal years and from their own accounting systems, neither of which are standardized among K to 12 publishers.

Number and types of K to 12 publishers in BPIDP

Chart 1, repeated below, shows that the number of K to 12 companies receiving BPIDP funding has remained fairly stable over the term of the data set, although in 2008-2009 there are five fewer companies than in 1992-1993.

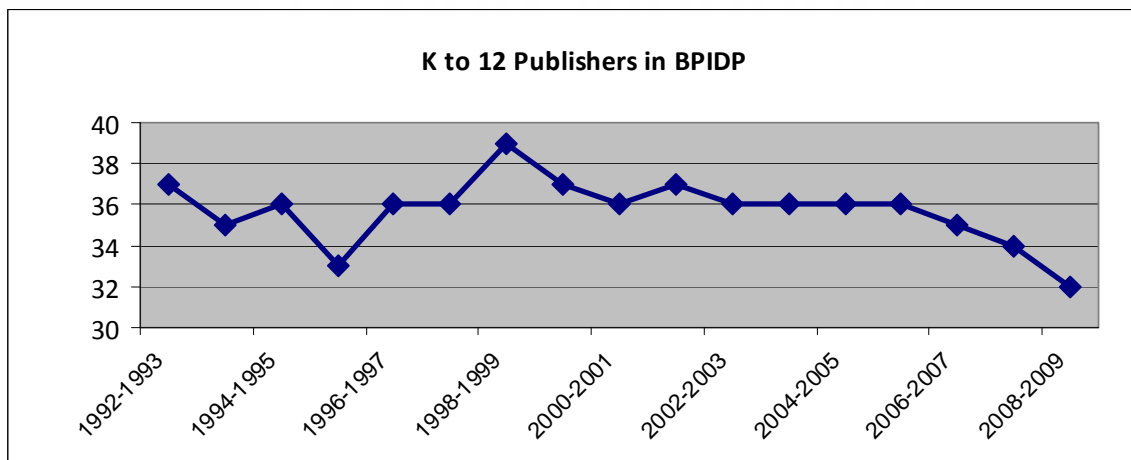


Chart 1

Over this period some new companies entered the data set, and some established companies disappeared from it. In general, however, the companies in the data set kept their educational sales at substantial levels, and stayed dedicated to K to 12 publishing, rather than dipping in and out of this sector.

Chart 7 below shows that most K to 12 publishers in the data set in any given year (never less than 80 percent) are substantial publishers, in the sense that their educational sales alone would qualify them for the BPIDP.

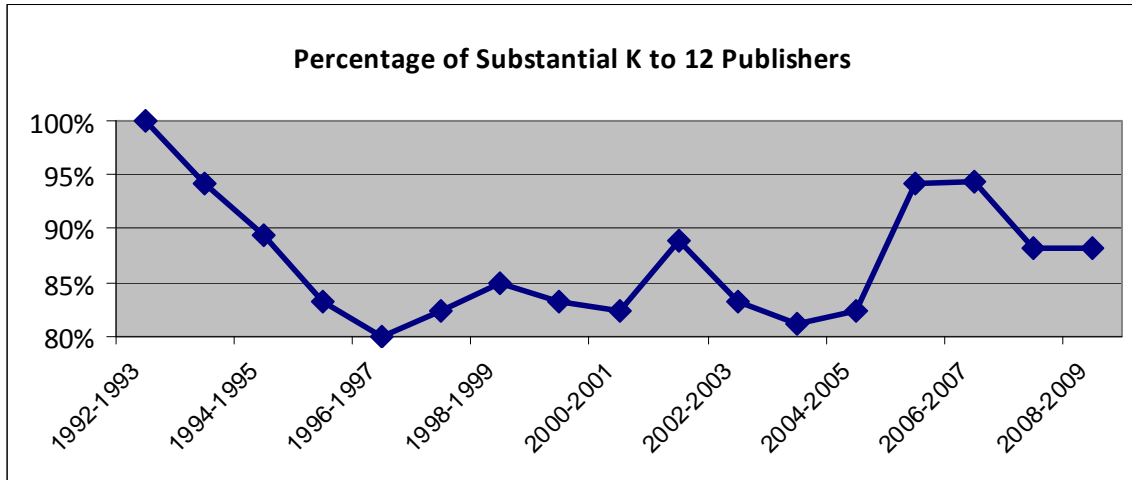


Chart 7

Chart 8 below shows that in general K to 12 publishers in the BPIDP data set are also dedicated to K to 12 publishing, and in particular to publishing eligible educational titles.

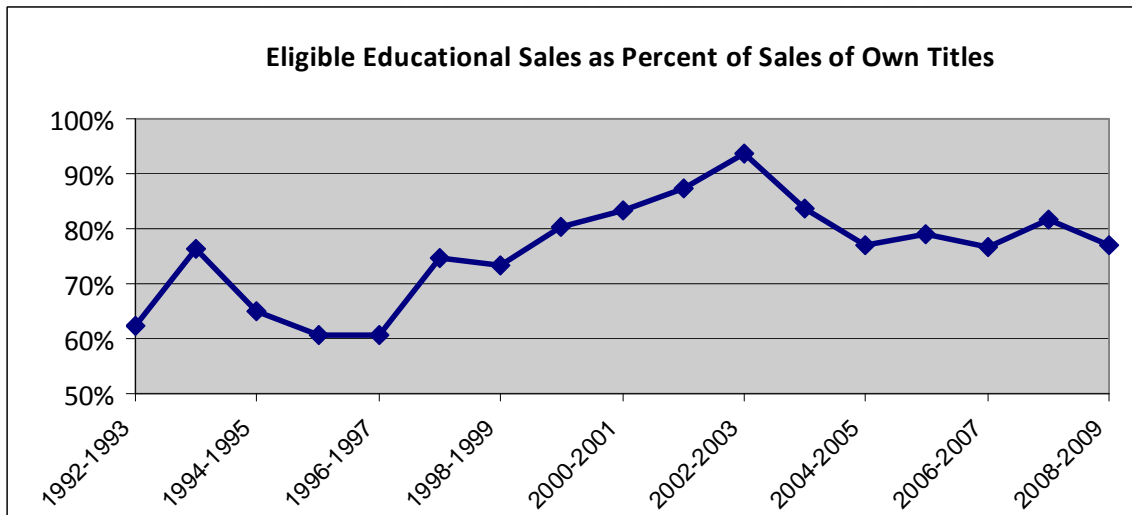


Chart 8

The BPIDP-recipient K to 12 sector, then, has been relatively stable over this period. The total number of companies has fluctuated within narrow limits, the companies participating in the sector have been dedicated to K to 12 publishing, and they have generated substantial revenues with their eligible educational titles.

Principal players

This sub-section will describe principal players in BPIDP – the largest BPIDP recipients, based on sales – both by region and in comparison with non-BPIDP firms. To the extent possible, it will also distinguish between principal players based on whether they have primarily core or supplemental programs.

Industry context

Over the full term of the data set, 1992-1993 to 2008-2009, few of the K to 12 companies participating in the BPIDP have had sales over \$5 million per year. As is highlighted in Table 1 below, most K to 12 publishers participating in the BPIDP over the 17 years of the data set were small to middle-sized companies.

Table 1:

Numbers of K to 12 companies participating in the BPIDP by total sales of own titles, unadjusted for constant 2008 \$

Application Year	Under \$1m	Between \$1m and \$5m	Over \$5m
1992-1993	18	15	4
1993-1994	17	15	3
1994-1995	16	16	4
1995-1996	18	10	5
1996-1997	19	11	6
1997-1998	20	11	5
1998-1999	22	13	4
1999-2000	18	13	6
2000-2001	16	15	5
2001-2002	19	12	6
2002-2003	19	14	3
2003-2004	16	14	6
2004-2005	13	16	7
2005-2006	17	13	6
2006-2007	17	12	6
2007-2008	11	17	6
2008-2009	14	13	5

While some companies participating in the BPIDP rank as principal players in the industry overall, particularly inside Quebec, many do not.

Although individual companies' sales data are confidential, the generally strong position of BPIDP-recipient publishers inside Quebec can be summarized. As of 2006, which was the last year of available sales data covering all K to 12 companies in Quebec, eight of the top 10 companies, measured by sales, were BPIDP-recipient companies, accounting for roughly 50 percent of the K to 12 market inside of Quebec, and almost 100 percent of the French-language market outside of Quebec.

Ranking the top 10 K to 12 companies outside of Quebec in order by their estimated K to 12 sales in 2008 shows that 5 of the top 6 are non-BPIDP-recipient companies, accounting for an estimated total market share of 83 percent of the English-language market in Canada. All other companies share the roughly 17 percent of the English-language market that remains.

Principal players within BPIDP

The authors of this study examined the top ten K to 12 publishers in the BPIDP data set ranked based on their most-recent-year sales of BPIDP-eligible educational titles; they also considered the top ten companies for Quebec, and the top ten for Canada other than Quebec. The names of the companies on these three lists cannot be made public because of the confidentiality of BPIDP recipients' sales figures. Nonetheless, a number of significant general observations can be drawn from this data.

Six of the publishers who rank in the top ten companies in terms of sales of BPIDP-eligible educational titles are located in Quebec, three are in Ontario, and one is in Alberta.

The \$69.7 million in sales of eligible educational titles by these ten companies combined represent 80 percent of total sales of eligible educational titles by the 32 K to 12 publishers in the data set.

The top two companies represent 49 percent of total sales of eligible educational titles by the 32 K to 12 publishers in BPIDP.

The six Quebec companies on this list represent 61 percent of total sales of eligible educational titles by the 32 K to 12 publishers in the data set. The three Ontario companies represent 15 percent of total sales of eligible educational titles.

Five companies, accounting for 59 percent of total eligible educational sales by the 32 companies, have strong core programs in their K to 12 lists. Five other companies, accounting for 20 percent of total eligible educational sales by the 32 companies, have primarily supplemental programs at K to 12.

In Quebec, the sales of the top ten companies ranked based on their sales of BPIDP-eligible educational titles totaled \$58.4 million, representing 67 percent of total eligible educational sales by the 32 companies in the data set for Canada. This emphasizes the strength of BPIDP-recipient K to 12 publishing in Quebec in comparison to the same sector outside of Quebec.

In Canada outside Quebec, eight of the ten companies that have the highest sales of BPIDP-eligible educational titles are based in Ontario, one is based in Alberta, and another is based in Manitoba. The \$24.8 million in eligible educational sales by these top ten companies represents 28 percent of total eligible educational sales by the 32 companies in the data set for Canada.

The eight Ontario-based companies on this list represent \$19.9 million in eligible educational sales, or 23 percent of total eligible educational sales by the 32 companies in the data set.

The two companies outside of Ontario on this list represent \$4.9 million in eligible educational sales, or six percent of total eligible educational sales by the 32 companies in the data set.

Especially when considered in comparison with the analysis of the top ten Quebec companies, these numbers emphasize the relative weakness of BPIDP-recipient K to 12 publishing outside of Quebec and further emphasize the relatively weak position among K to 12 publishers outside of Quebec of those publishers outside of Ontario.

Total eligible sales

Chart 9 below shows that, when adjusted for constant 2008 dollars, the sales of eligible educational titles during the period included in the data set have gone through cycles, as expected in this industry.

