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**DEPARTMENT OF  
COMMUNICATIONS**

**A STUDY OF THE CANADIAN  
PERIODICAL PUBLISHING INDUSTRY**

**MAIN REPORT**

**JUNE 1984**

A report from

**Woods Gordon**

Management Consultants



Gouvernement du Canada  
Ministère des Communications

Government of Canada  
Department of Communications

Huguette Turcotte

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Industries culturelles/  
Périodiques – Journaux

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June 15, 1984

*029/84*  
*letter*

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Arts and Culture Branch  
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Re: A Study of the Canadian Periodical Publishing Industry

Dear Mr. Lalonde:

*free by*

We are pleased to present our Final Report on the Canadian Periodical Publishing Industry Study. The industry is a complex one which makes a significant economic and cultural contribution. It is basically in a healthy condition. We trust that this Report will assist the Department in developing the most appropriate policies and programs in the interest of the industry and of the public.

We are indebted to a large number of persons in Government and industry for their assistance. In particular, we would like to thank you, Jean-Pierre Langlois and Huguette Turcotte for the time and energy you have put in to giving us support throughout the study. In the industry, many organizations and individuals have given us full cooperation, including all the major industry associations. We also owe a considerable debt to both the





**Woods Gordon**

- 2 -

English and French panel members and to all those others who provided us with interviews and who responded to our survey-questionnaire. These are too numerous to mention here, but a full listing is provided in the Appendix. We would like to emphasize, however, that the findings and recommendations are our own.

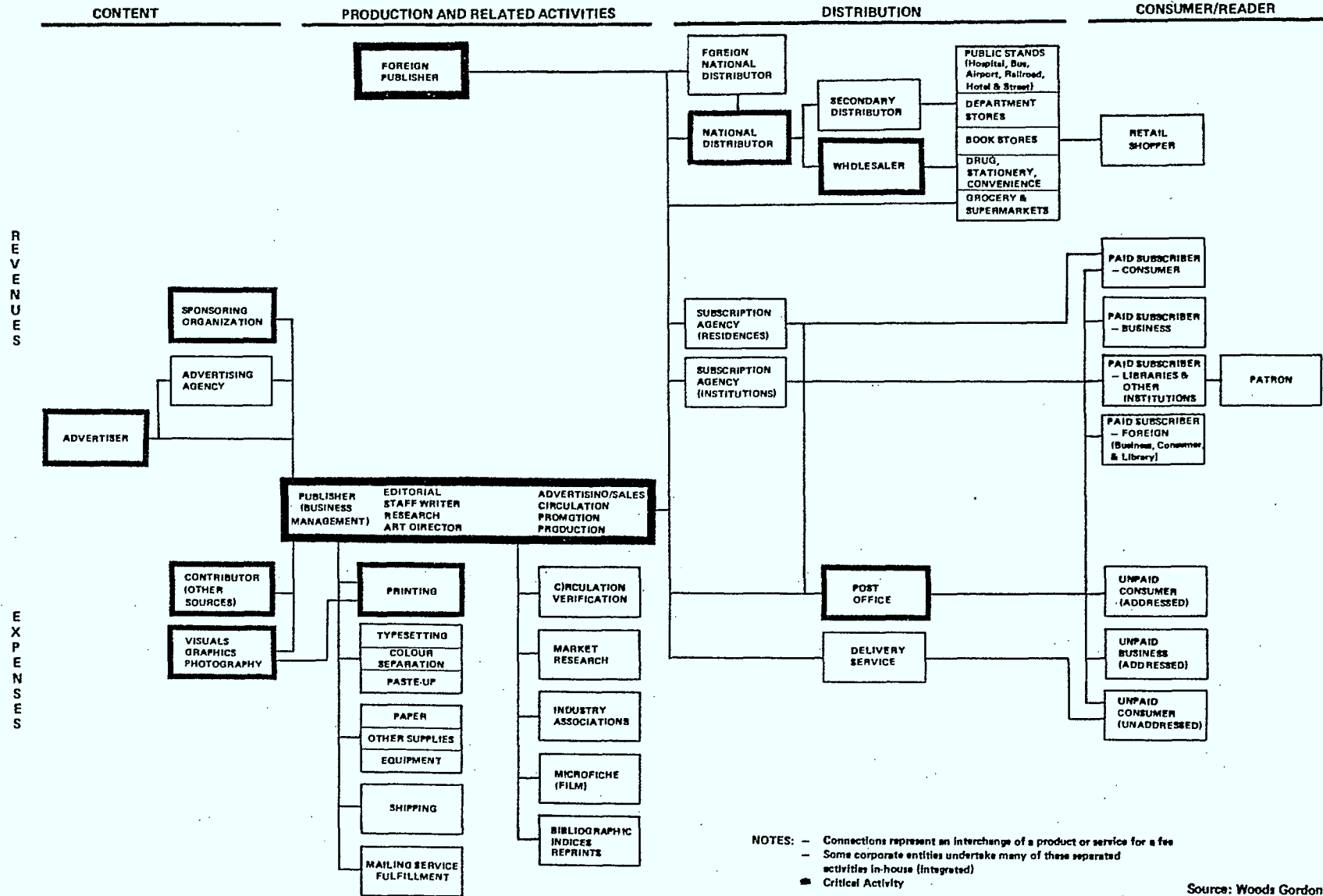
Finally, we must say that we greatly enjoyed carrying out this work, are privileged to have been of service to the industry and the Department, and look forward to future opportunities to serve the Department's needs.

Yours very truly,

*Woods Gordon*

RFB  
RJ  
MHW

# PERIODICALS INDUSTRY OVERVIEW MODEL



# A STUDY OF THE CANADIAN PERIODICAL PUBLISHING INDUSTRY

## EXECUTIVE SUMMARY

### Introduction

This Study was commissioned by the Department of Communications (DOC) with the principal aims of developing a solid information base on the industry, of reviewing federal government policies and programs affecting the Canadian periodicals industry, and of recommending and developing new policy options where analysis shows this to be necessary.

Two essential objectives lie behind these aims:

- the overall cultural objective is to secure and maintain the national identity of a major portion of the periodicals industry and to provide the Canadian reader with access to a wide range of domestically-produced products;
- the overall economic objective is to maximize the financial strength and opportunities for growth of the Canadian periodicals industry in the face of a number of formidable obstacles, including a relatively small and widely dispersed population and competition from foreign periodical imports.

Particular consideration was given in the Study to differences between French-language and English-language periodicals and periodical publishing; some reference is made to these differences in this Report, and a general review of the French-language periodicals industry is the subject of a sister volume.

A comprehensive survey-questionnaire was sent out to over 3,000 periodicals, of whom 750 were francophone. We interviewed 84 individuals or organizations involved in the English-language

periodicals industry and 26 from the French-language industry, and we carried out 8 case studies in the English-language and 3 in the French language. Considerable use was made of secondary information sources, such as previous Government reports and research studies and briefs presented to us or to various Government bodies by companies and organizations in the Industry.

### Industry Overview

The entire process of a publisher putting together a periodical and then distributing it to the readers involves many different activities and organizations. The Chart opposite displays the complete spectrum of these. There are generally four basic aspects:

- compiling the content (advertising, editorial and other)
- physical production and general business management  
(ownership or sponsorship, publishing and manufacturing)
- distribution to subscribers (including paid and unpaid)  
through the mail, to single copy buyers through the retail  
network or to others through various means (airplane seats,  
hotel rooms, etc.)
- readership by the consumer.

### Industry Analysis

The publishing of periodicals and related activities accounted for the employment of about 25,000 Canadians in 1981, paying about half a billion dollars in wages. Total revenues of commercial and non-commercial publishers was about \$815 million. Periodicals



clearly play a major cultural role, since they occupy a significant part of each Canadian's leisure and work time. We estimate that there are 5,000 publications in our Study universe, published by 3,400 different publishers. Only a small portion of these 3,400 are solely devoted to publishing periodicals. The level of concentration (the proportion of overall activity accounted for by the largest companies) is relatively low in comparison to most Canadian manufacturing industries, and has probably diminished over the past few years. Periodical publishing is closely tied to printing operations. The industry is highly concentrated in Ontario and Quebec. As a medium carrying advertising, the importance of periodicals rose over the 1970's; relative to where it was in 1972, periodical advertising has grown faster than in any other media. Writers do not have a strong bargaining position in the industry; this component, the creative component of the industry, does not have the same economic capability to earn large returns as do book authors, rewarding artists and movie actors, because there is not opportunity to have large sales.

About 50 percent of all periodical circulation included in our Study universe is distributed by the Post Office. Another 44 percent is delivered direct to the home or other locations (the vast majority of which consist of television supplements in weekend newspapers). The remaining 6 percent is sold through retail establishments. With the exception of a very few special instances, all publishers operating in Canada are Canadian-owned.

The overall average profit performance of commercial Canadian periodicals has been relatively positive; it is an industry

with very few failures, and far more entries of new publications than demises of old ones.

The non-commercial sector includes a wide range of types of periodicals: government, artistic, literary, scholarly, religious, and association-based. Nearly all of these are low-budget and low-circulation, and, along with a list of other problems which largely arise from being small and underfunded, face formidable obstacles in making themselves known and available to that segment of the public which might like to read them.

#### Issues

The major issue is the postal program. There are several dimensions to this problem:

rates: the industry is concerned that these costs not increase unduly and the government is concerned about whether its subsidy is benefiting Canada appropriately. The industry is also concerned that postal preparation requirements be properly recognized as part of the increase in costs.

regulations: the unequal access of periodicals to different rates is a major concern of those included and excluded. Not only does the existence of different rates cause problems, but also the interpretation and application of the rules deciding who should or should not get the rates is a major issue. These issues are of major importance to the controlled circulation press and to associations.

the real costs of delivering periodicals: the lack of knowledge of actual costs confuses the discussions.

Other issues do have some impact on policy planning, but they are not very commanding in terms of their importance to policy and program planning:

writers remuneration: since the creative core of the industry is key to Canadian culture this is a problem worthy of concern. However, because it is a market-forces problem, the government will not be able to have a major impact.

foreign competition: the industry enjoys one of the highest levels of Canadian ownership and consumption of all cultural industries. This should continue to be guarded but, in our view, is currently only a problem of enforcement which does not require major new initiatives.

small periodicals: these are typical problems of small business. The presence of so many small operators indicates entry is relatively easy and that government should support their on-going viability to the same degree it sponsors small business growth in all sectors, through its general programs of support for small businesses.

marketing and distribution: there are several dimensions to this problem. Access to newsstands has long been voiced as a major problem for small, more culturally-oriented periodicals. While this is cause for some government support it is not a critical problem, simply because the market does not exist for most of these periodicals, nor could they afford the access.

government purchasing of advertising is really a matter of policy consistency and is not of key importance to the industry.

export marketing is of some interest since it would help increase market size and meet Canada's international cultural aspirations. However, the nature of the product dictates that this will always be a limited marketing opportunity.