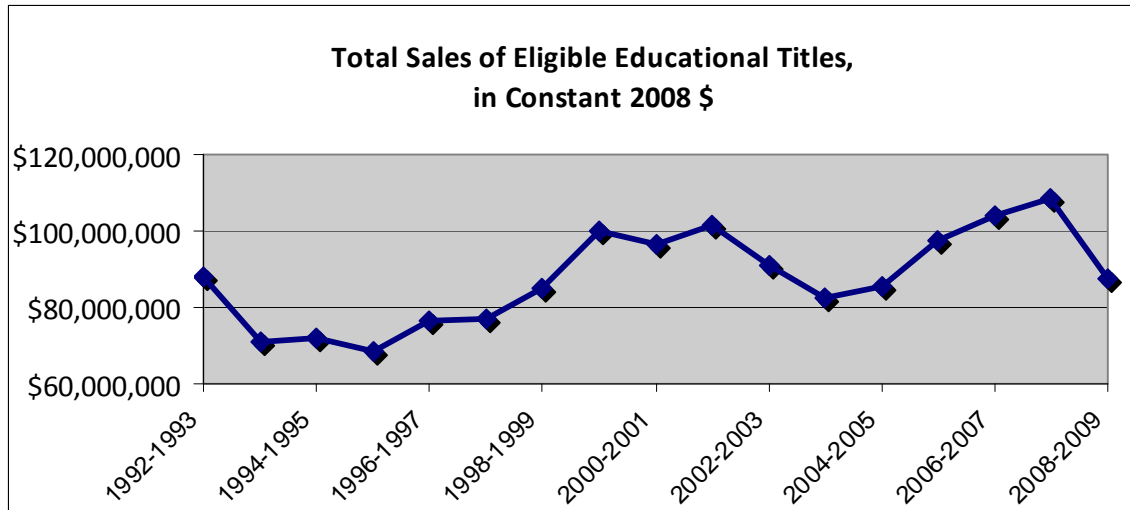


Chart 9

The two valleys and two peaks on this chart could be said to suggest an optimistic pattern for total sales by companies in the data set, since the second valley is shallower than the first, and the second peak is higher than the first — an overall upward trend. No such pattern shows up in the median sales per company, which track a generally flat path through the years for which data are available, but this should be expected since, as described in section B above, few of the companies in the data set are large companies.

A less optimistic view would emphasize that, in constant dollars, companies in the data set sold about \$88 million worth of eligible educational titles in the 1992-1993 application year, and about \$87 million in the 2008-2009 application year, after peaking in 2007-2008 at about \$109 million. The drop-off from 2007-2008 to 2008-2009 is the sharpest slope of any segment on this chart; it should be noted, however, that this appears to reflect a change in the companies represented in the data set, rather than a change in the marketplace.

The picture changes somewhat when viewed on a regional basis. Chart 10 below shows eligible educational sales by Quebec companies in the data set.

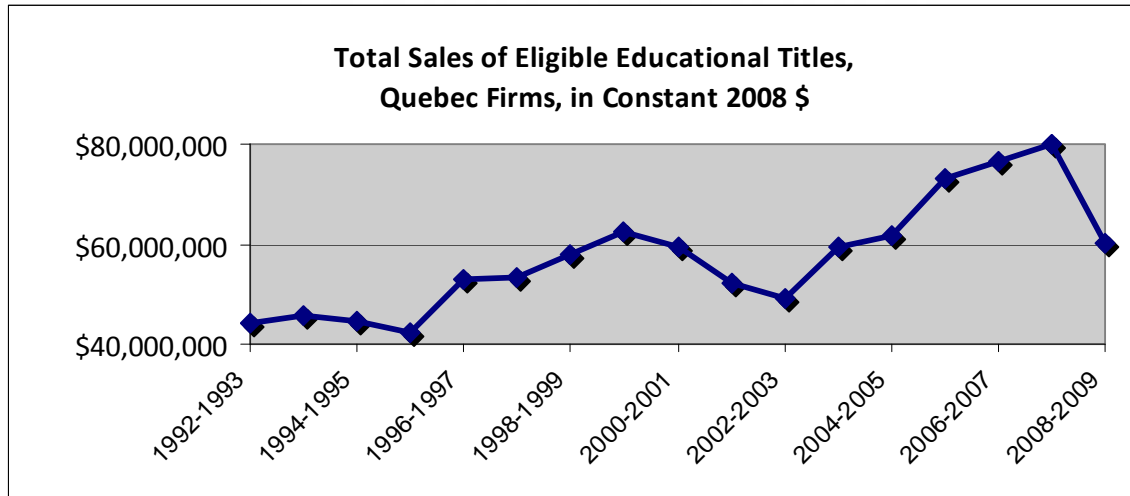


Chart 10

In Chart 10 above, Quebec K to 12 publishers, led by companies with strong core programs, show a cyclical pattern driven by Quebec curriculum renewal, with a general rising trend in sales of eligible educational titles, except for the last year of the data set. It should be noted again that this one-year shift appears to reflect a change in the companies represented in the data set, rather than a change in the marketplace.

Chart 11 below shows the same picture for K to 12 publishers in the BPIDP data set from Canada excluding Quebec.

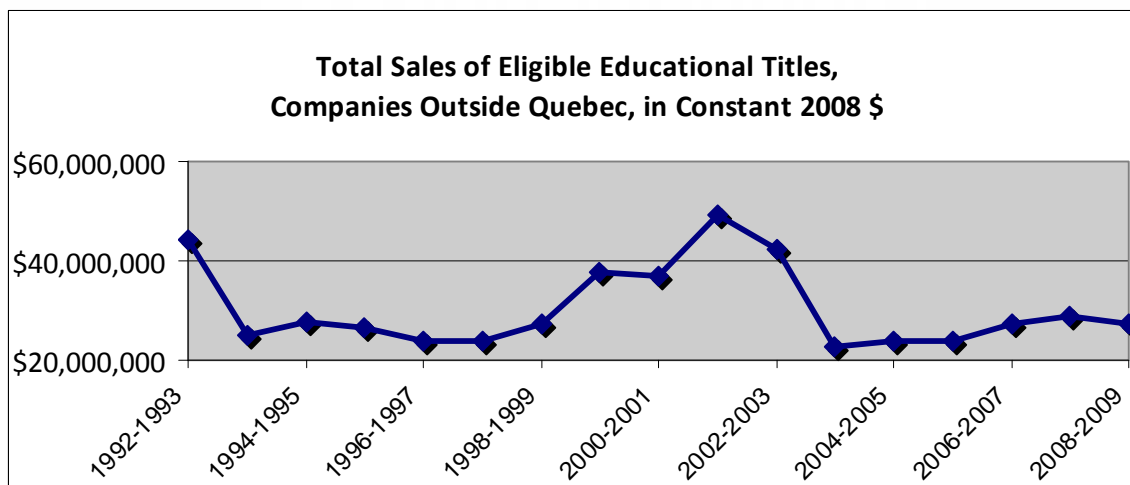


Chart 11

Dominated by supplemental resource companies, and without the driver of Quebec curriculum renewal, the data set for K to 12 companies outside of Quebec shows very flat sales over the 17 application years, with a bump in the middle that disappears along with the disappearance of strong core companies

from the data set. In aggregate, K to 12 companies outside of Quebec have not grown their sales during the years included in the data set.

Profitability

K to 12 companies in the data set have, on average, remained modestly profitable throughout the 17-year period, except for one year, as shown in Chart 12 below.

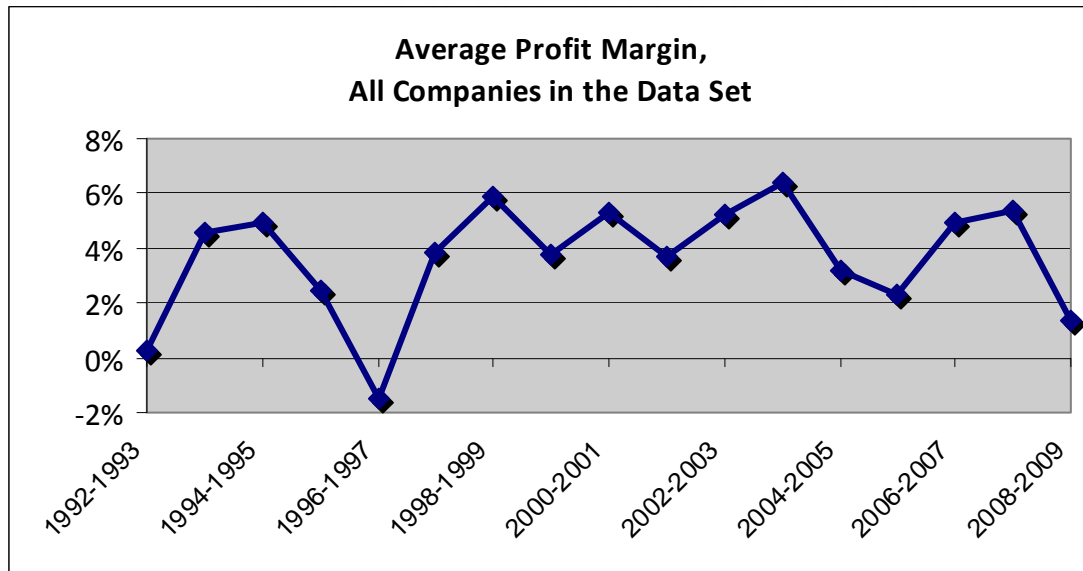


Chart 12

Note that the sharp drop-off in sales in the most recent application year (see Chart 9 above), which may be explained by a change in the companies represented in the data set, is mirrored in Chart 12 above by a sharp drop in average percentage profitability, which cannot be explained in the same way (the change in companies represented in the data set did not include the disappearance of anomalously highly profitable companies). Quebec companies show a similar pattern in Chart 13 below.

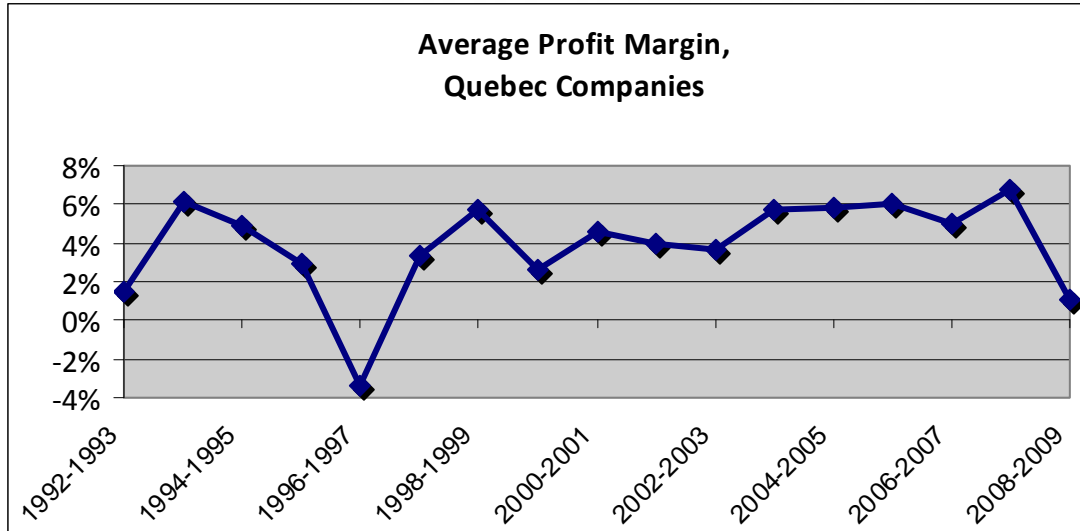


Chart 13

K to 12 publishers outside of Quebec were, on average, profitable during most years in the data set, but Chart 14 below shows more fluctuations in profitability than in Quebec, with no obvious pattern.

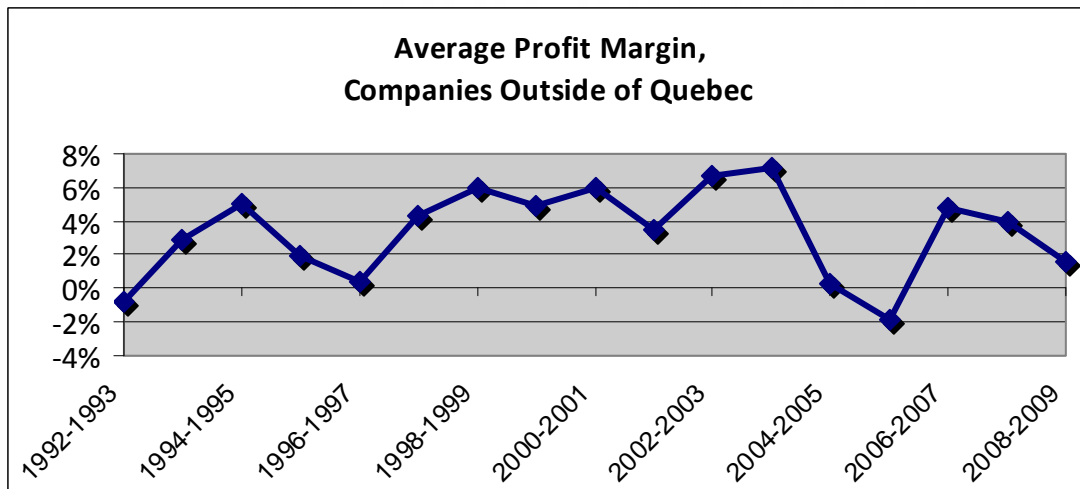


Chart 14

Profit margin and BPIDP contributions

Two Canadian Heritage studies, one in 1992 and one in 1999, noted a dependency on government funding among educational publishers. The 1999 study, "Scholarly and educational publishing in Canada: An industry profile" (prepared for the BPIDP by Ira Wagman and David Hunt) observes that Canadian Heritage support to educational publishers (including both K to 12 and

post-secondary publishers) was roughly equivalent to their profits. Today, however, this observation no longer holds true. In fact, K to 12 publishers in the BPIDP are modestly profitable on average (with an average profitability from -2 percent to 6 percent during the years in the data set, 1992-1993 to 2008-2009, and median profitability from 1 percent to 6 percent during the same period). For the last five years, their overall profits substantially exceeded their BPIDP funding, as shown in Chart 15 below.