### Program Proposals

The following specific program proposals are made with the intent of meeting government objectives vis-a-vis the periodicals industry and also of providing it with a flexible and pragmatic set of programs that can be adapted quickly and without major dislocation to any part of the industry when changing conditions warrant it:

- if the government wishes to reduce the financial subsidy to the periodical industry, it should adopt a cautious and pragmatic approach in any move to change postal rates beyond the rate of inflation, including:

- o a clear statement of the objectives of the government vis-a-vis the periodicals industry
- o a continuation of the policy of subsidising major elements of the industry
- o an attitude that the subsidy be regarded as a combined subsidy for the industry and the consumer
- o further understanding of the actual costs of the Post Office
- o a more targetted use of subsidies over time
- o a reduction but not elimination of the cost to the government, over time, of the subsidy program
- o an application of the program solely to Canadian-owned periodicals
- o a decision by the government as to the degree to which it intends to differentiate between paid circulation addressed periodicals and controlled circulation addressed periodicals
- o an opportunity on the part of a consumer to request and to refuse receipt of a periodical if a subsidy is involved
- o support by the government, in its own domestic advertising expenditures, of Canadian media
- o a study of the sensitivity of the industry to advertising rate changes
- o the simplification and tightening of eligibility criteria for 2nd class privileges
- o an increase in the minimum subscription rate per annum for periodicals receiving the 2nd class code 3 rate to 50¢ per copy
- o a minimum set at 25 percent of subscriptions be persons who are not members of a related association for that association to qualify for preferential postal rates
- o after key elements of the above have been completed or are in place, a specific, flexible, pragmatic and reasonable approach be taken to increasing postal rates, such as developed in Section 5.5.2.2 of the text.



- Section 19 of the Income Tax Act be retained
- A program of enforcement of this Act be set up involving:
  - o a review of Canadian advertisers in foreign periodicals
  - o instructions via the Department of Revenue to the auditors of advertisers to see that appropriate accounting takes place.
- The 1964 amendments to Schedule C of the Customs Tariff be retained. From time to time checks should be made to see that the policy is being enforced and if it is not then steps should be taken to ensure it is enforced.
- Existing programs via the Social Sciences and Humanities Research Council and the Natural Sciences and Engineering Research Council be maintained and increased annually at the rate of increase in the consumer price index (C.P.I.).
- Grants via the Canada Council be substantially increased (by, say, 50 percent) and increased annually by the rate of increase in the C.P.I.
- The major part of the Canada Council increase be given to the periodicals it now supports, and a portion earmarked for payment to writers.
- This earmarked grant be thereafter increased with inflation.
- A substantial grant increase be given to the CPPA to augment its distribution and promotion agency, subject to an initial cost effectiveness overview and targets for future cost effectiveness.
- A grant be contemplated for the proposed merged 'association des éditeurs de périodiques culturels québécois/diffusion parallele' in Quebec if the prospects appear good that it can work effectively as a distribution and promotion agency for small artistic and literary periodicals.
- The government, its agencies, and Crown Corporations, not be discouraged from advertising in bilingual periodicals because of the expense involved in following its own policy of having to place both French and English ads.
- The government, its agencies, and Crown Corporations, recognize that Canadian advertisers have an economic disincentive to publish in foreign periodicals, and therefore give itself an economic disincentive to publish in foreign periodicals.

Information Collection Activities

We recommend that a survey of periodicals be undertaken every two or three years. It should cover:

- advertising lineage
- circulation by channel
- editorial sourcing
- operating revenues by source (subscriptions, retail, advertising, grants, etc.)
- operating expenses by source (production, editorial, promotion, postage, etc.)
- operating profit
- ownership

The survey should go to all commercial, scholarly, artistic and literary and religious publications that can be identified. A grossing-up method should be used for non-response based on circulation. The PDA should be approached annually for newsstand sales by title.

The Census of Manufacturers and Corporation Financial Statistics should be used for the publisher-based data.

Annual tabulations of appropriate data from ABC, CCAB and CARD should be undertaken, including:

- circulation by type of periodical
- frequency
- size stratifications
- channels of distribution
- concentration by publisher.

Whenever possible, the tabulations should be adjusted to take into consideration changes in membership and inclusion in the above sources.

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## TABLE OF CONTENTS

	<u>Page</u>
Letter of Transmittal	
EXECUTIVE SUMMARY	
TABLE OF CONTENTS	
1. BACKGROUND AND OBJECTIVES	1
1.1 Background	1
1.2 Objectives of this Study	3
1.3 Treatment of French Market	4
1.4 Acknowledgements	5
1.5 Statistical Sources	6
1.5.1 Statistics Canada	7
1.5.2 Canadian Advertising Rates and Data	9
1.5.3 Other Secondary Sources	9
1.5.4 Woods Gordon Survey	11
1.5.5 Comments on Non-Survey-Based Estimates	15
1.6 Caveats and Future Work	16
1.7 Report Structure	19
2. AN INTRODUCTORY OVERVIEW OF PERIODICAL PUBLISHING	20
2.1 Periodicals	21
2.2 Publishers	35
2.3 The Overall Nature of the Industry	36
2.3.1 As a Communication Medium	37
2.3.2 As an Entertainment Medium	37
2.3.3 As an Advertising Medium	38
2.4 The Components of the Periodical Industry	39
2.4.1 Industry Associations	40
2.4.2 Circulation Verification	41
2.4.3 Market Research	43
2.4.4 Readership - Consumers	45
2.5 Conclusions on Definitions and Industry Description	46
3. AN INDUSTRY AND ISSUE ANALYSIS	48
3.1 Introduction	48
3.2 Its Contributions to the Canadian Economy and Society	48
3.2.1 Economic Impact	49
3.2.2 Cultural Impact	51
3.3 Corporate Organization	53
3.4 The Role of Advertising	57
3.5 Editorial Content	65
3.6 The Status of Writers	68
3.7 Production	72
3.8 Circulation	76
3.8.1 Controlled and Paid Periodicals	79
3.8.2 Price of Paid Periodicals	80
3.8.3 Distribution Channels	81

	<u>Page</u>
3.9 Retail Distribution Network	84
3.8.1 Key Players	85
3.8.2 Financial Flows in the Distribution System	89
3.10 Foreign Publishers and Publications	95
3.11 Foreign Ownership of Canadian Periodicals	101
3.12 Financial Health of Periodical Publishing	103
3.12.1 Sources of Expenses and Revenues	103
3.12.2 Relationships of Revenues to Costs	104
3.12.3 Profitability of Commercial Periodical Publishing	106
3.13 Summary of Issues	114
4. POLICY AND STRATEGIC CONCERNS	117
4.1 Introduction	117
4.2 History	117
4.2.1 Federal	117
4.2.2 Other Levels of Government	123
4.3 Overview of Current Policies and Programs	124
4.3.1 Direct	125
4.3.2 Indirect	125
4.4 Direct Grant Programs	125
4.5 Indirect Assistance	131
4.6 Overview of Costs	133
4.7 Overview of Cultural Concerns	133
4.7.1 The Periodical as Communicator	134
4.7.2 The Periodical as an Expression of the National Character	135
4.7.3 The Periodical as Artistic, Literary or Scholarly Creation	135
4.7.4 The Concept of a 'Cultural Periodicals' Industry	136
4.8 Overview of Economic Concerns	137
4.9 Overview of Targetting Problems	138
4.10 Limitations to Changes in Government Policy and Programming	138
5. OPTIONS FOR POSTAL POLICY AND PROGRAMS	139
5.1 Introduction	139
5.2 Description	139
5.3 Impact	140
5.4 Postal Policy	149
5.5 Options	150
5.5.1 Maintaining the Status Quo	151
5.5.2 Making Some Increase in Postal Rates	153
5.5.2.1 Equalizing 2nd Class Codes 3 and 4 over 10 Years	156
5.5.2.2 Moving 2nd Class Code 3 Towards 3rd Class Bulk Unaddressed, and Moving 2nd Class Code 4 Towards 3rd Class Bulk Addressed	161
5.5.2.3 Summary	163



	<u>Page</u>
5.5.3 Cultural Implications of Rate Changes	164
5.5.4 Changing the Postal Rates Drastically	170
5.6 Eligibility Criteria	174
5.7 Administration of Regulations	177
5.8 A Cost Study	178
6. OTHER OPTIONS FOR POLICY AND PROGRAMS	179
6.1 Introduction	179
6.1.1 Goals	179
6.1.2 Objectives	181
6.1.3 Changes Needed	182
6.2 Overview of Policy Options	184
6.3 Direct Grants	184
6.4 Government Purchasing of Advertising	188
6.5 Newsstands, Promotion and Distribution	188
6.5.1 Newsstands	188
6.5.2 Promotion of Commercial Cultural Periodicals	189
6.5.3 Distribution of Artistic and Literary Periodicals	190
6.6 Writers' Remuneration	190
6.7 Small Periodicals	192
6.7.1 Management and Other Problems	192
6.7.2 Technology	192
6.8 Export Marketing	193
6.9 Foreign Ownership	194
6.10 Tax Measures and Other Policies and Programs Used in Other Cultural Industries	195
7. POLICY AND PROGRAM RECOMMENDATIONS	201
7.1 Introduction	201
7.2 Canada Post	201
7.2.1 Policy	201
7.2.2 Program Description	202
7.3 Income Tax Act	206
7.3.1 Policy	206
7.3.2 Program Description	207
7.4 Customs Tariff	207
7.4.1 Policy	207
7.4.2 Program Description	207
7.5 Direct Grants	207
7.5.1 Policy	207
7.5.2 Program Description	208
7.6 Direct Government Involvement	209
7.6.1 Policy	209
7.6.2 Program Description	210

## BACKGROUND AND OBJECTIVES

### 1.1 Background

The Periodicals Industry has its origin in the periodicals of comment and commerce that have existed since shortly after printing was invented. In Canada, periodicals go back to before the beginning of the nineteenth century; there are well known periodicals still published in Canada which have had continuous publication, more or less, for a hundred years.

As early as the mid-nineteenth century, the government was concerned that periodicals be made as available as possible in Canada. "It was the government's desire to encourage the dissemination of news to all parts of Canada, both for educational purposes and to solve political problems<sup>(1)</sup>. The government believed that the better communications that existed, the less chance there was of political and economic problems.

The first federal action to have a major impact on the periodical industry was the establishment of the Canadian Post Office in 1867, followed by the Postal Act in 1875. This set a common rate for the mailing of newspapers and periodicals, at a rate of 1¢ per pound, with lower rates for publications issued more frequently than monthly. Remarkably little happened to the rates between 1875 and

---

<sup>(1)</sup> Evolution of Canadian Discretionary Postal Tariffs and their Classification Structure: EKOS Research Associates, 1981.

1951. Since then, a series of royal commissions, special committees and studies have focussed sharp attention on the escalating costs of providing the second class mailing rates. Part of the reason for this concern is that second class rates, under statutory protection until very recently, and still effectively subject to government approval, have risen far more slowly than less protected rates (especially first class).

After the Second World War - perhaps because of the social and other upheavals which that conflict generated - the government became significantly more concerned with the cultural contribution of periodicals. Government's concern has been particularly with those of artistic, cultural and literary merit, as well as with learned and scholarly periodicals. Direct grant programs were initiated through federal cultural, scholarly and research agencies. Three federal agencies now distribute modest grants to a little over 200 periodicals annually.

As this interest in cultural content increased, so did a consciousness of Canadian identity and content. In the 1960's and 1970's, reviews of policy led to customs tariff amendments, Income Tax Act amendments and ownership legislation. All these measures were designed to limit the pervasive impact of foreign periodicals on the Canadian market, and to give Canadian periodicals the time and opportunity to establish themselves.

Today, the industry is a healthy one, but one strongly shaped and led by deeply entrenched and expensive federal policies, programs and legislation. The one with the strongest influence (and the most expensive) is the postal program of reduced 2nd class rates.