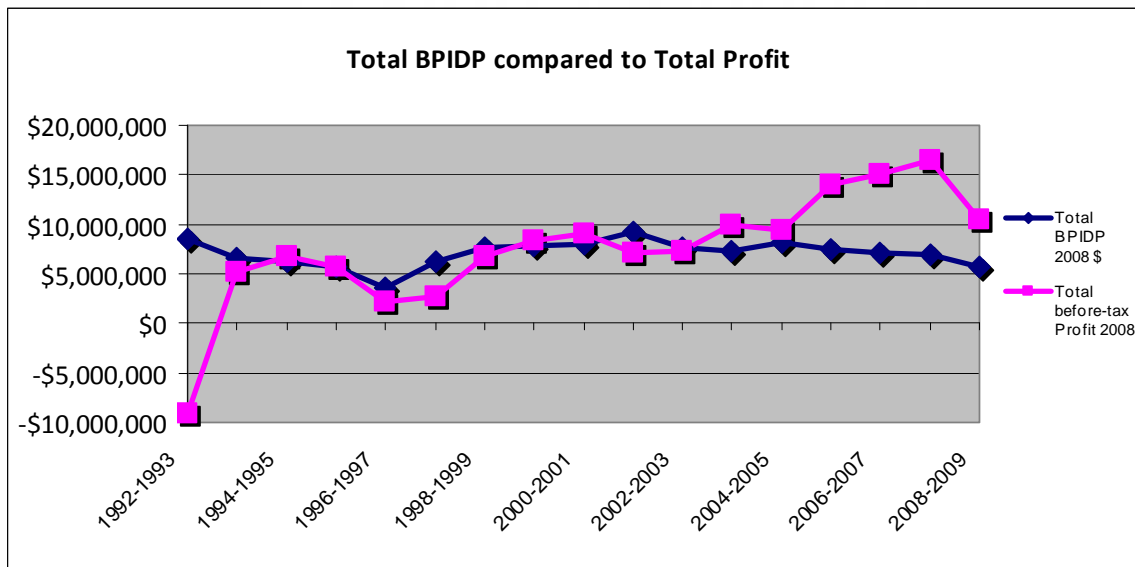


Chart 15

Gross margin

Gross margin is, for K to 12 publishers, a key diagnostic of financial health. K to 12 titles tend to be very expensive to produce, so despite low discounts it can be difficult to price them within the market and still preserve adequate gross margins. Inadequate gross margins leave inadequate resources for marketing and reinvestment, and K to 12 publishing is marketing intensive and capital intensive.

Chart 16 below tracks the average gross margins of K to 12 publishers in the data set.

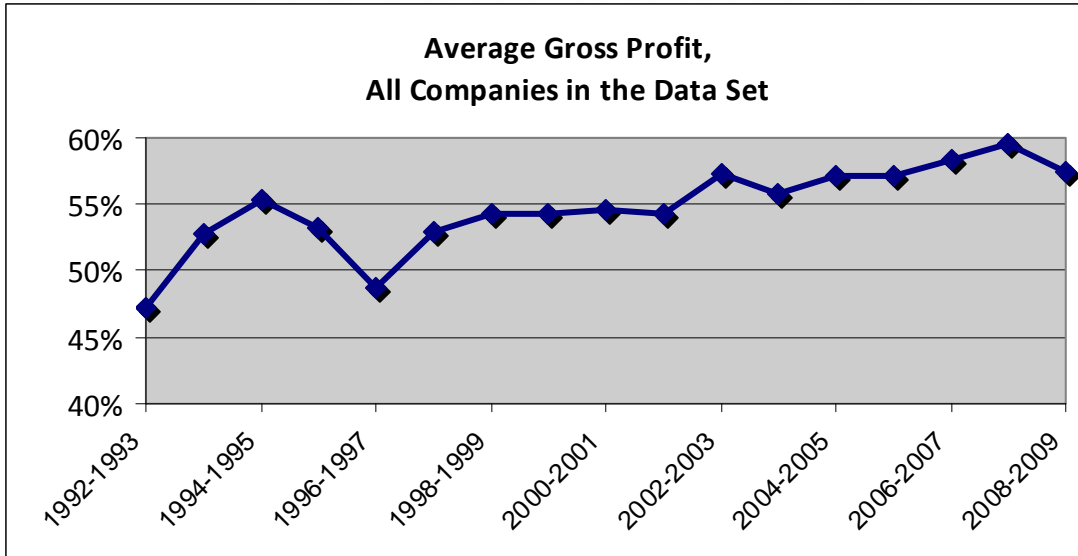


Chart 16

There is a visible trend towards gross margins near 60 percent in Chart 16, which is very good for the financial health and stability of this sector.

Surprisingly, Quebec companies in the data set have lower gross margins than the national average. Despite being dominated by core-resource publishers and having generally somewhat higher price points, their average gross margins never approach 60 percent during the 17-year period covered by the data, as shown in Chart 17 below.

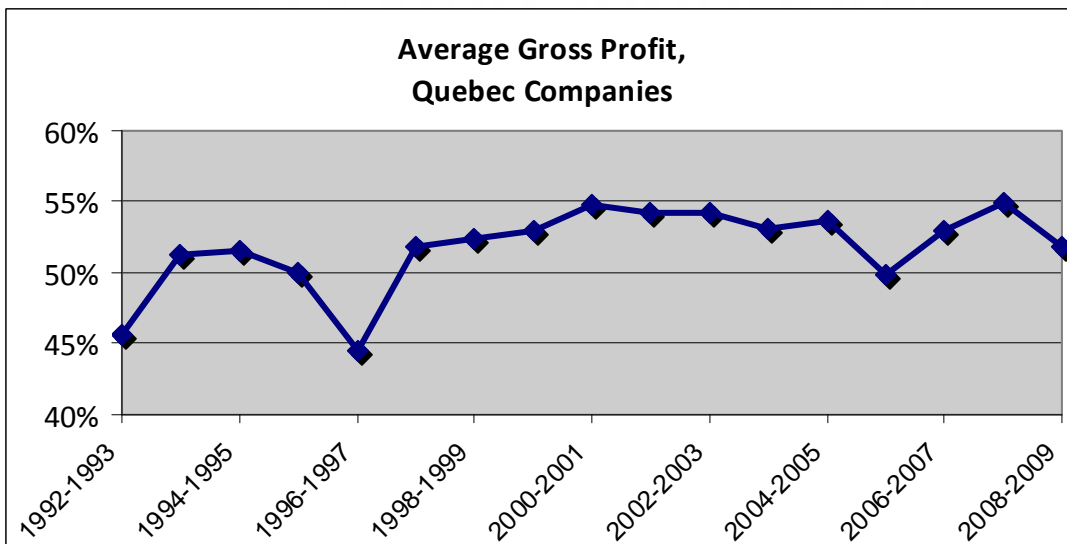


Chart 17

In contrast, Chart 18 below shows that K to 12 publishers outside of Quebec have had average gross margins over 60 percent every year for the last five years.

In most areas of publishing, gross margins over 50 percent are workable, and gross margins over 60 percent would be considered very healthy. But it is important to note that large core publishers normally aim for gross margins over 70 percent. K to 12 publishers in the data set from outside Quebec may in fact benefit on this measure by being mainly supplemental publishers: their overall investment in titles is lower than it would be for core resources, making it easier to preserve higher gross margins in this low-discount marketplace.

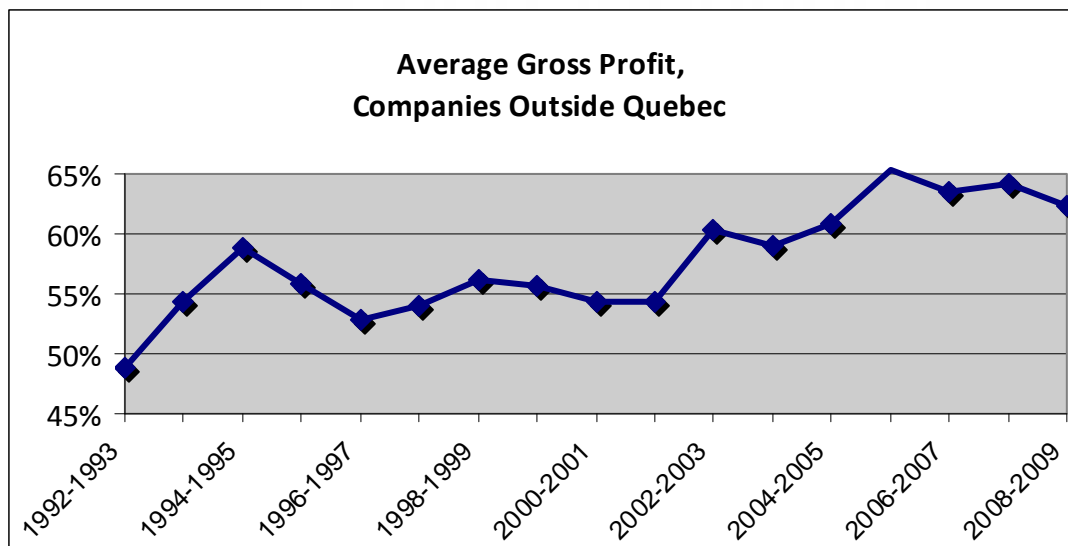


Chart 18

Sales per title

Chart 19 below shows a worrisome trend: more titles in print chasing generally flat dollars. Every title is a new project with new costs. All things being equal, generating more revenue from fewer titles is a better strategy than generating more revenue from more titles. Generating the same or less revenue from more titles suggests a potential problem.

This pattern could, of course, simply reflect conscious choices among publishers to stop publishing small numbers of large, expensive resources and instead publish larger numbers of smaller, less-expensive resources. But supplemental K to 12 publishers interviewed during this study reported publishing growing numbers of titles each earning lower revenues, specifically to maintain their total top-line sales as per-title sales fall.

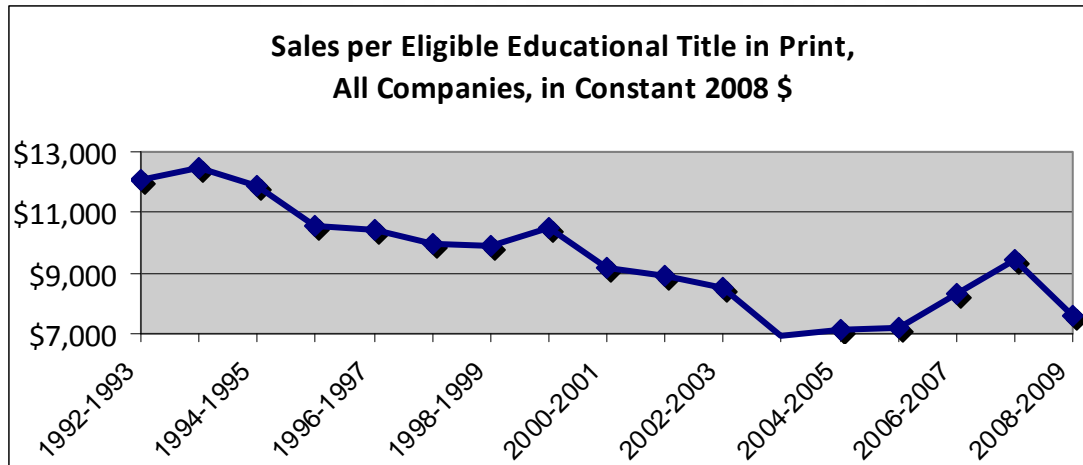


Chart 19

As seen in Chart 20 below, the core-heavy companies of Quebec roughly mirror the trend seen above in the full data set. Since these charts track per-title revenues averaged across many companies, the sharp drop in the last year of the data set seen in both Chart 19 and Chart 20 cannot be easily explained by the disappearance of a small number of companies from the data set. Since the disappearing companies did not have anomalously high per-title revenues, their disappearance did not drag the overall average sharply downwards.

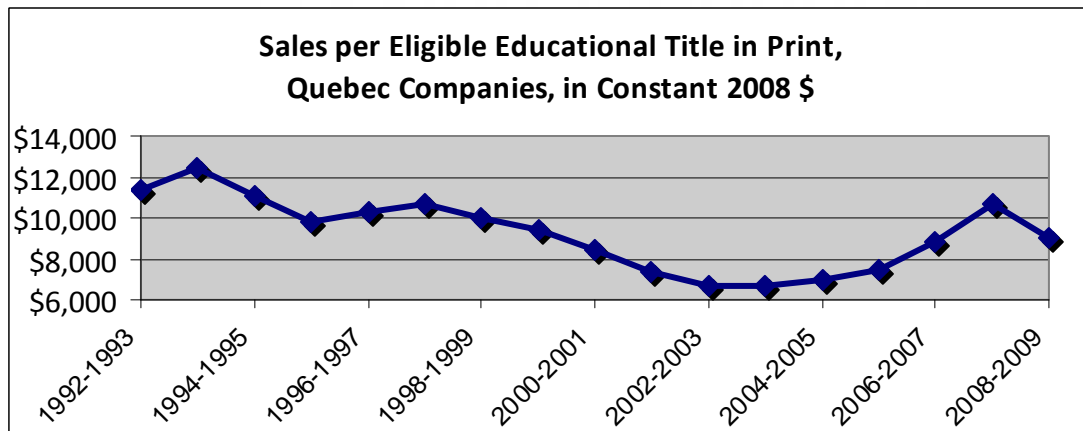


Chart 20

Chart 21 below shows that K to 12 publishers exhibiting a decline in per-title revenue as core-resource publishers disappear from their aggregate sales, but this decline continues – albeit in a less dramatic way – even when those core publishers have disappeared.

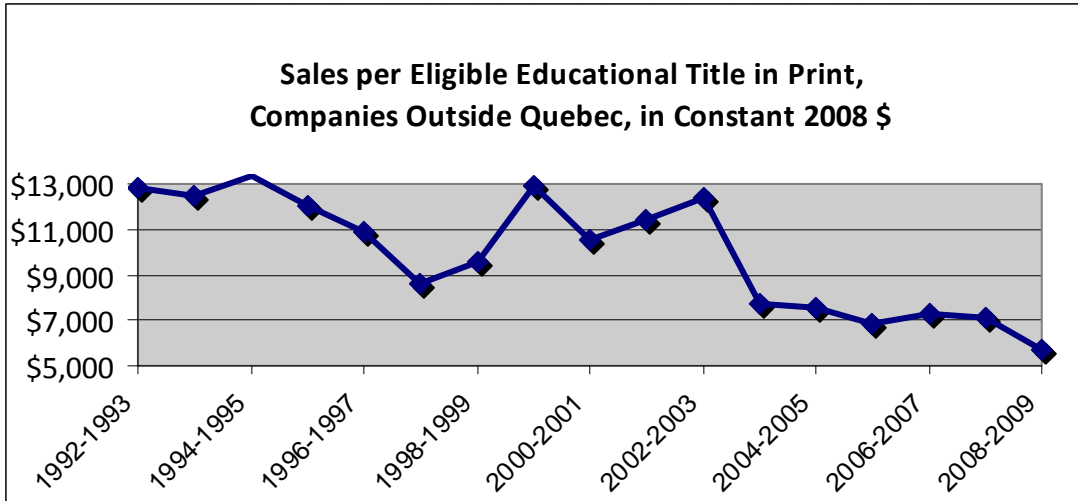


Chart 21

For companies outside of Quebec, this trend is even more dramatic when per-title revenue is calculated as total eligible title sales divided by *new* educational titles, rather than educational titles in print. Charts 22, 23 and 24 below can probably be best interpreted as illustrating the decline in numbers outside of Quebec of companies focusing on core resources. More and smaller titles lead to lower revenues per title, especially given the flat sales described earlier in this section.

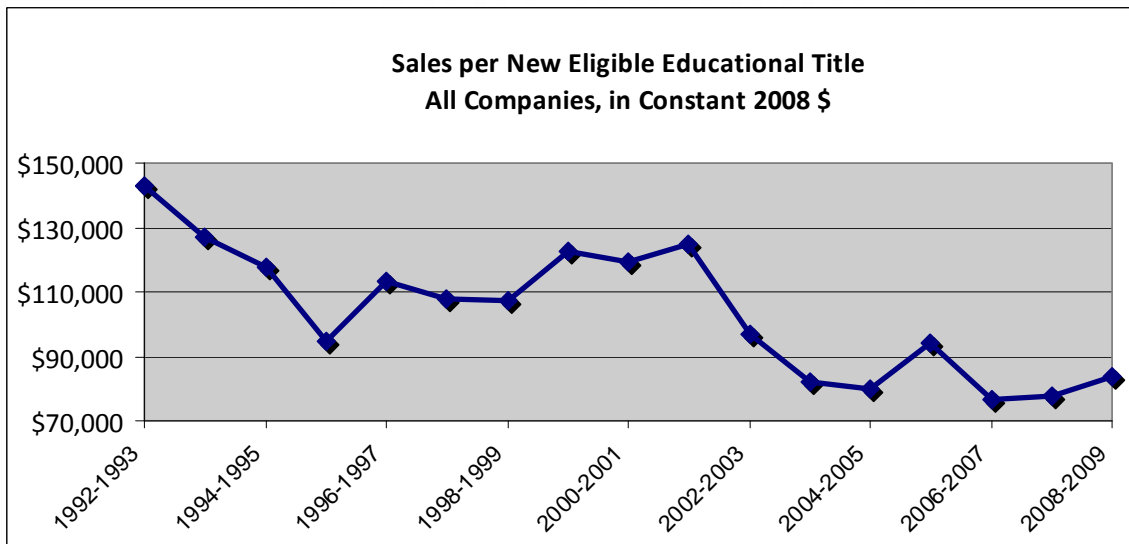


Chart 22

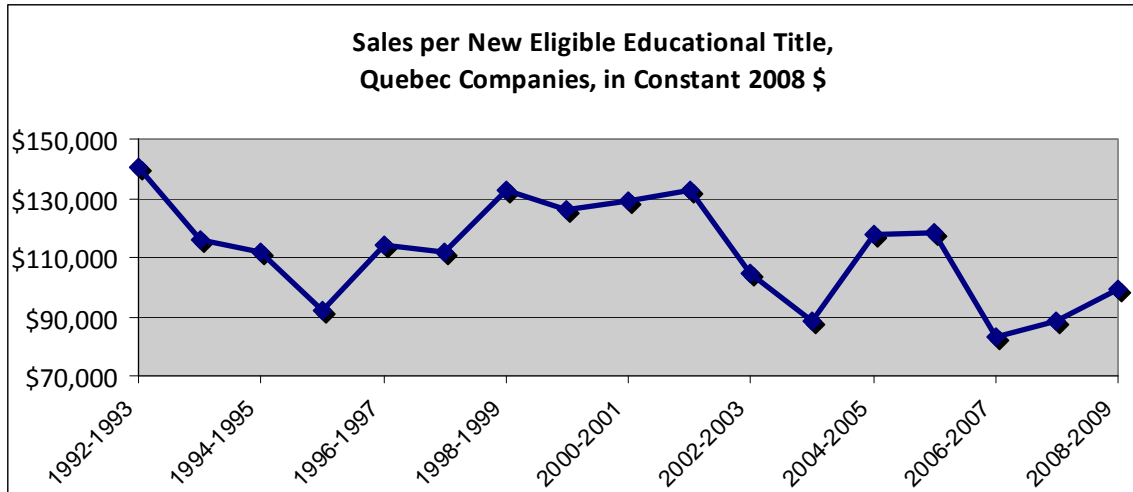


Chart 23

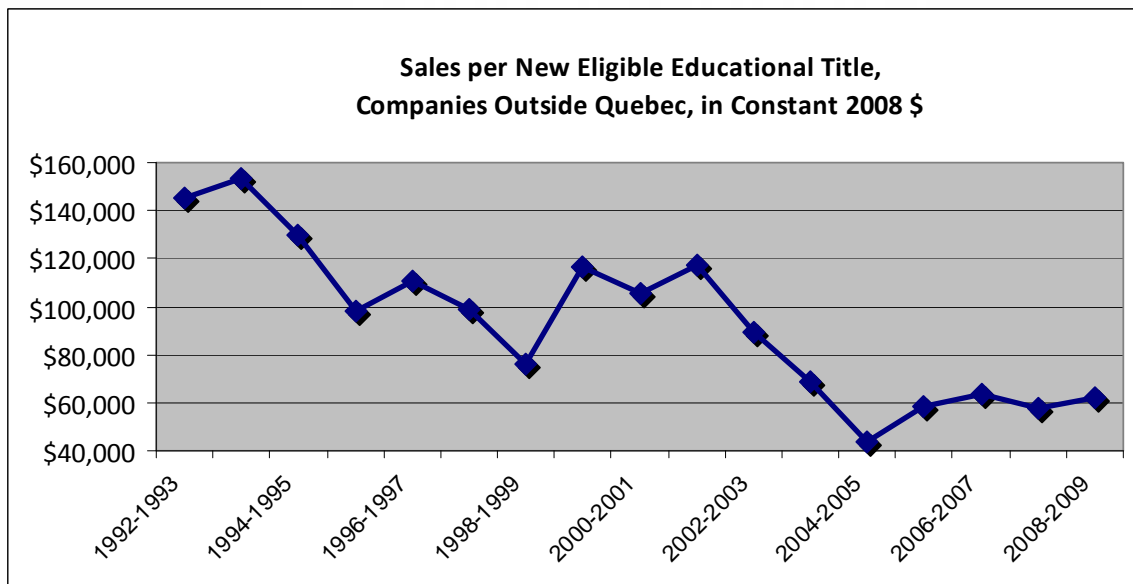


Chart 24

Export sales

The BPIDP database has tracked export sales since the 2004-2005 application year. It does not differentiate between export sales of K to 12 products and other export sales, however, so even though the analysis below relates only to the K to 12 companies in the data set, the findings should be read with some caution.

Since educational exports cannot be isolated from other sales, Table 2 below tracks all eligible export sales as a percentage of total net sales. It shows that in aggregate, for all companies in the data set, the value of export sales of eligible titles as a percentage of total net sales of the publishers' own titles fluctuated during the five available data years from as high as 28 percent to as low as 10 percent.

Table 2:

Eligible export sales as a percentage of total net sales of own titles for all K to 12 companies in the data set

Application Year	Total eligible export sales (constant 2008 \$millions)	Total eligible exports as % of total net sales	Max %, single company	Min %, single company	Median %, single companies
2004-2005	\$32.9	28%	97%	0%	2%
2005-2006	\$10.6	10%	79%	0%	2%
2006-2007	\$20.6	17%	90%	0%	2%
2007-2008	\$16.5	13%	80%	0%	2%
2008-2009	\$12.6	12%	83%	0%	3%

All things being equal, a weakening Canadian dollar boosts the value of a publisher's export sales; a strengthening Canadian dollar reduces the value of their exports. It is difficult from the data in the database, however, to separate the impacts of currency exchange rates on the fluctuation seen in Table 2 from the impacts of varying products, export business practices, and K to 12 participants in the BPIDP.

The Canadian dollar was very weak against the U.S. dollar in 2003-2004, immediately before the relatively high percentage of export sales reported in the 2004-2005 application year, but the U.S./Canadian exchange rate does not fully explain the changes seen in other years. In any case, the substantial fluctuation seen in Table 2 suggests that export sales can be both an opportunity and a vulnerability for K to 12 publishers.