The establishment of the Canada Post Corporation has increased the pressure on the federal government to do something about growing postal deficits. Since 1978, estimates of Canada Post's total losses linked to publishers' mailings have been separated from Canada Post's losses on other categories of mail.

Over time, the periodicals industry has broadened into many sectors, now comprising thousands of titles and hundreds of millions of copies a year. With this growth has come both sectoral character and sectoral problems. It seems timely to try to define both a little more.

#### 1.2 Objectives of This Study

The principal aims of this study are to review federal government policies and programs affecting the Canadian periodicals industry and to recommend and develop new policy options where the analysis shows this to be necessary. In order to facilitate these first aims, another major purpose is to develop a solid information base.

Two essential objectives lie behind these aims, and we consider that this study should play a major role in helping to achieve them:

- o the overall cultural objective is to secure and maintain the national identity of a major portion of the periodicals industry and to provide the Canadian reader with access to a wide range of domestically-produced products;
- o the overall economic objective is to maximize the financial strength and opportunities for growth of the Canadian periodicals industry in the face of a number of formidable obstacles, including a relatively small and widely dispersed population and competition from foreign periodical imports.

For federal government policies to be effective, they must be based not only on an agreed set of cultural and economic principles, but also on a sound body of information about the periodicals industry. One role of this study has been to gather information and to provide the necessary accompanying analyses. We were specifically concerned with undertaking the following:

1. A comprehensive survey of the periodical industry covering the French and English language sectors and including quantitative and qualitative data and analysis on:
  - o ownership and financial status
  - o the industry's place in Canadian cultural life
  - o industry structure and the interrelationships of its components
  - o sources of revenue and the role of advertising
  - o methods of distribution and promotion
  - o operating procedures and costs
  - o employment
  - o geographical coverage
  - o industry concentration
  - o the role of foreign competition
  - o competition from other media.
2. Analysis of past and present federal government policies and programs relevant to the industry.
3. Development of proposals for federal government policy revisions and new initiatives towards the industry.
4. Development of systematic, ongoing mechanisms for monitoring the periodicals industry and evaluating government policies.

One very significant omission was advertising information from major advertisers and their agencies. The study's Terms of Reference precluded discussions with these parties.

### 1.3 Treatment of French Market

A comprehensive survey questionnaire was sent out to over 3,000 periodicals of whom 750 were francophone. The response rate from the francophone press was not quite as good as from the

anglophone press (the mailings were, respectively, in English from Toronto and in French from Montreal) but gave some solid indications of what differences and similarities existed between the English and French periodicals press.

Also valuable were the 26 interviews and 3 case studies carried out by the French-language members of the Study team, the advice of the French-language advisory panel and the research carried out by the French-language team.

While we found more similarities than differences between the French and English periodicals industry, we felt that it would be useful to present a separate French report highlighting the nature, strengths and problems of the French-language industry, while leaving for a main report the overall review of the Canadian periodicals industry.

#### 1.4 Acknowledgements

We were impressed and encouraged by the cooperation we received from the industry. With very little exception (and no exception whatsoever from major participants in the industry), we were given time generously and given access to numerous ideas and copious material.

All the major publishers went to considerable trouble to make representations to us, and responded fully to our survey-questionnaire, often with considerable time involved on their part, and to our request for interviews.

We worked closely with the main industry associations:

- the Canadian Business Press



- Magazines Canada
- the Canadian Periodical Publishers' Association
- the Canadian Magazine Council.
- Association des éditeurs de périodiques culturels québécois.

They helped us greatly in our understanding of the issues, and in our ability to reach and work with members of the industry.

We interviewed 84 individuals involved in the English-language periodicals industry and 26 from the French-language industry, and we carried out 8 case studies in the English language and 3 in the French language. As with our other contacts, those whom we interviewed or with whom we undertook case studies gave us full cooperation.

We would also like to thank the members of the Department of Communications, Statistics Canada, Canada Post, and the Canada Council, for help, ideas and collaboration.

It became clear to us as the Study progressed that we were involved with a sizeable, healthy and valuable Canadian industry, and that it should be developed in the future in a way that did not undermine its very clear successes in the past.

### 1.5 Statistical Sources

Many other communication industries that have a large impact on Canada's industrial and cultural fabric are characterized by having relatively few companies involved and relatively homogenous products. In contrast periodical publishing has a very large number of publishers and a range of products that seem to defy accurate

statistical description. All the standard data sources have serious deficiencies that we and others have noted. The chief sources and their shortcomings as statistical data sources on periodicals are:

#### 1.5.1 Statistics Canada

Statistics Canada publishes the results of two very different surveys directly relevant to periodical publishing.<sup>(1)</sup>

- i) Census of Manufacturers: Printing, Publishing and Allied Industries, Annual, Catalogue 36-203. This is an annual survey of manufacturing industries that includes the following Standard Industrial Classifications (SIC):

286 - Commercial Printing  
287 - Platemaking Typesetting and Trade Bindery  
288 - Publishing Only  
289 - Publishing and Printing.

The publishing of periodicals is considered a manufacturing activity under either Standard Industrial Classification (SIC) 288 or 289. Any organization whose main revenue source is the publishing of periodicals would be included in either category depending on its degree of vertical integration. Those under SIC 289 have their printing largely done in-house. Also, any organization whose prime revenue source is the publishing of any other similar product, (books, newspapers, etc.) would also be included.

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<sup>(1)</sup> Many other statistical reports produced by Statistics Canada include 'publishing' as a specific category.

This source contains the following:

- publisher data on an establishment basis (will exclude other activities of a company if physically distinguishable)
- production data (employees, shipments, value-added).
- estimates of advertising and circulation revenues by types of periodicals.

Problems include:

- undercoverage due to not including any organization that does not publish as a prime activity. Thus many large association-based periodicals are excluded. Also, due to survey cut-offs, many small publishers are excluded from direct surveying. The undercoverage was considerably worse prior to the Bureau of Management Consulting study in 1980 whose recommendations led to better coverage
- self-response that can lead to misinterpretation especially between categories
- both advertising and circulation revenues are undercounted.

ii) Culture Statistics: Newspapers and Periodicals,  
Catalogue 87-511(formerly 87-625)

This is a unique publication for Statistics Canada in that it does not involve a direct survey of the industry but rather is a tabulation of data in Canadian Advertising Rates and Data (CARD) and more recently, additional data from the Audit Bureau of Circulation.

This publication examines circulation data and number of titles by various categorizations (including the CARD-based split).

It also examines, in various issues:

- U.S. circulation in Canada
- reporting of data from Catalogue 36-203
- editorial comment on the industry.

Since its source is limited to CARD and ABC, it does not include circulation data on non-commercial periodicals nor those that choose not to be listed.

#### 1.5.2 Canadian Advertising Rates and Data (CARD)

A Maclean Hunter monthly publication for the advertising industry lists all periodicals that wish to sell advertising and includes circulation statements (although many publications fail to submit acceptable statements). Other information includes:

- advertising data (cost, timing, etc.)
- frequency
- circulation by type
- year started.

This is the most often-used source for analyses of the Canadian periodical industry. Its shortcomings as a statistical source are that it:

- excludes all publications that contain no advertising or are not interested in selling advertising through this medium
- includes many periodicals which do not list their circulation
- includes many periodicals not included in our definition of 'periodical' such as directories and annuals
- excludes foreign periodicals.

#### 1.5.3 Other Secondary Sources

##### Audit Bureau of Circulation (ABC)

This American-based non-profit organization produces basic circulation data for its member publications. These must have either 70% paid circulation or 50% directly requested circulation.

Other data available are circulation by type and location, subscription price and premiums, and a variety of other information. The ABC produces a blue book of audit statements each six months on all its member publications in the U.S. and Canada.

It undercounts the universe due to its lack of coverage of controlled circulation periodicals as well as most smaller commercial periodicals and all non-commercial publications. However, it does cover all the major consumer periodicals. As will be shown later, we undertook a special analysis of the "Blue book" for 1961, 1971 and 1981 to investigate the trend over time of circulation of foreign and Canadian periodicals.

#### Canadian Circulations Audit Board (CCAB)

This organization performs the same function for controlled circulation periodicals as does the ABC for paid circulation.

#### Periodical Trade Associations

Magazines Canada - provides gross advertising revenues by advertiser for each of its periodicals. This is limited to the major consumer periodicals.

Canadian Business Press - undertakes a cost study of its member periodicals.

Canadian Periodical Publishers' Association - has undertaken various membership surveys.

These data sources are only related to the universe represented by each association.

#### 1.5.4 Woods Gordon Periodical Publisher's Survey

As a consequence of the lack of coverage and detail available in the above sources, we undertook a major survey of publishers and publications in Canada. Appendix 2 reviews the planning, execution and results of this survey.

As detailed in Section 2.1 and in Appendix A, we estimated that in 1981 there were over 5,000 titles with a single-issue circulation of about 71,000,000. In compiling our mailing list, we were restricted to about 2,700 publishers and 3,400 publications due to information sources we had on hand.

The questionnaire consisted of three parts:

- 1) General questions for the publisher
- 2) Non-financial questions for each periodical
- 3) Financial questions for each periodical.

The questions were designed to ascertain key facts as well as policy-oriented background data and opinions. The following facts detail key aspects of the survey.

	<u>English</u>	<u>French</u>	<u>Total</u>
<u>Distributed:</u>			
No. of Publisher Questionnaires	2,000	700	2,700
No. of Publication Questionnaires	2,450	750	3,200*
<u>Returned and Usable:</u>			
Publishers	463	77	540
Publications	515	90	605

\*This differs from the 3,400 referred to above for the reasons listed below.

All the major publishers co-operated. Those with many publications, such as Maclean Hunter and Southam, were only asked to complete a limited number of questionnaires for typical periodicals to

reduce response burden. The assembled mailing list was drawn from a variety of sources, including the Post Office, CARD, Ulrich (Bowker's Directory), Canadian Directory of Associations and various periodical association membership lists.

We estimate that the survey represents about 75% of total revenue generated by the industry although significantly less in terms of numbers of periodicals (12%) and circulation (37%). Further information on response rate is provided below.

Response Rate to the Woods Gordon Survey

The response rate is difficult to calculate in this case because of the multi-periodical publisher situation including the fact that Maclean Hunter and Southam were only asked to compile a sample of publications. The various ways of viewing it are shown below.

Count of Publishers

* Questionnaires sent	2,700
Usable responses	<u>540</u>
rate	20% (survey frame)
	16% (universe frame)

\* (The total estimate of number of publishers included another 700 government and association-based publishers.)

Circulation Accounted for by Publishers

* Questionnaires sent	49,000,000 (single-issue)
Usable responses	<u>26,000,000 (single-issue)</u>
rate	53% (survey frame)
	37% (universe frame)

\* Please note, we did not survey newspaper supplements and mailed-in-Canada publications, although they were eventually included in our definition as well as about 1,800 mainly association and government based publications. This is why the 49 million-coverage is less than the 71 million universe estimate.



Count of Publications

* Questionnaires sent	3,200
Usable Response	605
rate	19% (survey frame)
rate	12% (universe frame)

- \* The initial survey excluded many Southam and Maclean Hunter publications in order to reduce their response burden (about 200).

Also excluded were an estimated 1,600 other small periodicals composed of those that are released by the 700 publishers mentioned above as well as other publications not included in the original list because they were supplements, printed in Canada (not published), or a second or third publication of a publisher already included but not known at the outset as having more than one.