Table 2 also illustrates the fact that export sales are the primary business of some K to 12 companies: in every year, export sales for some individual companies exceed 80 percent of their total net sales of own titles. On the other hand, most K to 12 publishers have relatively low percentage export sales, seen in the very low median percentages in Table 2. In every year, some K to 12 companies report no export sales.

As described earlier in this section, Quebec's BPIDP-recipient K to 12 industry is led by strong core-resource publishers, while the industry in Canada outside of Quebec is composed mainly of supplemental publishers, especially in the application years after 2004-2005. Although core-resource publishers can choose to develop core resources specifically for export, they face challenges when attempting to export core resources developed for Canadian jurisdictions. Supplemental materials are less jurisdiction-specific and therefore more exportable.

Table 3 below shows, in general, dramatically lower percentage export sales for K to 12 publishers in Quebec than in Canada as a whole, particularly in the last two years in the data set. Table 4 below shows the situation of K to 12 publishers outside of Quebec.

Table 3²:

Eligible export sales as a percentage of total net sales of own titles for K to 12 publishers in Quebec

Application Year	Total eligible export sales (constant 2008 \$millions)	Total eligible exports as % of total net sales	Max %, single company	Min %, single company	Median %, single companies
2004-2005	\$19.2	22%	96%	0%	1%
2005-2006	\$2.0	2%	74%	0%	1%
2006-2007	\$10.6	13%	79%	0%	2%
2007-2008	\$2.3	2%	80%	0%	1%
2008-2009	\$2.1	3%	83%	0%	1%

² The very high export sales shown in Table 3 for 2004-2005 resulted partly from unusually high export sales by a single company. Although the data do not distinguish between export sales of educational products and export sales of other products, in this case it can be inferred that this company's exports were largely trade products. If this company's exports are excluded, the figures for 2004-2005 would be roughly similar to those for 2006-2007: still very high compared to the other three years for which export data have been collected, but not as high.

Table 4:

Eligible export sales as a percentage of total net sales of own titles for K to 12 publishers outside of Quebec

Application Year	Total eligible export sales (constant 2008 \$millions)	Total eligible exports as % of total net sales	Max %, single company	Min %, single company	Median %, single companies
2004-2005	\$13.7	44%	97%	0%	4%
2005-2006	\$8.6	28%	79%	0%	2%
2006-2007	\$10.0	28%	90%	0%	7%
2007-2008	\$14.2	41%	73%	0%	13%
2008-2009	\$10.6	15%	64%	0%	16%

Together, Tables 3 and 4 contrast Quebec's strong core industry during these five years with the primarily supplemental industry outside of Quebec. In aggregate, companies outside of Quebec have a much higher percentage of export sales. While some of the companies outside of Quebec nonetheless have no export sales, the higher median percentage of export sales among companies outside of Quebec also demonstrates their generally stronger involvement in export markets.

Table 4 also suggests that BPIDP K to 12 publishers outside of Quebec, because of their focus on more-exportable supplemental materials, are more susceptible to the benefits and hazards of currency fluctuations. Their exports account for a very high 44 percent of aggregates sales reported in the 2004-2005 application year, following the Canadian dollar's weak performance in 2003-2004. After rebuilding to 41 percent by 2007-2008 despite a strengthening Canadian dollar, the percentage of reported export sales falls off sharply following the Canadian dollar's historic strong performance in 2007-2008.

Finished products versus sale of rights

Beginning in the 2006-2007 application year, the BPIDP database has collected data on the sales of finished products and the sale of rights as components of total eligible export sales. Although some companies are selling rights, most K to 12 companies in the data set — including both those in Quebec and those outside of Quebec — report exporting their titles primarily in the form of finished products. For all three of these application years, and for both the Quebec industry and companies outside of Quebec, the average proportion of finished products was 94 percent or more, and the median proportion was 100 percent. These data are compatible with the authors' experience, which is that K to 12 publishers typically prefer to sell finished products to export markets, rather than rights, and that their export customers will typically agree to those terms, although not always as their first choice.

BPIDP-recipient publishers and Canadian-authored titles

By tracking sales of both eligible and ineligible educational resources, the BPIDP database makes it easy to determine Canadian authors' market share as a proportion of the total sales of BPIDP-recipient publishers, since Canadian authorship is a criterion of title eligibility for the BPIDP. This assumption is reasonable in K to 12 publishing, where content is often driven or created at the editorial level, from concept and proposal stages through to finished products.

Chart 25 below shows a high but declining percentage of Canadian-authored titles over the term of the data set.

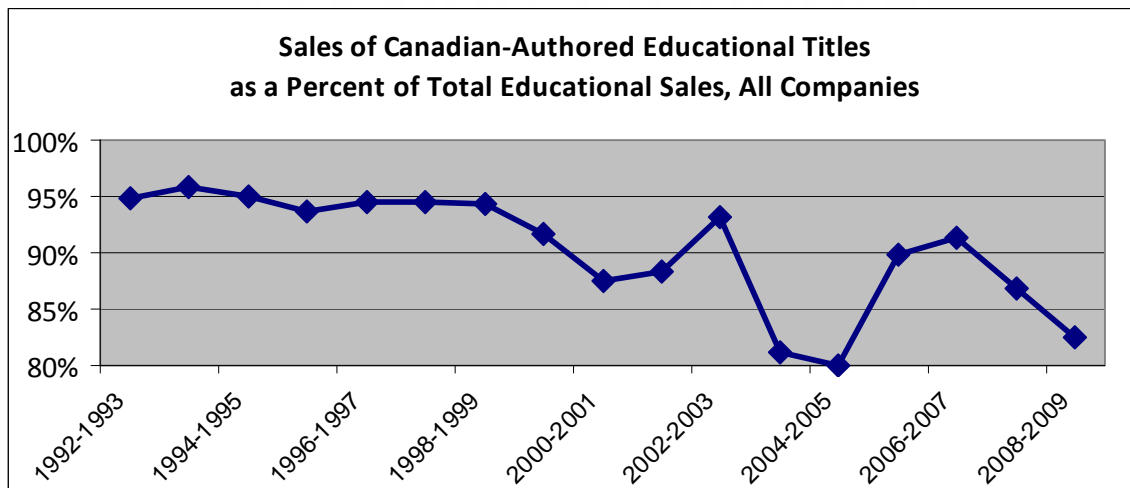


Chart 25

The pattern among Quebec companies closely tracks the overall pattern, although at slightly higher values, as shown by Chart 26 below.

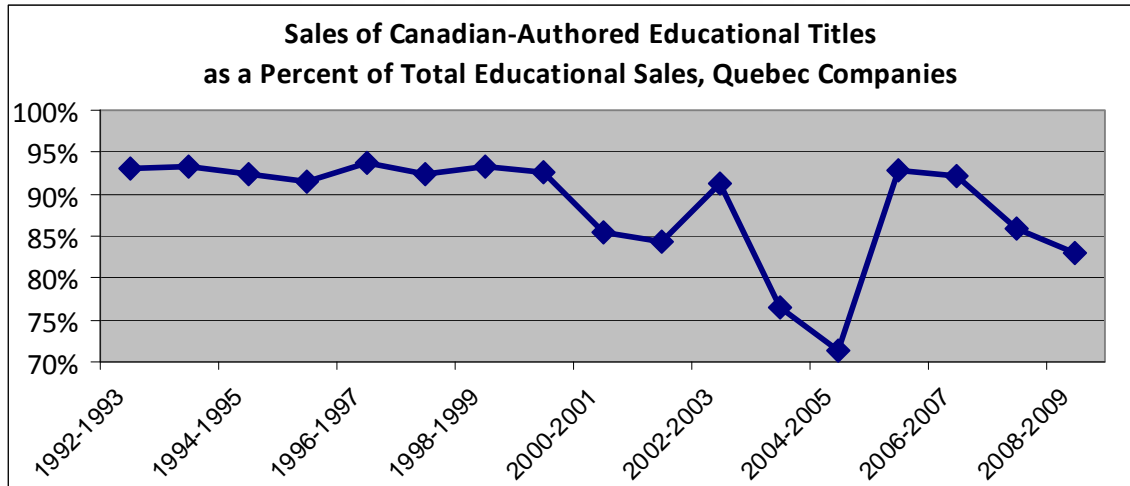


Chart 26

For K to 12 publishers outside of Quebec, the decline is more dramatic, but the market share never dips below 80 percent, as shown in Chart 27 below.

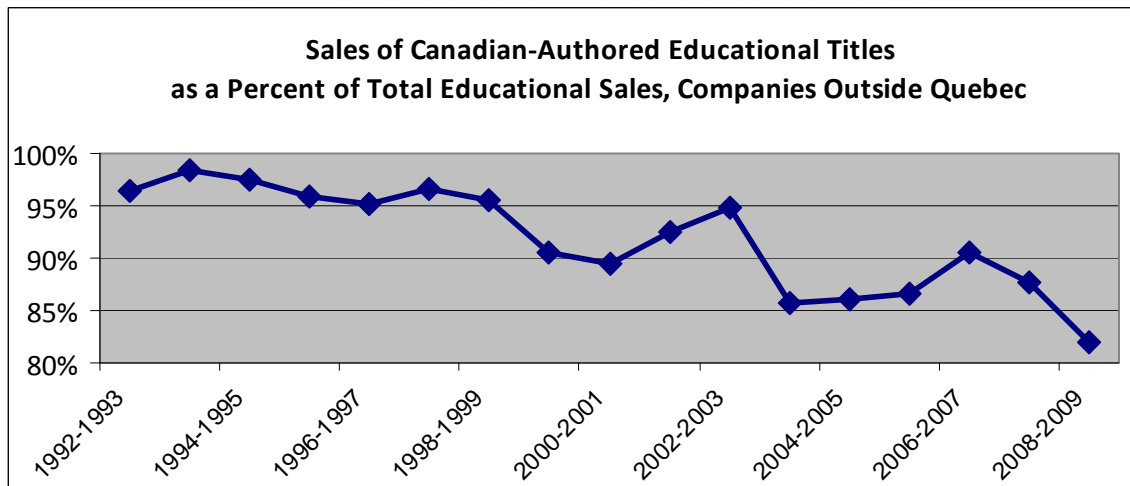


Chart 27

Again, the explanation for the difference between the regions may in part be the trend to more supplemental-resource K to 12 publishing by BPIDP clients outside of Quebec, and the dominance of core-resource publishers in Quebec. Buyers of core resources in Canada, in general, demand Canadian authorship. That cannot be said for buyers of supplemental resources.

If this assumption is correct, these charts can be read as showing an increasing proportion of supplemental material in overall sales by BPIDP-recipient publishers throughout Canada, but particularly outside of Quebec.

Canadian authorship in the overall K to 12 market in Canada

Customer demand for Canadian authorship extends to non-BPIDP eligible publishers of core materials: almost all of their core resources are Canadian-authored, although many also draw on material by non-Canadian authors.

The growing role of supplemental materials also extends to these companies, many of which act as agencies for international supplemental resources as well as developing original, Canadian-authored core and supplemental resources. The authors estimate that roughly one-third of the revenues of these companies come from the sale of supplemental materials. The authors estimate that 75 percent of these supplemental resources are authored by non-Canadians.

Individual companies' sales data are confidential, and generating a reliable measure of the total market for K to 12 resources in Canada without access to proprietary data is very challenging. Provincial spending records typically roll K to 12 resources together with other educational tools, such as software, for example, and announced provincial budgets for educational resources are often spent on a variety of educational supports at the school level, with an unknown proportion actually being spent on resources.

For that reason, the following information provides estimates only. It is based on:

- reviewing data from the BPIDP database,
- making estimations of the sales of non-BPIDP-recipient companies,
- making extrapolations from reported sales of some provincial wholesalers,
- reviewing the authors' own experience, and
- comparing the conclusions arrived at through those various methods.

The total K to 12 resources market in Canada is estimated at \$300 million to \$340 million in 2008. The mid-point of these values is \$320 million.

The total Quebec K to 12 resources market is estimated at \$80 to \$85 million in 2008. The mid-point of these values is \$82.5 million.

The total K to 12 resources market in Canada outside of Quebec is estimated at \$220 to \$255 million in 2008. The mid-point of these values is \$237.5 million.

The Canadian-owned share of the Quebec K to 12 resources market is estimated at 75 to 85 percent. The mid-point of these values is 80 percent.