Comments on Accuracy of Woods Gordon Survey

The survey, as will be seen below, served a significant role in our analyses. It is important to note, however, that the data which resulted from the survey's tabulations cannot be taken as an exact measurement of the total of Canadian publications and publishers. Rather, we have used it as a yardstick with which to analyze key areas of the industry on the understanding that the data are exploratory and directional and not an exact mirror. Several factors should be considered in this regard:

- We mailed to all publishers that we could identify using a variety of lists. We are very confident that all major publishers were included. A number of small commercial and non-commercial publications were excluded because they did not appear on any of our lists used for mailing purposes. The large number of publications of this type that did respond means that their coverage was excellent.

- The mailing was intended to cover as much of the universe of publications (our universe is described in Section 2.1 below) as possible given the limitations of our lists. These lists covered about 65% of titles and 70% of circulation and thus there was no formal sampling. We also excluded newspaper TV guides and publications whose content originates outside Canada but which are printed in Canada since, at the time, there was some doubt as to whether to include them. We did provide several publishers with the opportunity not to file returns for all their publications. This selection was based on the respondent's sense of 'representativity'.

As a result, there is no statistically reliable method to 'gross up' the results to equate the total for the entire universe. Thus, the results from our survey only reflect the pattern for those that responded. The key question then is whether this group of respondents can be taken as representative of the universe. In our judgement, for the purposes of general description and for policy analyses, the database drawn from the survey generally does reflect the universe. There are, however, several areas in which coverage was somewhat lower than would have been preferred and we have sought to supplement this information from other sources. The key missing area covers small commercially-oriented publications as represented by the Canadian Periodical Publisher's Association. Only a limited number of their members returned completed questionnaires, and these tended to be the larger ones. On the other hand, response was excellent from members of both Magazines Canada and the Canadian Business Press. Further details are shown in the following table which documents, on the bases of titles and circulation, the coverage in selected areas of the industry.

	<u>Representativity of Survey Response</u> (Percent of Category)	
	<u>Titles***</u>	<u>Circulation***</u> (Single Issue)
<u>Associations</u>		
Magazines Canada	73 %	75 %
*Canadian Business Press	78	81
**Canadian Periodical Publishers Association	10	18
Association des éditeurs de périodiques culturels québécois	25	28
<u>Categories</u>		
Consumer	11 %	38 %
Business	15	42
Scholarly	10	26
Artistic, Cultural and Literary	7	17
Religious	<u>7</u>	<u>30</u>
Total Average	12 %	37 %

\*This is a publisher-based organization and the calculations are made on this basis.

\*\*Excluded COMAC from our calculations.

\*\*\*We have included all Maclean Hunter and Southam publications.

#### 1.5.5 Comments on Non-Survey-based Estimates

Due to the fact that we used a variety of databases, including some that were for different years, data related to the universe can only be taken as rough approximations intended to get 'order of magnitude' results. Wherever possible we have used different sources to cross-check data from a particular source, although this was not always possible.

As a consequence, we have relied on a variety of qualitative sources to verify the general accuracy of the quantitative data.

Each time we present a new set of estimates, an explanatory note of methodology is included in Appendix A. As will be seen, these are sometimes fairly rough but we have only included these when we feel confident, on the basis of researching the industry for over a year, that they present a reasonably accurate view.

#### 1.6 Caveats and Future Work

It is appropriate for us to express certain considerations as to an approach to this Study, its results and implications for the future.

We set out, ambitiously, to achieve major improvements to the existing quality of data available in the industry. Following our initial investigations of the industry, and with the agreement of the study director, it was decided to increase the number of questionnaires available beyond those originally proposed. With further investigation we discovered more publishers and, because of this, mailed even more than agreed. In effect, we mailed more than three times the number of survey-questionnaires that we had anticipated in our Proposal, and received a higher response rate than expected. This we found valuable as a signpost to issues and problems. However, the industry is complex and, taking into account the strong impact of sector, language, circulation size, nature of ownership and frequency of issue, to name just five major parameters, the industry quickly breaks down into more than a hundred quite distinct types. Against this, the survey-questionnaire results are a guide only to the size and nature of the universe and the sub-universes of the periodicals industry.

Our work has made it possible to establish a data collection methodology for the establishment of a data bank which, if maintained, would be of value to the government and the industry. Appendix B of this report explains our recommendations for an ongoing survey.

One serious constraint in our terms of reference was that we were specifically excluded from making any direct approach to the advertising industry because of concerns that such an approach might affect advertising in periodicals. This significantly curtailed our ability to analyse the periodical industry's main source of revenue, and its sensitivity to changes in advertising rates. We have made a recommendation in this regard.

Another constraint which impacted on the certainty of our results was the lack of a postal cost study. We were aware of and had available some references to work done over the years by the Post Office, including a cost formula developed in 1965 by P.S. Ross and Partners based mainly on weight per copy, size and geographical distribution, and involving sortation, transportation and delivery costs, from which specific costs and thus rates could be specified for any given item or publication. The major suggestion of this study was that subsidies be granted as discounts from the official rates based on full cost, rather than as specific rates. We have attempted to review options following this line of thinking, but found ourselves unable to proceed very far because of a lack of confidence that we could estimate even roughly the true costs of delivering various kinds

of mail. While this lack of knowledge of costs is made much of by the industry and is an impediment to government policy-makers, it is clear to us that postal costs generally are far in excess of the lowest rates charged to a significant number of publications (even allowing for the fact that many publishers, like other mailers, do a great deal of mail preparation). Therefore, while it would be preferable to know the exact costs, for our purposes we are sufficiently confident that a large gap exists between second class codes 3 and 6 charges and actual costs to accept that a subsidy exists. We discuss our rationale for this conclusion in Chapter 5.

It is also necessary to comment on objectives. The overall objectives of the government are not likely to be static. One of the biggest concerns the government has - the high cost to it of maintaining concessionary postal rates - has come about largely as a result of governmental neglect of the need to change both policies and programs over the last 100 years. We are of the view that government policy and programs applied to the periodicals industry are going to have to be watched and monitored carefully if the twin objectives of sustained industry health and efficient use of government programs are to be met. Government objectives will essentially have to keep pace with a healthy but variable industry in a competitive, cultural and communications environment that is changing rapidly.

Thus, we reached conclusions to the extent that we could, looking at existing conditions, and we also have commented on the balance of economic, communicative and cultural forces in the

industry today, but we have not proposed policies, let alone programs which can be statistically established.

### 1.7 Report Structure

There are many ways in which the industry might be analyzed. We have chosen to take an issue - orientation to the industry.

The industry is a complex one, and we have therefore chosen to start by providing an overview of the industry in Chapter 2, followed by an industry and issue analysis in Chapter 3. We proceed to an examination of policy and strategic concerns in Chapter 4 before turning to an examination of the critical postal issue and policy options (Chapter 5). Chapter 6 discusses options for dealing with other issues. The report concludes with a summary of our recommendations. Appendices A to E provide a detailed methodology, a review of possibilities for improving data on the industry, a bibliography, a contacts list and a description of direct grant programs. In order to facilitate reference to the exhibits, they have been bound under separate cover as have the Appendices.



## 2. AN INTRODUCTORY OVERVIEW OF PERIODICAL PUBLISHING

The objectives of this chapter are to describe what a periodical, a publisher and the periodical industry are, in order to set the scene for a more detailed analysis of policy-related issues later.

Even a cursory glance at what is involved in publishing periodicals indicates that it is a complicated activity to define and describe, much less accurately explain the interrelationships.

Notwithstanding these problems, to facilitate the analytical and reporting process it is critical to establish a common understanding of what is meant by the terminology, what is included, the groupings of homogeneous publications that are possible and a brief review of the main elements involved in the periodical industry. The following sets of definitions are somewhat arbitrary but in our judgement are reasonable for policy purposes.

There are three key domains:

- 1) periodicals - the product
- 2) publishers - the organization with ultimate ownership of one or more periodicals ('publisher' is also an occupation within the ownership organization. This report will make it clear by context or statement if the occupation is being discussed. Otherwise, one should assume that use of the term 'publisher' refers to the organization)
- 3) the periodical industry - the collection of economic and cultural activities needed to create, produce, distribute and use periodicals.

In some cases, such as Ethos, the periodical and the publisher are almost indistinguishable because the product is the only output of the ownership organization. While not rare, this situation

is far outweighed by the many variations of types of publishers and publications. As a result, there is little one-to-one predictable relationship between the two and thus they should be examined separately.

This section attempts to define the universe of each group and to categorize components of each for analytical and policy purposes. As we discuss below, definitions for various policy purposes can sometimes be more narrow than for analytical or descriptive reasons.

## 2.1 Periodicals

There is no generally held definition of a 'periodical' except, perhaps, in the library profession:

A "periodical" is a serial appearing or intended to appear indefinitely at regular or stated intervals generally more frequently than annually, each issue of which normally contains separate articles, stories, or other writings. (Anglo-American Cataloguing Rules).

The above definition is extremely crude and somewhat vague since it does not address such aspects as the amount or type of content, why it is produced, or by whom, who the audience is, cost, format, etc. However, it does include four key aspects:

- more often than once a year
- regular intervals
- contains "writings"
- and by implication, a printed<sup>(1)</sup> product.

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<sup>(1)</sup>While technological changes are blurring the distinctions between various communications products, as evidenced by a small number of recorded 'journals', we have taken the position that a written product is different from a recorded product just as a book and the movie of the same story are different.

The library definition adopts as a starting point a 'serial' which in turn is taken to mean "a publication issued in successive parts, bearing numerical or chronological designations and intended to be continued indefinitely". In an overall sense, serials can then be subdivided into three types as shown in EXHIBIT 1:<sup>(1)</sup> annuals, newspapers and periodicals.<sup>(2)</sup>

When discussing the meaning of a 'periodical' with members of the industry and in our reviews of existing definitions, several different aspects were underscored:

- o there is no commonly accepted definition (for instance, the Income Tax Act does not include one)
- o frequency can vary from daily to four times a year to much less frequently
- o in the industry, the term 'periodical' is usually equated with 'magazine' although a magazine tends to be identified much more with a commercial product
- o the various periodical trade associations do not have a common definition and one, the Canadian Business Press, includes annuals, directories and newspapers.

As a result, we have taken a broad approach to the overall definition issue.

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<sup>(1)</sup> EXHIBITS are bound separately.

<sup>(2)</sup> While the Terms of Reference for this study excluded both annuals and newspapers, it should be noted that the two categories are significantly influenced by some of the same government programs such as postal rates and advertising provisions. Newspapers were extensively studied by the Kent Commission. However, annuals (yearbooks, directories, annual reports) have not been looked at but do represent a considerable volume of material. For instance, Maclean Hunter Research estimates that the annuals that carry advertising (and many, such as annual reports, do not) account for 5% of all advertising. Circulation is impossible to estimate but it is very large.

Our interviews and surveys stressed that periodicals can play a wide variety of roles. Each periodical is chiefly a medium of communication that attempts to meet the particular needs of its audience. This statement encompasses a great number of goals and missions evident in the nearly 5,000 periodicals produced in Canada; these include one or more of the following:

- o a means of making a profit for the investors by generating more revenue than expenses.
- o a means of informing a readership about a variety of topics.
- o a means of entertaining a readership.
- o a way of educating an audience.
- o a medium of expression that reflects a form of feeling, understanding or observation of our surroundings.
- o a way of promoting the publishing organization, a principle or movement, etc.
- o a way of organizing a group of persons.
- o a way of proseletyzing or preaching a particular point of view or way of life.
- o a medium of recording events or decisions, etc.
- o a means of publicizing an event, thought, product, etc.
- o a means of fostering creative work.