The Canadian-owned share of the K to 12 resources market in Canada outside of Quebec is estimated at 44 to 70 percent. The mid-point of these values is 57 percent.

The Canadian-owned share of the total K to 12 resources market in Canada is estimated at 52 to 73 percent. The mid-point of these values is 62.5 percent.

By using the levels of Canadian authorship for resources (both core and supplemental) reported by BPIDP-recipient K to 12 publishers, estimating the impact of sales of non-Canadian-authored supplemental materials on the total levels of Canadian authorship represented in the sales of non-BPIDP-recipient publishers, and prorating according to the market shares of those two groups of publishers, overall levels of Canadian authorship of K to 12 resources sold in Canada can be roughly estimated.

Inside Quebec, it is estimated that 85 to 87 percent of K to 12 resources sold are by Canadian authors. The mid-point of these values is 86 percent.

In Canada outside of Quebec, it is estimated that 71 to 80 percent of K to 12 resources sold are by Canadian authors. The mid-point of these values is 75.5 percent.

In Canada in total, (prorating Quebec's percentage Canadian authorship at 25.8 percent and Canada's outside of Quebec at 74.2 percent, based on the mid-points of this study's estimates of total market size) it is estimated that 75 to 82 percent of K to 12 resources sold in Canada are by Canadian authors. The mid-point of these values is 78.5 percent.

Impact of BPIDP support

The mandate of BPIDP is “to ensure access to a diverse range of Canadian-authored books in Canada and abroad ... by fostering a viable Canadian book industry that publishes and markets Canadian-authored books.” It supports K to 12 publishers primarily through its Aid to Publishers component and its International Marketing Assistance component.

Both of these programs make direct cash contributions to K to 12 publishers – in the form of formula funding based on publishers' sales of Canadian-owned titles – thus increasing their working capital. As described above, BPIDP contributions account for a large proportion of the profits of many K to 12 companies, and in some years in the data set equate to or exceed total profits in the K to 12 sector. BPIDP contributions are therefore critical to this industry's capacity to invest in new resource development.

International marketing assistance also helps directly to support K to 12 publishers' expansion into new markets. Most attend international events, and some have significant international sales of supplemental resources. By their

nature, most core resources are difficult to sell in export markets, since they have been created for specific curricula in specific jurisdictions.

Until 2007-2008, the Supply Chain Initiative encouraged K to 12 publishers to organize and standardize the bibliographic data for their titles, but because the K to 12 industry does not, in general, sell through the book trade's wholesale and retail systems, this component was of less direct benefit to K to 12 publishers than it was to publishers in other sectors.

The Loan Loss Reserve Program, a Canadian Heritage program designed to help Canadian cultural industries cope with limited access to financing, and which concluded in 2002, provided the working capital that enabled at least one BPIDP-recipient company to enter major core-resource markets in the K to 12 sector. It was able to offer the necessary scale of financing to allow small publishers to take on large projects. A similar program could provide this important support for publishers who now face financial barriers to entering K to 12 publishing.

As has been mentioned several times in this report, high levels of Canadian authorship, particularly in core publishing, are driven by buyer preferences in K to 12 publishing. Arguably, therefore, it is not BPIDP support to K to 12 publishers that drives the furthering of BPIDP's mandate in this area. On the other hand, all but one of the BPIDP-recipient publishers interviewed indicated that the BPIDP was absolutely essential to their businesses. Any failures among those companies resulting from a loss of BPIDP support would obviously have a very direct impact on its Canadian authors.

At the time of this report in 2009, the K to 12 publishing industry in Canada is viable, and it is publishing Canadian-authored resources. The BPIDP without a doubt supports these accomplishments, but it is not clear that they would disappear without the BPIDP. As described above, there is a marked difference in the business strength of BPIDP-recipient K to 12 companies in Quebec versus those in the rest of Canada. Arguably, therefore, it is the combination of strong provincial programs and the BPIDP that amount to the conditions necessary for real vigour in this sector.

Some interviewees noted that working capital available through current BPIDP programs is too small and comes too late to enable them to invest in the large projects that will secure their viability as companies. Some suggested that a co-investment or capital program would be a valuable addition to the components of the BPIDP, perhaps on the Telefilm model, or the old Loan Loss Reserve model.

With all that said, again, BPIDP-recipient K to 12 companies would be weaker without the BPIDP, and some would certainly risk business failure, in the process failing their Canadian authors.

Chapter Two.

Trends and Implications

D. New Technologies

The thirst for definitive information on the coming role of new technologies in K to 12 publishing is great.

As the authors discovered during Stage 2 of this study — as they consulted broadly among BPIDP-recipient K to 12 publishers, drew on their own experience as K to 12 publishers, and consulted with ministry of education officials in eight provinces — the supply of such information is modest.

With the help of expert opinion from the interviews, the authors have the advantage of being well informed, but their speculation on the future role of new technologies is still guesswork and should be read as such.

Background

Chris Anderson, author of *The Long Tail* and much-quoted thinker on the business implications of the free-information environment of the internet, said in 2009, “[T]he e-book has fallen well short of the hype it generated at the turn of the millennium, when wild predictions flourished. Despite impressive growth rates, e-books currently make up about 1 percent of total book sales” (*Publishers Weekly* website, dated 18 May 2009). Anderson captures the predicament of K to 12 publishers: great expectations (leading to substantial investment), reports of rapid growth rates, yet very little sales volume.

The authors of this study did not discover any reliable indicator of total sales volume of digital resources in the K to 12 sector in Canada. The available information is suggestive, although it sometimes seems contradictory:

- The sale of digital products amounted to just 0.1 percent of total sales of eligible education resources by BPIDP-recipient publishers in the 2008-2009 application year.
- *Publishers Weekly* / Institute for Publishing Research data show digital resource sales in 2008 as 2.9 percent of total K to 12 sales in the United States, and project that they will remain steady at that level for 2009, while falling 5 percent in absolute dollars (from the PW/IPR Book Sales Index, available at www.booksalesindex.com, reported on in “New Report Projects Small Decline in Book Sales in ‘09” by Jim Milliot, *Publishers Weekly* 27 April 2009, read on the *PW* website).
- *Publishers Weekly* has also reported rapid growth in e-book sales in trade book markets in the U.S. Sales in January 2009 were more than 170

percent ahead of the same month in 2008, for example (*Publishers Weekly* website 9 April 2009), and they are expected to exceed \$100 million this year.

- *The Globe and Mail* “Report on Business” reported on 10 February 2009 that the wholesale value of digital book sales in the United States “shot up” 183 percent over the last two years, from a quarterly value of US\$4.9 million to \$13.9 million (p. B3).
- BookNet Canada, which tracks sales in the retail markets but has no monetary interest in the print vs. digital debate, projects that a “very strong”, “better than music” uptake of digital products would, over no specified time period, capture only 11.8 percent of the book market (Tamblyn, Michael. “Modeling the Impact of eBooks on Consumer Spending in the Canadian Book Industry”. Toronto: BookNet Canada, 2008, p. 20). BookNet projects that a shift of more than 20 percent would require new technologies that improve on current formats, reading devices at lower costs, and a shift in culture (Tamblyn p. 26).

Confusion reigns, but the strongest information (including the BPIDP database, the *PW/IPR* data, and BookNet Canada data) cuts through celebrations of triple-digit growth and highlights the fact that — in digital publishing generally as well as in K to 12 publishing — sales of digital “books” are modest as a percentage of total sales and in total dollar value, despite reported high percentage growth rates of sales of digital books.

It is important, however, to consider Michael Tamblyn’s comment in the BookNet paper as it applies to the K to 12 sector: “a shift of more than 20 percent will require new technologies ... and a shift in culture”. Since the mid-1980s, provinces across Canada have invested continually and relatively heavily in new technology for the classroom. Over the same period, universities have graduated a generation of teachers with a growing facility in the use of digital tools. Education ministries and teachers both indicate some impatience with the slow pace of conversion to digital resources. It is possible that the preconditions for a substantial shift to digital resources in the Canadian K to 12 sector — new technologies and a cultural shift — are upon us.

Publisher responses to the digital environment

Despite intense interest in digital publishing, and vocal demand from K to 12 resource buyers, publishers have been cautious about offering digital resources. Except when resources are supported by dedicated funding (such as the U.S. federal “No Child Left Behind” funding during the Bush Administration), publishers have shown a lack of confidence in being able to recover their costs, and users have been more enthusiastic about free digital resources than digital

resources available for purchase. As mentioned above, among K to 12 publishers in the BPIDP data set, digital titles amounted to just 0.1 percent of total eligible educational sales in the 2008-2009 application year. This is certainly below the proportion of digital sales in overall book markets, which in the book trade is now estimated at between 2 and 3 percent and which is probably somewhat higher in the K to 12 sector. It is also likely far below the overall use rate for K to 12 digital resources, many of which are teacher-developed, found free of charge, or otherwise outside of the K to 12 publishers' market. But it does highlight the modest impact of digital resources on revenues of BPIDP-recipient K to 12 publishers at this time.

Outside Quebec

The authors' interviews with BPIDP-recipient K to 12 publishers outside of Quebec reinforce the complexities of the background described above. In general, these publishers are working to convert their existing resources to e-book formats, and investing in developing the skills to build original electronic resources, and in actually developing those resources. They are bombarded with market reports that suggest rapid growth in e-book sales.

They are receiving requests from their customers in the K to 12 sector to supply digital versions of the publisher's resources for use on interactive whiteboards, projectors, and computers — often as “value-added” free components included with sales of printed resources. Several described their reluctance to supply these products because of the real potential that a no-cost or low-cost digital resource for use at the front of the classroom may eliminate the need for class sets, undermining existing business models.

Yet these publishers are generating very little revenue from digital resources. They report business stress arising from their perceived need to invest in this area to be competent in the necessary skills and to have products available, even though current revenues are very low. They describe a “chicken and egg” problem, where speculative investment is difficult when there is no demonstrated market, and where developing the market will require speculative investment.

Several suggested the importance of government support programs in offsetting these stresses. For example, several noted that the Ontario Media Development Corporation has recently launched the Interactive Digital Media Fund, which will help fulfill this role.

While doing their best to prepare for digital opportunities, these publishers are certain that print resources will continue to have substantial markets well into the future, even if the balance begins to tip towards digital resources, and that some customers may always favour print resources. Some noted that it is essential for

their businesses to continue to focus on print resources while print resources continue to dominate the K to 12 market.

Inside Quebec

BPIDP-recipient publishers inside Quebec reported somewhat different perspectives during the authors' interviews, although leading to similar results.

The province of Quebec has invested in classroom technology, but it has also invested strongly in traditional, print-based resources. Development and manufacturing tax credits delivered through the Société de développement des entreprises culturelles (SODEC), and continuing buyer preference for print resources, seem to have made Quebec's K to 12 publishers less concerned about the uncertain digital revolution.

In general, these K to 12 publishers also reported lower levels of activity and investment in digital conversions of existing resources, and in development of new digital resources. For example, they reported in general that they are not yet participating in the Agrégateur ANEL-De Marque, a new resource that allows publishers to upload and house the electronic files for books published in Quebec and the rest of Canada in order to make them available and promote them online. It is not surprising, therefore, that these publishers also described very low levels of revenue from digital resources.

Like BPIDP-recipient K to 12 publishers outside of Quebec, these publishers expressed the expectation that demand for print resources will continue to be substantial well into the future.

Other publishers

Internationally owned K to 12 publishers in Canada appear to be investing strongly in digital product development in response to their customers demands, and in preparation for capturing an emerging market, while not in any way abandoning print resources. Some of these companies can move ahead quickly in this arena by incorporating in Canadian resources digital developments originated by their international colleagues.

A small but strengthening group of independent, Canadian-owned K to 12 digital developers has emerged in Canada. They are distinguished from K to 12 publishers in BPIDP by their focus on developing digital resources first, even if those resources have print versions, and by the fact that most of their revenues come from digital products and services. They are distinguished from other digital developers by their specialized expertise in K to 12 resources and markets.

At present, these companies are not recipients of the BPIDP and are therefore only affected by BPIDP in that they are not eligible for the BPIDP while more-traditional publishers are. BPIDP is not mandated to support companies whose principal business is not book publishing, and original digital resources (as opposed to those derived from print products) are not eligible for BPIDP support. These companies may, however, emerge as intense competitors of BPIDP-recipient companies.