For each of the above purposes to succeed in a periodical, the actual content must fulfill a 'need' of the prospective reader. In other words, if a periodical's mission is to entertain, the reader must want to be entertained in the way the periodical is written. That is, the prime factor that 'sells' a periodical is whether it meets the needs of the prospective reader.

For the purposes of this study, a periodical is a printed medium of communication that is issued on a regular basis at intervals of more frequent than a year, but not more frequent than weekly, and that contains a variety of editorial and other writings, with or without advertising.<sup>(1)</sup> A periodical must also:

- have a name and some form of chronology (such as date, volume number, etc.) on the cover
- be stapled, stitched, glued or otherwise formed into a distinct package - therefore excludes weekly and community newspapers
- be intended to be produced indefinitely
- not be mainly oriented towards advertising content, that is, it must contain less than 70% of advertising content<sup>(2)</sup>
- normally contain a number of articles
- have some form of duplication and distribution on a non-confidential basis (that is, it excludes material that carries proprietary rights).
- further, if published by an association, it must be available to non-members at reasonable cost and must be of interest to non-members.

According to our best estimates there are about 5,000 different periodicals published in Canada.<sup>(3)</sup> Given that there is, no commonly accepted definition of periodicals, it is not surprising that a commonly accepted classification does not exist. Based on our various investigations we have adopted a system by which periodicals

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<sup>(1)</sup>We exclude weekly and community newspapers. The distinction is primarily one of format - newspapers are not stitched, stapled or glued.

<sup>(2)</sup>The choice of 70% is discussed below in Section 3.6.

<sup>(3)</sup>Appendix A describes in some detail how this estimate was achieved.

can be classified into seven major categories, of which two are then further divided into three sub-categories each, forming 12 categories in all - see EXHIBIT 2. These are based on the preponderance of reader interest, although it should be recognized that each category covers a spectrum of reader interest possibilities (e.g. a trade publication can be read by a consumer due to a hobby interest, etc.). This is by no means an established method of classifying the universe. However, we have arbitrarily adopted the approach after discussions with industry associations. The following describes each group (numerical estimates are summarized in EXHIBIT 3 and the basis for these estimates are described in Appendix A.1).

1. Business - includes some 2,150 periodicals that are distributed on the basis of appealing to the business needs of the reader. While some of the readers may be interested in the publication out of general curiosity (micro-computers, etc.) the bulk of the subscriptions and/or advertising is based on the reader as a business person.

This category can be further sub-divided into various product or process topics (plastics, electrical equipment, etc.) or into a broader set such as that used by the Canadian Business Press:

- i) Industrial/technical (processing, manufacturing, light and heavy industry)
- ii) Professional
- iii) Marketing (sales, advertising, marketing)
- iv) Agricultural
- v) Merchandising (retailers, jobbers, wholesalers)
- vi) Institutional (hospitals, schools)
- vii) General Business and Management.

We have suggested a modified version in order to further compress all the periodicals into a smaller set of relatively unique categories, as follows:

- (1.1) Trade, Professional and Technical - the bulk (some 1,900) of all business publications fall in this category ranging from 'Administration Digest' to 'Wings'. Most of the publications by members of the Canadian Business Press would be included in this category. Most (in terms of volume) also contain advertising. There is also a large segment of professional association periodicals that tend to have limited advertising. Examples include Administrative Digest, Communication Systems, L'Ingénieur and Québec Aviation.
  - (1.2) Agriculture - about 150 publications that are oriented to the operations of a farm (and some fishing operations). They usually contain a significant amount of advertising. Examples include Le Coopérateur Agricole and Cattlemen.
  - (1.3) Business Newsletter - a subscriber-based periodical, (numbering about 100), that succinctly summarizes the latest developments in a certain field for a particular readership. Subscription rates are significantly higher than for most periodicals since they are usually subscriber-based. These are not seen as typical periodicals by the industry because of their short length and lack of advertising. However, they are growing in importance. Examples include Moneyletter and Canada Labour Views.
2. Consumer - About 1,150 periodicals are distributed on the basis of appealing to the individual needs of the reader aside from scholarly, literary or religious interests. This is usually a result of the target reader being seen as a consumer of products and services utilized by the person or in the home. This also includes periodicals produced as an advocate of a cause or other general advocacy topic ('Pollution Probe', etc.). There are three main sub-categories:
- (2.1) General - The 600 titles include the majority of consumer periodicals (usually called 'magazines'). 'General' is used to refer to a wide variety of topics and is not meant to infer that all periodicals in this category have general appeal. In fact, there is a trend to target each publication to a particular audience and thus very few magazines now have widespread appeal. This targeting has been a result of a desire to concentrate on specific editorial content and to appeal to the interests of advertisers who are increasingly focusing their marketing messages on specific segments of the population. Major examples include Maclean's, Homemaker's, Décormag and Décoration Chez-Soi.



- (2.2) TV/Radio - There are about 50 magazines produced to inform viewers and listeners about the schedule of events and related stories in the two media in markets across Canada. TV Guide, Starweek, Téléprobec 5 and T.V. Hebdo are well-known examples.
- (2.3) Public Association/Advocacy - This group of 500 titles includes a wide spectrum of publications whose prime purpose is to inform a particular audience of developments in special areas. They are largely spin-offs of a work activity by a government department or association that wishes to inform the public at large as well as interested individuals in their work as opposed to professionals in their field. This latter case is included in the 'Professional' subcategory of Business Publications. Examples of public advocacy would be Pollution Probe's The Probe Post and in Québec, Protégez-vous published by L'Office de la protection du consommateur.
- (3.) Scholarly/Educational - These periodicals usually require an evaluation of submitted articles to ensure a certain standard of scholarly research, or are directed to improving the quality of education. They usually have a significant amount of government or university subsidies and number upwards of 500 in Canada. Examples include the Canadian Journal of Economics and Sociologie et Sociétés.
- (4.) Artistic and Literary - There are about 650 very particularly motivated periodicals that focus on artistic expression. They are usually sponsored by government grants or a sponsoring organization and may also be dependant on voluntary contributions. These include Artmagazine, Dance in Canada, Liberté and Vie des Arts.
- (5.) Religious - These 600 or so publications have as their prime intent the promulgation of a particular religious point of view. Examples include the Canadian Churchman and L'Oratoire.

The above definition and classification attempts to be reasonably all-inclusive. One category of consumer-oriented press that we have not included is 'comic books'. By and large, we have excluded them because there are almost no Canadian published comics (even though some Canadian-content comics originate in the United States). Comic books tend to have all the characteristics required in the above

definition and thus, otherwise would have been included. Their exclusion has a notable impact since they have wide circulation in Canada (the circulation in Canada of one comic group is almost as big as Maclean's). Several other categories of serials have also been excluded. They are as follows:

Internal Newsletters/House Organs - This category refers to a roughly estimated 25,000 printed communications that are generally restricted to the employees of an organization or members of an association. Sometimes the organization's newsletters also distributed to clients and 'friends' in a 'soft' approach to self-promotion. There are two types:

Employee - often called company newsletters these publications relate to the activities of the company and its employees with little or no interest to others. We have estimated that there are about 15,000 significant publications of this type. This estimate is based on the fact that there are some 20,000 firms with more than 100 employees and we have assumed, on average, that 75% would produce a newsletter.

Association Members (sometimes called 'fraternal' publications). These publications are used to inform members of association activities and interests. In particular, to report on past meetings, etc. and to inform members about upcoming events. There are perhaps in the order of 10,000 such publications - this estimate is described in more detail in Section A.1.4.

Directories, Catalogues and Statistical Reports - These publications primarily include factual information with very little writing, with or without advertising. They include lists, prices, data tables, etc., and are produced by both the public (Statistics Canada) and private sectors (Yellow Pages). There are at least 1,500 of these in Canada. This rough estimate was based on the fact that Statistics Canada produces about 150 periodicals with a frequency of more than one a year and they would possibly form 10% of all titles.

#### Comparison With Other Estimates

These estimates are considerably larger than earlier estimations based on CARD and the Post Office list.

Comparison of Universe Estimates, 1981

	CARD <sup>(1)</sup>	Post Office <sup>(2)</sup>	Woods Gordon <sup>(3)</sup>
Titles	1,000	1,450	5,000
Circulation(annual)	750,000,000	233,000,000	961,000,000

Clearly, our estimates are considerably higher in terms of titles and somewhat higher in terms of circulation than either of the other two estimates. A review of the estimation procedure used earlier indicates the following reasons for these differences:

- association-based periodicals. Although we have only included 15% of association periodicals, there are a significant number (1,650) of which most, around 1,500, are not in CARD or on the Post Office list.
- government periodicals. We have added a further 450 periodicals not included in CARD or the Post Office.
- small commercial publications that do not get listed in CARD and do not use the Post Office. There are about 300 of these.
- religious periodicals are not listed in CARD although over half are listed with the Post Office. This accounts for about 600 of the difference with CARD and about 300 with the Post Office.
- scholarly publishing is very poorly covered in both CARD and the Post Office and thus accounts for about 500 titles.

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<sup>(1)</sup>Based on BMC and Statistics Canada and excluding directories and ethnic newspapers.

<sup>(2)</sup>Calculated by using BMC estimates of non-periodicals on list. Circulation is prorated on the same basis as the number of titles.

<sup>(3)</sup>See Appendix A.1

- the arts and literary group is also very poorly represented in both lists, accounting for about 500 of the difference.
- business newsletters are usually on the Post Office list but are not in CARD. There are about 100 of these.

None of the main lists that we reviewed, CARD, Post Office or Ulrich's was representative of all sectors. CARD was good for larger commercial publications, the Post Office list was representative of religious and most commercial publications, and Ulrich's was representative of most categories except that it was surprisingly poor for commercial publications.

The big difference in annual circulation between the Post Office and CARD is the exclusion in the Post Office list of large circulation periodicals that either do not use the Post Office (such as newspaper TV guides) or do not qualify for second class (such as unaddressed controlled circulation periodicals).

The difference between the estimates of annual circulation of CARD and Woods Gordon is largely accounted for by all the excluded categories of listing in CARD (associations, governments, etc.).

#### Further Clarifications

The universe of 5,000 refers to all publications that are published in Canada, which is taken to mean printed with either Canadian editorial content and/or advertising sold in Canada. Thus, we include 'Time', Reader's Digest and T.V. Guide in our study universe; this is unlike others, such as the definitions used in the

Bureau of Management Consulting's Interim Profile of the Periodical Publishing Industry in Canada (1980). These three publications account for 6% of the circulation of consumer periodicals. They are sometimes excluded from calculations in other studies because they were originally foreign-based or are currently, and, therefore, a bias has developed against them. We reject this point of view since, in our view, two are very much Canadian content periodicals ('Reader's Digest' and 'T.V. Guide') and all three sell advertising in Canada. For our purposes they are part of the Canadian periodical industry.

We randomly spot-checked several issues of 'T.V. Guide' in comparable time periods on the east and west coasts of the U.S. and Canada. The non-listing information was completely different between Canadian and U.S. versions. 'Reader's Digest' was the same way.

'Time', however, uses exactly the same editorial content in Canada as in the U.S. It sells advertising space in Canada and the advertisements printed differ between Canadian and U.S. editions. Since Time directly affects advertising sales in Canada, we included it as part of our universe.

The universe of 5,000 publications is taken to be an estimate for 1981. Since we had to use a variety of sources, 1981 was the latest year available for a common base from all the sources when the data collection was finalized in Fall, 1983; unless otherwise specified, any data mentioned refer to 1981.

There is a further segment of publications that are 'consumed' in Canada that originate outside Canada. This includes all publications actually imported into Canada and those publications that

are simply printed here with no Canadian content, editorial or advertising. This foreign component is quite large and we examine it in some detail in Section 3.11.

Various other classifications are sometimes employed, in particular, a periodical trade association viewpoint, focussing on commercially-oriented publications:

- o Consumer - major consumer magazines as represented by Magazines Canada and the Canadian Magazine Council.
- o Business - business periodicals as represented by the Canadian Business Press.
- o Special Interest - consumer magazines with unique aspects that tend to be attractive to limited audiences as represented by the Canadian Periodical Publishers' Association.

While this is convenient if one wishes to analyze data by Association, it is too incomplete and overlapping to be used in an overall sense.

There is some debate in the industry about whether TV inserts in newspapers should be regarded as periodicals. For instance, the Bureau of Management Consulting report decided to exclude these. Since they represent such a large circulation on an annual basis (almost 50% of all consumer publications), their inclusion or exclusion will affect industry totals in a major way. We have decided to include them for the following reasons:

- o they are kept separately by the reader from the newspaper for a week
- o they are bound separately
- o they compete with other periodicals for advertisers and readers

One common method for dividing the universe into two groups is to regard periodicals as either being commercial or non-commercial. The basic difference is whether a publication can reasonably expect to be fully supported directly by the reader and/or the advertiser without special assistance from a government or private sector sponsor. The dividing line can be very hazy. For instance, there are many trade periodicals produced by profit-motivated publishers that only undertake the project because an association will supplement any shortfalls.

We have adopted this dichotomy as a useful way of summarizing two key viewpoints. In general, we include in 'commercial' all periodicals in the 'General Consumer', 'TV/Radio, Agricultural, and Business Newsletter categories. We also include a large number of periodicals in the Trade, Professional and Technical category. The other categories, Public Advocacy/Association, Scholarly/Education, Religious, Artistic and Literary are assumed to be mostly non-commercial. We should note that some who produce periodicals of the artistic and literary nature view them as being of commercial promise. While this may be true in limited cases, we do not regard it as generally being true. The profit motivation of the organization can sometimes differ from that of the publication and this is discussed below in Section 2.2.

The magnitude of the total number of periodicals published in Canada and the French-English market split are summarized in EXHIBITS 3.i, 3.ii, 3.iii and 4. Three basic measures are reported, number of titles, total single-issue circulation and total

annual circulation. The latter measure is the result of multiplying the frequency of a publication, (the number of times a new issue is released each year) by the total single-issue circulation (the number of copies that reach consumers of one particular volume). EXHIBIT 4 indicates that depending on which of the measures we used, relative sizes can vary substantially. For instance, TV/Radio periodicals number less than one percent of all titles<sup>(1)</sup> but about 10% of all single issue circulation and, due to their weekly nature, over one third of the total annual circulation of all categories. On the other hand, Trade, Technical and Professional periodicals have almost 38% of the titles but only 14% of annual circulation.

EXHIBITS 3.ii and 3.iii present comparable data for French and English markets. We have attempted to split the universe on the basis of the main language of the periodical. In cases of bilingual periodicals, we have assigned them to the English market on the assumption that their circulation and readership is greater in that market. There were a sizeable number of bilingual publications responding to our survey (about 175 out of 600) which were mainly national associations and federal government publications. There are a number of large commercial bilingual periodicals such as the in-flight magazines but the readership is clearly predominantly English. More detail on the differences in circulation patterns between English and French markets is presented in Section 3.8.

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<sup>(1)</sup> Our definition of 'title' in this case refers to all regional editions as part of the one 'title'. Thus Southam's, TV/Times is one title although there are almost twenty editions in various cities across Canada. The same is true of TV Guide.



## 2.2 Publishers

The publisher is the key component in the production of a periodical. The publisher (as an organization) undertakes or commissions the following activities (also charted in EXHIBIT 5):

- editorial content
- sales of advertising
- compilation of the periodical
- printing
- subscription sales
- distribution
- financial management (industry investment)
- business management

Publishing periodicals is an activity that reflects many goals (see earlier statements on the purposes of a periodical) and motivations. This complexity is reflected by the different types of organizations that can be involved:<sup>(1)</sup>

- i) Unincorporated individuals and partnerships - these are usually small, very entrepreneurial endeavors whose prime motivation is a wish to create a forum for communication. They perhaps number some 400, across Canada.
- ii) Incorporated company - a form of legally recognized business that has limited liabilities for the owners. All major publishers are incorporated. Excluded from this category are those that are of a type in iii, iv, v, or vi, and that are also incorporated (they are included in their respective categories below). There are about 700 incorporated publishers.
- iii) Religious Organization - includes any recognized organization that is primarily interested in religious matters. About 400 such organizations produce periodicals.
- iv) Charitable Organizations - an organization that undertakes charitable work other than religious or educational, such as the Cancer Society. We estimate that there are about 150 of these in Canada.
- v) Educational Organization - usually refers to a school or university but could include some types of institutes and government departments if the prime purpose is education. These number some 200.

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<sup>(1)</sup> The basis of the estimates shown below are described in Appendix A.3.2.

- vi) Other Associations, Societies and Clubs - often called a "fraternal" organization whereby groups of persons or companies form together to pursue common goals. We estimate that about 1,300 of these produce publications that fit the definition of our study universe.
- vii) Government - the department of any level of government including local, provincial and federal agencies and crown corporations. There are about 250 such departments producing publications in our universe.

The rough estimate of publishers that we compiled from our review of the various lists indicates about 3,400 publishers produce the 5,000 periodicals in our universe, as is shown in EXHIBIT 6.

Generally speaking, the incorporated organizations focus on producing commercially-oriented publications and account for about 80% of these publications - see EXHIBIT 7. Unincorporated individuals and partners generally focus on commercial periodicals but are also involved in non-profit ventures. The remaining types of publishers generally deal with non-profit publications.

### 2.3 The Overall Nature of the Industry

The previous sections detailed some of the general descriptive features of the periodical industry in an effort to describe its basic size and shape. There are, however, some critical characteristics which are less quantitative but probably just as important to gaining an understanding of what is the periodical industry. These are especially important to note in comparison with other media-related activities from either an economic or a cultural perspective.

### 2.3.1 As a Communication Medium

A periodical is a major medium of communication and can be comparable to all other media such as television, radio, newspapers, cable, satellite and so on. Historically, periodicals have been a significant form of communications predating all others with the exception of newspapers and books. In addition, perhaps more than any other medium, it is a major communication format in both the business and recreational lives of Canadians.

In fact, the very variety of purposes of individual periodicals is a key aspect of the so-called 'industry'. The only common denominator is that paper is the medium. For instance, in terms of content, purpose, inputs, impact and format there is absolutely nothing else in common between 'Maclean's' published by Maclean Hunter and 'Journal' published by the Ontario Association of Children's Aid Societies, other than their use of paper and their second class postal classification.

There is, in reality, little commonality among periodicals. It is somewhat like classes based on 'wood' or 'plastic' which would include, likewise, extremely wide sets of products. This presents a problem when analyzing the industry from a policy perspective because not all problems are as key to major groups of periodicals as they are to others. Thus, our analyses, when appropriate will seek to distinguish between types of periodicals.

### 2.3.2 As An Entertainment Medium

As an entertainment medium, periodicals have some very different characteristics as compared to other media. Unlike movies,

books and records there are no 'residuals' based on the volume of sale which will vary for each release. That is, when a writer submits an article to a magazine, the general level of readership is known and a set price is placed. By contrast, the 'writer', record artist or movie star in other entertainment media can significantly benefit from high sales and sometimes over a considerable period of time. For instance, a record artist will potentially earn millions from a top-selling record (or nothing if a recording does not sell). This 'star' system is not a component of the periodical industry (except for a weak version in the form of syndication) and this affects the remuneration of artists by not giving them an opportunity (or risk) to make large returns on their creative work. This is part of a different 'risk' aspect to periodical publishing versus other entertainment media. Movies, records and books are short-term products which have relatively short life spans and normally must return their investment in six months to a year. A periodical publishing venture is similar to one involving newspapers, in that it is a long-term process of cultivating readership and, as reported often, has a five to seven year germination period before it can be expected to make a reasonable return for the investor.

### 2.3.3 As An Advertising Medium

It is important to note that sectors of the periodical industry, along with the newspaper industry, are unique entertainment media in that they generally have at least two very different sources of revenue and some have a third:

- o advertising - fees paid by advertisers to allow them to insert a message in the periodical aimed at the reader
- o paid-for circulation - fees paid by or on behalf of the reader to obtain a copy of the publication on an ongoing basis (subscriptions) or on a one-time basis (retail sales).
- o a third source that is important for the non-commercial sector is sponsorship through government subsidies, grants or special assistance by related organizations. While some of the publications that depend on this source make significant contributions to Canadian society, the vast bulk of periodicals are dependent on the other two sources of revenue.

Of the five periodical categories (plus the six sub-categories) being studied, this duality is most prominent in the 'general consumer' category which, as noted, accounts for 50% of all Canadian-based periodical circulation.<sup>(1)</sup> For the average small periodical, advertising represents somewhat lower levels of revenue. The difference tends to be made up by other sources, including subsidies and grants. The latter category is particularly appropriate for association-based periodicals, including some that are produced by profit-oriented publishing companies on contract for an association. Business publications, with the exception of business newsletters, are very much dependent on advertising as their main source of revenue. As would be expected, the less commercial categories of scholarly/education, artistic and literary, and religious have very low dependence on advertising.

#### 2.4 The Components of the Periodical Industry

The entire process of a publisher putting together a periodical and then distributing it to the readers involves many

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<sup>(1)</sup> Further details on the sources of revenue are shown later in Section 3.12.

different activities and organizations. The complete spectrum of these is charted in EXHIBIT 8 and generally includes four basic aspects:

- o compiling the content (advertising, editorial and other)
- o physical production and general business management (ownership or sponsorship, publishing and manufacturing)
- o distribution to subscribers (including paid and unpaid) through the mail, to single copy buyers through the retail network or to others through various means (airplane seats, hotel rooms, etc.)
- o readership by the 'consumer'.

There are important policy implications involved in each of the above areas and these will be addressed in detail in Chapter 3 below. There are several ancillary aspects that have very limited policy implications but a familiarity with them and the roles they serve is necessary for a full appreciation of the industry. In the immediately following sections we describe these other aspects including industry associations, the functions of circulation verification and market research, and a basic profile of consumer readership.

#### 2.4.1 Industry Associations

There are five major associations representing the interests of periodical publishing in Canada:

Magazines Canada (MAC) which includes the major consumer periodicals printed and published in Canada. The membership is periodical-based and all its periodicals are included in our definition of periodicals. Its prime purpose is to represent magazines as a viable advertising venue and to lobby government to buy more advertising in periodicals and make policy decisions favourable to the industry. There are currently 21 member periodicals.