Defining Factors

The authors perceive seven key factors that will shape the future role of digital resources in the K to 12 publishing industry:

1. Ministry goals. Provincial ministries of education provide leadership to their K to 12 systems in part through establishing curricula, requiring teachers to follow those programs of study, and developing or identifying resources that support those programs of study.

In general, public and political support has strongly favoured digital tools in education for roughly two decades. Efforts to equip and network schools have led to a situation now where teachers and students have more access to technology than to ministry-approved resources to use with that technology. This situation is often attributed to the lack of a functioning business model for digital publishing but, in fact (as described in section B above), those models do exist.

Many educators are filling the gap with found, shared, or teacher-created resources that can be used on their classroom computers and display devices, or printed and photocopied. These resources are sometimes excellent, but they fall outside the usual systems of official review and approval. This approach creates stresses on teachers' time, compromises the leadership role of the ministries, and may in fact hide added costs (in equipment, teachers' time, printing and photocopying) rather than saving money.

Ministries want to see more high-quality digital resources in use in K to 12 schools, and they want those resources to be effective in delivering their jurisdiction's mandated programs of study. This is in fact one definition of demand, and despite obstacles and inertia, it will over time shape supply and consumption in the K to 12 marketplace.

2. Teachers' and students' preferences. Though far from unanimous, there is a generational shift among teachers and students towards a preference for using digital technologies in education. Teachers and students can now use the internet to find information on almost any topic from almost every school in Canada, as well as from most of their own homes. They are less likely than ever before to accept being restricted to a unitary textbook. Many are using social

networks, wikis, and other collaborative strategies to leverage their own time and creativity, and to compensate for the lack of approved or authorized digital resources incorporating range and flexibility beyond the bounds of traditional textbooks.

They want classroom-ready resources that match their needs and preferences. This is another driver of demand for digital K to 12 resources.

3. The potential for centralized spending to drive technological change.

Many Canadian jurisdictions have decentralized spending on K to 12 resources to the board or school level. Total national purchases of K to 12 resources are measured in hundreds of millions of dollars, and spending within the K to 12 system to cobble together resources unavailable for purchase amounts to many millions more in untracked spending.

At the time of this study, the K to 12 publishing industry appears, not unreasonably, to be cautious about investing in digital resources because digital resources still have small markets and an unproven future. But any of the provinces could centralize some portion of their spending as a way of implementing their own ministries' goals for leadership in education and for furthering the use of new technologies in education. This centralized spending could be directed through subsidies or guaranteed purchases to increase the security of publishers' revenues from digital resources, thereby strengthening publishers' commitment to developing high-quality digital resources.

If a province asks publishers to compete for relatively secure contracts to serve relatively large student populations with digital resources, it will stimulate rapid private-sector investment in development of digital K to 12 resources, leveraging government spending. It will also ensure the availability of classroom-ready digital resources. Each major project of this kind initiated by the provinces will represent a substantial shift in the Canadian K to 12 marketplace from print to digital purchases.

4. The strength or weakness of the economy. In general, a strong economy will favour a successful shift to digital K to 12 resources in any given Canadian jurisdiction; a weak economy will impede such a shift.

At this stage, well-funded K to 12 systems make the most use of new technologies. Hardware, software, connectivity, and systems support – whether at the school, classroom, teacher, or individual student level – are high, recurring expenses that must be met in order to enable the use of digital resources. Shifting to digital resources requires new spending, which in the Canadian context of public education is public spending.

It should be noted, however, that exactly the opposite conclusion could be drawn from events in California in 2009, where the state government mandated a shift to digital resources as part of their initiatives to save money during a financial

crisis (see for example Press Release, Office of the Governor, 11 August 2009, GAAS:348:09). This initiative suggests that a weak economy favours a shift to digital resources. The California example, however, accepts that students will have inequitable access to the resources based on their schools' hardware complement and their personal equipment. In the Canadian context, inequitable access would not meet the definition of a successful shift to digital resources.

In professional and post-secondary education, where equipment and resource purchases are the financial responsibility of the learner, this presents less of a barrier than in the K to 12 system, where public education is a public expense. The shift to digital resources in post-secondary and professional publishing is therefore proceeding more rapidly than in the K to 12 system.

5. Student results. Despite widespread enthusiasm for using digital tools and resources in learning, and substantial research on the impact of digital resources on student engagement and the effectiveness of specific digital resources and programs, very little research has been done to compare how student achievement varies between groups using digital resources and groups using print resources. More resources in use will generate more anecdotal information related to impacts on student achievement, and more research.

Research-based answers to the question of how well digital resources work will to some extent determine the scale of the shift to digital resources in K to 12 markets.

6. The persistence of print. Even in areas where K to 12 educators make extensive use of digital resources, print resources remain widely in use, and no credible voices predict their disappearance. Across Canada, K to 12 schools emphasize responding to the diverse needs and diverse learning styles of individual students, and most educators agree that some needs and some students are best served by print resources, and may always be. Teachers also have diverse preferences, and despite the generational shift towards digital preferences described above in this section, many teachers still strongly prefer print resources, in at least some situations.

This suggests that K to 12 markets may experience a shift towards combined digital/print resources, parallel digital and print resources, and digital resources that can be printed by the user, rather than a shift towards purely digital resources.

7. Government programs and policies. Programs of direct support to the K to 12 industry – as distinct from the regulatory and buying practices of education ministries – may also be a factor in shaping the role of new technologies in K to 12 publishing in Canada. Access to working capital will in part decide which companies can seize digital opportunities in K to 12 publishing. Programs – such as the BPIDP and the Ontario Media Development Corporation's Interactive

Digital Media Fund — that provide or free up working capital will help participating companies invest and compete as opportunities arise.

Quebec's tax credit and other programs offered through the Société de développement des entreprises culturelles (SODEC), and the equity investment offered by the Fonds d'investissement de la culture et des communications (FICC) are by far the strongest provincial support programs accessible to K to 12 publishers in Canada. That may very well be part of the reason that, as described throughout this report, the K to 12 publishing industry in Quebec is generally stronger than in Canada's other provinces, although there are certainly other factors at work: lack of competition in French-language publishing in North America and strong investment in K to 12 publishing by the Quebec printing industry, for example.

Provincial government purchasing policies were mentioned in several interviews as an area where BPIDP-recipient publishers hope to see change. They expressed the view that "Buy Canadian" policies would improve their access to core markets, offsetting the advantages of scale and capitalization enjoyed by some internationally owned companies and preventing price competition from companies with international markets. The authors' experience, however, suggests that most provincial governments in Canada stress curriculum alignment, quality, respected authorship (usually Canadian authorship), cost effectiveness, and experience of the publishers far ahead of the ownership of the publishers when making resource-purchasing decisions. It is difficult to imagine that a buy-Canadian policy will emerge to shape the market in digital K to 12 resources.

E. Changes in Ownership

Ownership consolidation

The authors' interviews discovered no active interest in further consolidation of ownership of either Quebec-based K to 12 publishers or K to 12 publishers in other parts of Canada. There do not seem to be any active acquirers in this sector at the time this report is being finalized.

Cyclical, relatively inelastic markets for K to 12 publishers led some, in the past, to pursue mergers and acquisitions in pursuit of otherwise difficult-to-find growth and efficiencies of scale.

A now very high level of consolidation and the current slow economy seem to have at least interrupted this process among Canadian K to 12 resource publishers. The authors speculate that if digital markets for K to 12 resources develop any real strength, market consolidation may not return any time in the near future as a motive for mergers and acquisitions in this sector.

It may be replaced by the goal of marrying digital-development capacity and market knowledge to the core skills of K to 2 publishers: content, curriculum and pedagogical expertise, and an ability to build and maintain effective relationships in the K to 12 system.

Some owners of print-focused K to 12 publishers who are in pursuit of exit strategies may, in the meantime, find buyers for their companies or assets, but the researchers' expectation is that this will be initiated by the vendors, rather than by purchasers.

Foreign ownership

Foreign ownership acquisitions in the cultural industries, including in book publishing, are governed by the *Investment Canada Act*. The Act "requires that foreign investments in the book publishing and distribution sector be compatible with national cultural policies and be of net benefit to Canada and to the Canadian-controlled sector" (Communications Canada "Fact Sheet" FS-92-3808E).

The Revised Foreign Investment Policy in Book Publishing and Distribution, which works in concert with the *Investment Canada Act*, specifies that foreign investment in a new Canadian publisher is only permitted in the context of a Canadian-controlled joint venture, and that a non-Canadian is not allowed to buy a Canadian-controlled publisher without permission from the Government of

Canada. This permission can only be requested in extraordinary circumstances, and even then it is subject to the requirement for net benefit to Canada and the Canadian-controlled sector.

This study did not discover any intentions of increasing foreign ownership in Canada's K to 12 publishing industry at this time. As mentioned above, consolidation in the industry seems to have stalled, perhaps due to a combination of its already high level of consolidation and the slow economy at the time of this project.

In recent years, international companies have tended to invest in the large national markets in Asia, South Asia and Africa, rather than scrambling to increase their share of Canada's dissected, inelastic market.

Internet-based commerce and digital content delivery have also enabled businesses to approach Canada's K to 12 markets from outside the country. As digital markets grow, there may be a trend towards digital publications entering Canada, rather than digital-publishing companies.

This study found some evidence that international digital-resource developers are considering ways to enter Canadian markets without establishing or acquiring Canadian companies — for example, through contracting with Canadian agencies, or working with Canadian partners to develop resources. These agencies or partnerships have the potential to strengthen some Canadian K to 12 publishers and distributors.

Foreign ownership has probably done less to inhibit Canadian-authored resources in recent years than other factors. As has been discussed throughout this paper, the authors found that buyers of K to 12 resources prefer Canadian authorship regardless of the ownership status of the publisher. For this reason, even if Canadian policies allowed unrestricted foreign ownership of K to 12 publishers in Canada, buyers of K to 12 resources in Canada would still demand Canadian authorship from publishers in Canada regardless of the nature of their ownership.

On the other hand, domestic concentration in the K to 12 industry — driven by the goal of capturing more of an inelastic market — has reduced choice for buyers and opportunity for Canadian authors. Unreliable buying patterns have also led to reduced investment in development.

Several interviewees mentioned that foreign ownership restrictions create obstacles to succession. The restrictions appear to have particular impact outside of Quebec, where only one large K to 12 company is Canadian-owned and therefore eligible to buy other Canadian publishers, arguably creating a buyer's market. These interviewees argue that, when foreign ownership restrictions force owners to sell to Canadian buyers at below-market value, the owners should have access to financial compensation. Points against this

argument include: 1) that eligible buyers can be any Canadian or Canadian-owned company — such as the printing companies that have purchased major stakes in the Quebec market — not just educational publishing companies; and 2) that this study observed no widespread demand by foreign-owned companies to buy Canadian companies or assets at this time.

F. Changes in the Market

Key changes in the K to 12 publishing market in Canada are described in sections B, C and D above, relating to the structure of K to 12 publishing, its financial health, and the role of new technologies.

Four points deserve re-emphasis:

1. There will be a substantial digital revolution in K to 12 publishing. Provincial ministries have invested heavily in classroom technology, and in provincial systems such as digital repositories to store and deliver digital resources, and they will over time centralize more of their spending to acquire or develop more high-quality core resources for use with these technologies. These large, purposeful customers have the purchasing power to make this revolution happen, and they want it to happen. The resulting resources will be a combination of print and digital components. Their purchasers will demand functionality far beyond ordinary e-books, such as assessment and classroom management tools. They will require that the resources use durable, interoperable formats and technologies in preference to proprietary systems.
2. Print resources will continue to be the bulk of K to 12 publishing for some years to come, within flat or falling markets. This will be true even though found resources, informal resources created by teachers, resources created and owned by provincial ministries, and other resources available at low-to-no cost to schools will continue to be widely shared through formal and informal networks, and to be widely used on classroom display technologies. This will keep the market for print resources flat, or it will push print sales down, but print resources will continue for some years to be the most-used resources.
3. Curriculum reform in Quebec is coming to an end, and over the next year K to 12 resource sales in that province will fall from current high levels, at least until the next reform.
4. K to 12 publishers will develop resources for sale directly to students and their families. Publishers will use this strategy to grow the overall market available to them, given the inelasticity of schools markets in Canada — where schools have only so much money provided by their provincial governments to spend on resources — and stiff competition in export markets.