Canadian Business Press (CBP) represents business publishing in Canada and is publisher-based. Some of the periodicals produced by CBP members are not included in our definition of periodicals (such as the Daily Commercial News). There are presently 30 publishers as members with about 250 publications.

Canadian Periodical Publishers' Association (CPPA) represents a wide range of consumer periodicals that tend to be smaller than those that are members of MAC (although Comac is a member of both) They are often of a special interest nature. It tends to have an educational focus not present in the other associations and also provides a distribution service that has importance to member periodicals. It has about 200 members.

Canadian Magazine Council (CMC) a recently-formed association of 12 medium-sized Canadian consumer periodicals with paid circulation who feel that none of the other associations represent their particular interests fully.

L'Association des éditeurs de périodiques culturels québécois (AEPCQ) an association of French-language - culturally-oriented periodicals in Quebec. There are presently 14 members.

In addition to the foregoing associations, there are other organizations that perform a less visible role. These include:

- Canadian chapter of the Newsletter Association (CNA) - represents about 50 publishers of business newsletters. Their interests are quite different from the other associations since they are subscriber-based only.
- Periodical Press Association (PPA) - an umbrella association serving MAC, CBP and the APA. Its major purpose is to direct an advertising agency recognition program to aid member publishers in their dealings with ad agencies.
- Agricultural Press Association (APA)
- Magazine Publishers Association of Canada (MPA) - an inactive association of large consumer periodicals
- National Magazine Awards Foundation (NMAF).

#### 2.4.2 Circulation Verification

A key aspect to the value of a particular periodical from an advertiser's point of view is knowing how many copies reach readers. The most basic measure is the 'total circulation' which is defined as the number of copies that are distributed with no knowledge of whether the publication actually has been read or been read by how

many different persons. Since this is a critical measure, a process of verifying publishers' claims about their circulation figures has developed to provide the advertiser with reliable information about whether the number of copies a publisher claims is distributed to readers is, in fact, true. This affects not only the competitive factor of which periodical reaches more people but also the price since the more people reached the higher the price per advertisement can be. As calculated by ABC, about 29% of periodicals listed in CARD do not state any circulation and a further 39% are not audited, leaving 32% of CARD titles that have audited circulations. However, these account for about 67% of all stated circulation (see EXHIBIT 9), a total which is significantly undercounted due to the non-stated periodicals. We have assumed that most periodicals that have not joined a circulation organization have done so because they do not want to pay the fee.

There are two independent organizations that verify circulation:

- o The Audit Bureau of Circulation (ABC) which is the most prominent and is U.S.-based.
- o The Canadian Circulation Audit Board (CCAB) which is smaller in terms of total audited circulation and is Canadian based.

Both organizations are tri-partite non-profit ventures that are financially backed by publishers, advertisers and advertising agencies although in both cases the publisher represents over 95% of the financial backing.

ABC

This organization 'audits' consumer periodicals with at least 70% paid circulation and business periodicals that either are 70% paid circulation or at least 50% directly requested circulation. In 1981 it audited 65 Canadian titles and has added several since.



CCAB

This organization audits controlled circulation periodicals - mainly business periodicals. Since this is rather a unique Canadian aspect to periodical publishing<sup>(1)</sup>, this organization is Canadian. In 1981, it audited 265 publications which has grown slightly in the last few years.

Circulation is the basic measure of 'reach' but it does not address various issues involved in readership. This requires further research beyond the scope of circulation audit agencies.

2.4.3 Market Research

Circulation is not always an accurate measure of the actual number of copies that are read because:

- o a person who receives the publication may not actually read it, and/or
- o the periodical can be read by more persons than the first purchaser or recipient ('pass along' or 'readers per copy')

In order to clarify their circulation figures, publishers have traditionally undertaken a variety of market research projects to measure these additional factors. Historically, these surveys often were unscientific, confusing and contradictory. In an effort to clarify the situation for the major consumer periodicals, a co-operative research venture called the Print Measurement Bureau (PMB) was established to measure objectively the actual readership of leading periodicals. The PMB is a non-profit research bureau funded by publishers, advertisers and advertising agencies. In the past 12

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<sup>(1)</sup>The controlled circulation press has not been a successful component of the industry in the United States. Various reasons have been put forward including postal regulations which required a very small minimum fee to obtain preferential rates and the inability of controlled circulation magazines to convince advertisers that they are read.

years it has undertaken four large-scale surveys to measure the readership of its member periodicals as well as associated factors such as use of other entertainment media and demographic characteristics. PMB has been credited with giving a boost to periodical advertising by improving the credibility of publisher claims. In fact, it is now so powerful that its findings can almost dictate the success or failure of certain publications.

PMB '83, the fourth survey, was released in the summer of 1984. Its results are based on a sample of 10,000 extensive interviews across Canada. The findings are released to participants and other subscribers in print, microfiche and on-line computer format. Typical tabulations are shown in EXHIBIT 10. The PMB measures which periodicals are read by whom, and how much they are read, but it does not investigate readership reaction to the specific content of the periodical.

One of the leading market research firms in examining what parts of a periodical are read and what impact they have had on the reader is Starch, a private U.S.-based research firm. 'Starch Reports' indicate the degree to which advertisements and editorial content are noticed by the reader and are thus used to measure the impact of design and content.

Many other research firms undertake readership surveys for particular publishers to bolster their claims. However, insofar as the major advertisers and publishers are concerned, PMB is the critical information bank and has a leading impact on print media selection by advertisers.

#### 2.4.4 Readership - Consumers

Comprehensive and comparable statistics on readership and expenditures 'related to periodicals' in the wider context of media consumption are unavailable. Historically the two largest surveys for two purposes have been the family expenditure survey and the leisure time activities surveys undertaken by Statistics Canada.

The latest leisure time survey was done in 1981 and was not directly comparable to earlier surveys. As shown in EXHIBIT 11.i, magazine reading was the fifth most important activity in 1978, behind television viewing, radio listening, newspapers and records, and was showing some signs of growth compared to 1975. A somewhat different survey in 1981, as shown in EXHIBIT 11.ii, ranked periodical reading behind all other major home-based media entertainment pursuits.

Additional consumer profile data on magazine reading in 1978 are portrayed in EXHIBIT 12 which shows data extracted from a Statistics Canada publication. They indicate that magazine reading increases with level of schooling, ranging from a participation rate (number who read as a percent of all persons in category) of 36% to a high of 81% for university graduates. However, length of time spent reading is inversely proportionate to degree of education. Also, the participation rate for reading declines with age although the amount read per reader increases with age. Unfortunately, little more recent data are available. Also to our knowledge, there are no comparable data on periodical readership in the office as a component of one's work requirements compared to consumer readership.

According to preliminary data <sup>(1)</sup> from the 1982 survey, 68% of Canadian families spent an average of \$60 a year on magazines. This is about the same level of participation as in 1978, while the dollar amount has increased from \$44. This amount, however, did not keep pace with inflation. Interestingly, the 1982 data show that the amount spent on subscriptions versus single-copy purchases was roughly the same \$49 for the former and \$44 for the latter (the difference between these amounts and the \$60 is the overlap between persons buying both). Magazine purchases are also closely tied to income levels, with the highest income quintile showing that 85% of families purchased magazines, each spending \$87 during the year - compared to only 47% of the lowest quintile families each spending \$35.

#### 2.5 Conclusions on Definitions and Industry Description

The foregoing chapter has attempted to define briefly the periodical industry in order to set the stage for an in-depth analysis of a wide variety of features. The key conclusions are:

- o it is a complex industry that is extremely difficult to describe in quantitative terms that are exhaustive in scope.
- o our use of existing statistical data and our survey of publications and publishers provides a reasonable database to point general directions and indicate orders of magnitude.

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<sup>(1)</sup> Table O3A91, "Detailed Average Expenditure by Family Quintile Groups 1982" Statistics Canada unpublished advance data.

- o analysis, quantitative estimates and policy implications are heavily dependent on an arbitrary set of definitions. We have attempted to be objective and to include the full range of periodicals. However, the industry's size and interrelationships can be affected by changes in definition and the following analyses should be viewed in this light.

### 3. AN INDUSTRY AND ISSUES ANALYSIS

#### 3.1 Introduction

During the course of our interviews, case studies and review of previous research and reports, many basic aspects of the periodical industry became focal points for policy discussions. This chapter undertakes a variety of analyses of policy and issue related industry features, and concludes with an overview of issues of importance to the industry.

In summary, we found the following aspects of the periodical industry to be closely related to current or potential government policies and programs:

- o its contributions to the Canadian economy and society
- o the corporate organization of the industry
- o the role of advertising
- o the role of editorial content
- o the status of writers
- o production factors and technology
- o circulation and postal matters
- o retail distribution and technology
- o foreign-originated publications
- o foreign ownership
- o the financial health of the industry.

#### 3.2 Contributions to the Canadian Economy and Society

The publishing of periodicals continues to play a major role in Canada's economy and in the development of the country's

society and culture. Some of the impacts can be quantified and others are more subjective. The following enumeration is a result of our wide-ranging research and represents the culling of information from a variety of contacts and sources.

### 3.2.1 Economic Impact

In terms of the direct contribution to the economy of Canada in 1981, the publishing of periodicals and related activities accounted for employment of about 25,000 Canadians, paying about half a billion dollars in wages.

Total revenues of periodical publishers were about \$835 million and the total revenues of the other components associated with publishing (printing, distribution, etc.) totalled another \$900 million<sup>(1)</sup>. Net output (e.g. no double counting caused by inter-sector purchases) was about \$475 million and \$445 million respectively. The estimates of total output for periodical publishing are about \$400 million higher than those shown in Statistics Canada's Census of Manufacturing (Catalogue 36-203). This is because we estimate that the non-commercial sectors, which are mainly grant, university and association-based, account for about \$120 million dollars, and the undercount in Statistics Canada is about \$300 million in various sectors, especially in many smaller periodicals and several larger publishers. As EXHIBIT 13 shows, the actual publishing component contributes a quarter of employment generated by publications. Distribution, especially through the post office, accounts for about one third of all employment, with the remaining

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<sup>(1)</sup> There is double counting due to inter-sector and intra-sector purchases.

quarter composed of manufacturing related activities. Publishing (non-printing) accounted for about 10,000 employees (6,500 in commercial and 3,500 in non-commercial sectors) with a wage bill of over \$186 million in 1981. Unfortunately, the data do not exist to reconstruct this table for an earlier time-period. However, comments later on circulation developments indicate that the impact likely has grown noticeably. We have attempted to estimate voluntary contribution and put it at about 3,500 person-years.

The numbers in EXHIBIT 13 do not include a wide range of other facets that the publishing of periodicals contributes to the economy. Advertising in this medium helps to increase sales of advertisers and thus generates more economic activity. The diffusion of innovation caused by businesses being able to keep abreast of new developments, and the documentation of significant occurrences to be used as an historical record, are additional key roles in the business community. These influences are also important for a scholastic publication. In fact, the ability to foster economic development, via communication, makes this a unique cultural medium in which the economic contribution comes not only from the creation and production but also from the 'consumption'.

The major policy implication is somewhat self-evident - periodical publishing is a significant employment generator although it pales in comparison to many other industry sectors. It is the non-quantified benefits of increased communication that make this industry important to Canada's economy.



### 3.2.2 Cultural Impact

We also discuss the various definitions and meanings of the term 'cultural' in Section 4, in the context of policy and strategic concerns.