Appendix A

List of Consultations, Conversations, and E-mail Conversations

Name	Affiliation
Wayne Antony	Publisher, Managing Editor and Acquisitions, Fernwood Publishing
Imelda Arsenault	Director, French Programs, Education and Early Childhood Development, Prince Edward Island
Jean-Vianney Auclair	ADM, Manitoba Education, Citizenship and Youth
Anne Baccardax	Directrice, Programmes de français langue seconde, Ministère de l'Éducation (Nouvelle-Écosse)
Jean Bouchard	Directeur général, Groupe Modulo (Nelson Education)
Marc Boutet	CEO, De Marque inc.
Barry Carbol	Publisher, Etraffic Press, Etraffic Solutions
Normand Cléroux	ERPI (Pearson)
Peter Crabtree	Crabtree Publishing
Michael Davis	Higher Education Consultant, Fitzhenry & Whiteside
Jacques Dorge	Manitoba Education, Citizenship and Youth
Catherine Edwards	Director, Pacific Educational Press
Paul Emond	President, Emond Montgomery Publications

Name	Affiliation
Susan Forward	Directrice, Section des Programmes de langues, Newfoundland and Labrador Department of Education
Hervé Foulon	CEO, Éditions Hurtubise HMH
Simone Gareau	Executive Director, French Education, Saskatchewan Education
Gilbert Guimont	Director, French Language Services Branch, Alberta Education
Michael Harrison	University of Toronto Press
Michael Jeffrey	Director, Learning Resources and Technology, Nova Scotia Department of Education
Christian Jetté	CEO, CEC Publishing (Quebecor)
Jean Lachapelle	CEO, Éditions Marie-France
Roland Lange	Content Manager, Google, Inc. (on terms of Google Settlement only)
Marcel Lavoie	Executive Director, Services pédagogiques, New Brunswick Department of Education
Pierre Lefrançois	Executive Director, ANEL
Pierre Marcoux	Vice President, Chenelière Éducation (Transcontinental)
Paul Mauro	emc notes
Gerry McIntyre	Executive Director, Canadian Educational Resources Council
Brian O'Donnell	Director, Business and International Development, Access Copyright

Name	Affiliation
Greg Pilon	Resources Too
Ginette Plourde	Director, French-Language Education Policy and Programs Branch, Ontario Ministry of Education
Wayne Poncia	CEO, Etraffic Solutions
Gautam Rao	President and CEO, Castle Rock Research
Anthony Rezek	Publisher, School Group, Emond Montgomery Publications
Cathy Sandusky	School & Library Sales Manager, Fitzhenry & Whiteside
Joanne Therrien	Éditions des Plaines
Keith Thompson	Thompson Educational Publishing
Bill Traynor	Tralco Educational Services
Jack Wayne	President Emeritus, Canadian Scholars Press
Linda Weigl	President, Weigl Educational Publishers
Darlene Whitehouse-Sheehan	Educational Programs and Services, New Brunswick Department of Education
Carolyn Wood	Executive Director, Association of Canadian Publishers

Appendix B

List of Influential Events and Conferences of Interest to Canadian K to 12 Publishers

Character Education

National Character Education Conference (Ontario)

Computing Science

AQUOPS (Association québécoise des utilisateurs de l'ordinateur au primaire-secondaire)

English Language Arts

Alberta Teachers Association English Language Arts Council conference

BCLC conference (BC Language Coordinators)

BC Teachers of English Language Arts conference

ELAN conference (English Language Arts Network, Ontario)

SPEAQ – RASCALS conference (Society for the promotion of English in Québec)

Français et Immersion

AATF conference (American Association of Teachers of French)

ACELF congrès annuel (Association canadienne d'éducation de langue française)

AEANE congrès annuel (Association des enseignants acadiens de la Nouvelle-Écosse)

AEFNB congrès annuel (Association des enseignantes et des enseignants francophone de Nouveau-Brunswick)

AÉPQ congrès annuel (Association d'éducation préscolaire du Québec)
AQEP congrès annuel (Association québécoise des enseignants de primaire)
Association canadienne des professeurs d'immersion congrès annuel
Association provinciale des professeurs d'immersion and du programme francophone congrès annuel (B.C.)
CASLT congrès annuel (Canadian Association of Second Language Teachers / Association canadienne des professeurs de langues secondes)
Conseil français congrès annuel (Alberta Teachers Association)
FCPQ congrès annuel (Fédération des comités de parents du Québec)
QPAT congrès annuel (Québec provincial association of teachers)

General

Alberta's Regional Consortia's conferences
Alberta's Regional Teachers' conferences
CEC (Catholic Educators' Conference)
HRSB conference (Halifax Regional School Board)
Manitoba SAG (Special Area Groups) conference (Manitoba Teachers Society, fall) – Special Area Groups are networks of teachers in specific subject areas such as math, science and social studies. The SAG conference includes all subject areas.
NBTA conference (New Brunswick Teachers' Association)
NFLD DOE (Newfoundland Department of Education Meetings)
OCETF conference (Ottawa Carleton Elementary Teachers' Federation)
QESBA conference (Québec English School Boards Association)
STA conference (Surrey Teachers' Association, BC)
VSB conference (Vancouver School Board)

Literacy

CIRR conference (Canadian Institute of Reading Recovery)

IRA conference (International Reading Association)

Math

BCAMT conference (BC Association of Mathematics Teachers)

Mathematics Council of the Alberta Teachers Association conference

GRMS congrès annuel (Groupe de responsables en mathématique au secondaire, Québec)

OAME conference (Ontario Association of Mathematics Educators/l'Association ontarienne pour l'enseignement des mathématiques)

Modern Languages

BCATML congrès annuel (British Columbia Association of Teachers of Modern Languages)

OMLTA conference (Ontario Modern Language Teachers Association/Association ontarienne des professeurs de langues vivantes)

Physical Education

Alberta Teachers Association Health and Physical Education Council Conference

Ontario Physical and Health Education Association conference

PEBC conference (Physical Education in British Columbia)

Science

Alberta Teachers Association Science Council conference

BC Science Teachers Association conference

STAO/APSO conference (Science Teachers Association of Ontario/l'Association des professeurs de sciences de l'Ontario)

APSQ congrès annuel (Association pour l'enseignement de la science et de la technologie au Québec)

Social Studies

Alberta Teachers Association Social Studies Council conference

BC Social Studies Teachers Association conference

OHASSTA conference (Ontario History and Social Sciences Teachers' Association)

Appendix C

Educational Resources Produced by K to 12 Publishers

K to 12 resources come in many forms and fall into many overlapping categories, and K to 12 publishing has its own jargon to describe them all. Canadian K to 12 publishers produce all of the following kinds of resources.

Core or **basic** resources deliver all or nearly all of the requirements of a curriculum or program of study. They can take a variety of forms, such as textbooks or online resources. They can be authorized or approved (these terms have the same meaning), or unauthorized or unapproved, depending on whether they have been reviewed and certified as covering the required material in an acceptable fashion under the authority of the educational jurisdiction to which they are being sold.

Ancillary resources are resources designed in conjunction with core resources to add value to them, but which are not required to meet curriculum requirements. Lesson cards, online computer test banks, websites, math manipulatives, audio CDs, posters, games, packaged experiments, and many other products might be added as ancillaries to core resources. They might be included in the price of a core resource, or offered at an additional charge.

Supplemental or **support** resources are normally intended to help deliver the requirements of a curriculum, but are not comprehensive in doing so, and may not be closely matched to the specific curriculum of any particular jurisdiction. Typically, however, they will be developed and marketed based on specific curricular links, and sometimes cross-curricular links (such as literacy resources on topics found under the science or social studies curriculum). These can also be authorized or approved (these are equivalent terms), depending on whether they have been reviewed and certified as acceptable support material by one or more jurisdictions. Skills-building resources in literacy or numeracy, reference works, and readers are examples of support resources.

Consumables are resources that are designed to be used by a single student, and then kept by that student or discarded. Workbooks are an example of consumables. Workbooks have been largely replaced outside of Quebec by black-line masters (BLMs) or reproducibles, which can be photocopied by the teacher to create consumables. Consumables may be purchased by schools, or — in contrast to most K to 12 resources in Canada — by students or their families.

Custom resources are assembled by the customer from a range of sources offered by a single publisher. For example, an abridged social studies textbook leaving out an unnecessary chapter would be a custom resource, as would a

social studies textbook assembled from chapters chosen from one or more titles. Most larger K to 12 publishers offer custom-publishing services to their customers, but custom publishing remains a very small part of the K to 12 market.

Translated and adapted resources are particularly important in Canada, since resources in both official languages (and many others) are in use across the country, and in core subjects these resources must align to each province's curricula. Typically they are translated and adapted from the official language spoken by the majority in a province to the official language spoken by a minority, because of the challenging economics of developing original resources for small audiences. These resources are never simple translations. The process of adaptation addresses the need for appropriate cultural references, and for images with appropriate language content (such as labels or signs). Adaptation also often involves building features that enable immersion students, whose second-language skills often lag behind first-language speakers at the same grade level, to build language skills and vocabulary. Adaptation typically requires a new layout for the resource, since users and editors both want the same content to fall on the same pages in both official languages, but a given passage of text in French may run 20 percent or so longer than an equivalent passage in English.

Course-packs are typically assembled by the user from scanned or photocopied materials from several publishers or sources. Course-packs are very common in higher education, where they are produced by most universities and colleges under licenses from copyright collectives, but they are relatively uncommon in the K to 12 sector, except as informal solutions to resource challenges.

Learning kits are pre-packaged assemblies of resources that, in aggregate, may amount to a core resource and are sold as a unit. Learning kits may include print and digital components, games, manipulatives, or many other elements. Sales of eligible learning kits amounted to only 0.8 percent of total eligible educational sales in the 2008-2009 BPIDP application year, and this probably reflects their typical total share of the market. Learning kits have largely been supplanted by selections of core resources and ancillaries, offered on a "choose-all-or-some" basis.

Digital resources are any resources used as digital files, or acquired as digital files to be printed. They may be accessed online, downloaded, or delivered on a storage medium, such as a DVD or memory stick. Some are static digital page views, such as PDF files, and some have functions that cannot be duplicated in print. They may offer a variety of features and formats such as multimedia, elements for interactive whiteboards, computer-adaptive assessment tools, or classroom management tools. They may be student or teacher resources; in fact, most publishers offered digital teacher resources, such as editable and printable black line masters, before they offered digital student resources.

Student resources are designed for student use, whether they are core or supplemental, consumable or durable, digital or print, and so on.

Teacher resources aim to guide teachers in the use of corresponding student resources, again regardless of whether the teacher resources are core or supplemental, consumable or durable, digital or print, and so on. Teacher resources might include, for example, curriculum correlations, instructional strategies, lesson plans, recommended activities, assessment instruments, recommended additional resources, and BLMs. Teacher resources tend to be more brief and general (that is, suitable for the curricula of multiple jurisdictions) for supplemental resources, and much longer and more specific for core resources. In fact, core teacher resources may be up to three times longer than their corresponding student resources. They are typically required for core student resources to qualify for authorization, and they are essential when marketing K to 12 support resources. They sell in much lower quantities than student resources, and therefore usually have much higher price points.

Teachers' professional resources are intended to help teach teachers to teach. They may, for example, be specific to a single subject area, such as mathematics or reading, or they may focus on more general topics, such as teaching skills or classroom activities. They do not link directly to corresponding student resources.

Distance-education or **home-study** resources are designed to be used by students without teachers or at a distance from teachers. They typically include self-study guides, and support for non-specialist helpers such as parents.

Manipulatives include all physical objects intended to help model, demonstrate, or use concepts. They aim to engage the kinesthetic dimension of learning. Math blocks are an example of manipulatives.

Library sets are sets of single copies of multiple titles on a given theme.

Class sets are sufficient quantities of one or more student titles to serve an entire class, often bundled with a single teacher resource, and sold at a modest discount. Class sets traditionally include fewer copies at lower grades; a common trend now is to offer a range of sizes at all grades. Both core and support resources may be offered as class sets.

Modular resources offer several smaller titles, or modules, which are often authorized together as core resources, and sold together at a single price. Non-modular resources — single, large, core textbooks covering a full year, for example — are becoming less common, especially at lower grade levels.