The impact that periodicals have in a 'cultural' sense is difficult to define for two reasons. The first comes from definitional problems. The second comes from the fact that, even once defined, it is difficult, if not impossible to quantify.

In our view, the broadest meaning of 'cultural' makes it synonymous with 'communication' since all activities that reflect and communicate activities in Canada can be termed 'cultural'. In a narrower sense, periodicals that 'reflect a distinct impression of the character of Canada to Canadians' could be called 'cultural'. The most limiting of definitions is to equate 'culture' with 'high art forms' in a type of elitist approach to culture. It is this last definition that tends to set 'cultural' against 'commercial' in some people's minds.

Some aspects of government activity reflect different outlooks on the meaning of culture, since 'postal policy' was originally based on the first 'communication' meaning, and some of Canada Council's activities tend to reflect the 'high art' definition. The "reflect a distinct impression of the character of Canada to Canadians" meaning has a nebulous reflection in both postal and Canada Council activity, as shown by the 'basic conditions and exclusions' of the Post Office and the 'explorations' programme of the Canada Council.

Whatever the definition, periodicals clearly play a major role, since they occupy a significant part of each Canadian's leisure and work time. While this influence is hard to quantify, it must be reaffirmed that periodicals are a major force in Canadians expressing themselves to other Canadians, whether in an artistic sense or simply as an expression of a way of life.

As an art or literary form, a periodical is a unique medium since it provides an opportunity for the dissemination of a creative work that has almost no other alternative. Poetry and short stories, for instance, are most often exposed in periodicals. Photography is another common art form that uses periodicals as its best means of dissemination.

In our interviews with writers, the concept of a periodical as a stepping stone for new authors to test their skills and concepts was strongly underlined and many examples from Alistair MacLean to Margaret Atwood were suggested.

Another, somewhat traditional, view of periodicals is that they are important educational tools. Part of the early basis for encouraging widespread readership of periodicals through a low-cost distribution system was to improve educational levels and literacy. While not of the same importance, this role is still noteworthy, ranging from recipes to research results.

In fact, much as a classical record is used as a symphony's or a composer's calling card, a published article in a learned journal is important to a scholarly writer.

While strictly a matter of judgement and interpretation, we have adopted the view that periodicals, whether all types or just some sectors, should, if required, have a measure of government support not only for economic reasons but also for a variety of cultural imperatives. It has been argued that some types of periodicals have a greater cultural impact than others and are therefore most worthy of support. Those making this distinction usually have in mind the 'character of Canada' or 'high art' view of culture. If one agrees with this view then the main cultural contribution may come from the artistic and literary and the scholarly sectors. However, it would be hard to disagree with the cultural role played by popular magazines such as Maclean's or Harrowsmith. In short it is a very very difficult task to assign differing levels of cultural importance.

### 3.3 Corporate Organization

Our interviews indicate that basically there are three types of publishers that have very different operating situations.

- o a publisher who concentrates on producing one or more publications (e.g. Page Publications)
- o a publisher who combines periodical publishing with many other activities in the communications industries (Maclean Hunter and Southam)
- o a publisher whose main line of activity is other than periodical publishing - such as an association, government department, etc. (United Church Observer, CBC Radio Times)

Because their motivations and publishing capabilities are so different, their operations, financing, revenues, and cost structures will be very different.

As stated earlier, we estimate that the 5,000 periodicals in our study universe are published by 3,400 different publishers. However, only a small portion of these 3,400 are solely devoted to publishing periodicals. Various estimates put the number specializing in periodicals at about 130 - 150 companies (for instance the BMC, 1980, study). EXHIBIT 14 indicates that 45% of our sample of commercial sector publishers had over 90% of their revenues come from periodical publishing with the remainder having anything from 0% to 89%.

There are a few publishers that account for a notable proportion of total single-issue circulation. The top four publishers listed below account for 20% of all single-issue circulation:

	<u>Total Single- Issue Circulation</u>	<u>% of Total</u>
Macleam Hunter (Toronto)	6,000,000	8.5%
Southam (Toronto)	3,500,000	4.9%
Comac (Toronto)	3,000,000	4.2%
Readers Digest (Montreal)	1,620,000	2.3%
Total (WG Universe)	71,000,000	100.0%

Source: CARD, 1983 and Woods Gordon.

This level of concentration (the proportion of overall activity accounted for by the largest companies in an industry) is relatively low in comparison to most Canadian manufacturing industries. Overall, 46% of manufacturing activity is accounted for by the top four companies in each respective industry.<sup>(1)</sup>

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(1) Source: Statistics Canada Catalogue 31-402, Industrial Organization and Concentration in Manufacturing Mining and Logging Industries, 1980

The level of concentration in periodical publishers has probably diminished over the past few years with the growth of many new companies and the strengthening of medium-sized firms. However, there is some evidence that this trend may be reversing as several of the largest companies have taken control of smaller companies (eg. Southam recently bought Wadham's).

In our view, and in the view of most whom we interviewed, this level of concentration is not a concern to the future strength of the periodical industry. In fact, the presence of successful medium-sized firms such as Key Publishing and Kerwill as well as the numerous smaller companies, represents a strong aspect of the industry structure.

One aspect that is often focussed on in terms of concentration is the difference between single-periodical publishers and multi-periodical publishers. We found no reason to differentiate on this basis except to make the obvious generalization that multi-periodical publishers tend to be bigger and more focussed on publishing. The advantage of having several periodicals is that the risks of any one can be set off against the others and the cash flow situation is improved. EXHIBIT 15 lists our estimate of the multi-periodical pattern in Canada. The number of publishers producing from 5 - 9 and 10 or more publications (50 and 20 respectively) are higher than that indicated by CARD. The main difference is our inclusion of government and association based publishers. Generally-speaking, multi-periodical firms tend to be in one sector only (consumer or business) with Maclean Hunter being the

biggest exception. Single-periodical publishers tend to be small and/or association-based. The problems they face are not related to their single-periodical nature but more to their size and lack of expertise in and focus on publishing.

#### Vertical Integration

Periodical publishing is closely tied to printing operations. For instance the three largest publishers each have their own major printing operations although they do not necessarily source their own printing only from these places. However, the majority of publications (75% overall in our survey) purchase printing services from outside sources; in interviews no concern was expressed about access to supply of paper and printing, although some aspects of this (price and availability of paper) have changed since the survey.

EXHIBIT 16 provides an indication of how much activity is undertaken by an outside organization on behalf of the publishing organization. For profit-oriented companies, there is a tendency to purchase the more technically demanding services such as artwork, typesetting, colour separation and printing from outside, while generally undertaking the remainder of activities in-house. Religious, education and association organizations purchase these same activities as well as paste-up. Governments either purchase from outside entirely or do these things in-house. The fact that such a large number of periodicals use outside services underlines the importance that periodical publishing has on a wide range of other activities.

### Corporate Location

Periodical publishing is highly concentrated in Ontario and Quebec, as shown in EXHIBIT 17, and the concentration increases with the size of company. Ontario accounts for about 48% of smaller publishers but 62% of large publishers. This reflects the same degree of centralization as in other cultural industries such as books and records.

### 3.4 The Role of Advertising

The importance of periodicals as a medium carrying advertising steadily rose from 1972 to the beginning of the 1980's when it seems to have plateaued at a level at which it accounts for just under 8% of all advertising dollars - see EXHIBIT 18. Relative to where it was in 1972, periodical advertising has grown faster than any other media.

Because of the major role of advertising, it is key to understand its role in periodical publishing. The following conclusions are based on a very limited number of interviews,<sup>(1)</sup> our survey, and the scanning of a wide variety of previous studies and published comments.

Advertising is the key focus of revenue for almost all publications produced for profit (with the notable exception of business newsletters) and a few entirely subscriber-based publications (eg. OWL). While other revenue sources can be important, evidence

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(1) Our terms of reference specifically directed us not to approach the advertising industry.

generally points to the ability to attract advertising as the key element to the long-term survival and success of a periodical. Our conclusion is that while newsstand sales and subscriptions are important sources of revenue, their real importance lies in being able to attract advertisers.

The above conclusion on the key role of advertising is a critical conclusion. Several of our interviewers, as well as certain members of our panel, maintained that a publication that depends on subscription and retail purchases for part of their revenues is intrinsically different from a publication that is totally based on advertising revenues alone. The argument for this position is based on the fact that paying for a publication is a better sign of readership than receiving it free. Also, one's editorial policy can be swayed more if one is totally dependant on advertising dollars. The third argument is that since one must remain attractive to paying readers, the quality and cultural contribution of a paid-for publication will be better.

On the other hand, we heard differing points of view that said the editorial quality is the same, that advertising is very important to paid-for publications and therefore their editorial policies are just as affected by concern for the advertiser; that the cost of obtaining a subscriber equals the revenue received; that profit of a paid-for periodical is still based on its advertising revenues; and that PMB surveys indicate that free publications were also read to a notable degree.



It is difficult to 'prove' statistically which point of view is correct. We attempted to measure the difference in editorial costs and amount of content for paid versus controlled circulation consumer periodicals using our survey, and could not find a significant difference (see next section). Our own reading of various periodicals and analysis of the authorship of articles also did not indicate a major difference between large distribution consumer periodicals that are free or paid.

The degree of influence of advertisers is a sensitive issue. However, some recent content analysis work done by CTV's W5 reported that the Canadian periodicals that they scrutinized (all paid) had not carried a single negative article on cigaret smoking. It is noteworthy that one controlled circulation periodical, Homemakers, has taken a very strong position on some matters, such as drinking, which could presumably offend advertisers. Equally, other paid circulation periodicals like Harrowsmith have undergone significant change in the type of advertising they would accept. In our view, the influence of the advertiser cannot often be ignored, but the extent of that influence is more affected by the convictions of the editor and publisher than by whether or not the publication is free or paid.

Advertisers select their medium according to a variety of criteria applied to their own particular product and the various characteristics of the media.

These include:

Cost per thousand (CPM); is the cost of reaching one thousand persons in their target audience. This is calculated by taking the cost of the advertisement and dividing it by the number of persons in the target group that are likely to read it. The measurement of this number can be based simply on circulation, circulation plus 'pass-along' readership, or what is called readers-per copy (R.P.C.) (the number of times one copy is read by different people) including actual data on readership as provided by an audience survey such as that done by the Print Measurement Bureau. For instance EXHIBIT 19 shows how the CPM is calculated.

Legislation; since some advertisers are restricted by government legislation from using certain media (eg. liquor and tobacco are excluded from television in some locales and at particular times).

Targeting; is the attempt to get the advertising message to the particular audience that purchases the product or service without having to pay to advertise to those that are not interested. Thus, specialty periodicals that appeal to particular audience segments have benefited by attracting advertisers who wish to reach this audience and often have no other cost-effective way of doing this. The current growth in home computer magazines is an example of this.

Reach; is the complementary aspect of targeting in that no one periodical is read by everybody so that if an advertiser wishes to reach an audience, a number of periodicals are usually required to cover the total target audience. This is also true between media in that not all persons use any one media. Therefore a number of media must be bought (e.g. newspapers and television).

Timing; there are two aspects to this factor. One relates to the length of time one advertisement can be seen by the audience. Television and radio exist for only a short time period - 30 seconds, etc., while periodicals can be referred to time and again. The other relates to the lead time required between a commitment to buy and provision of the advertising message and publication. Radio and newspapers tend to have the greatest flexibility whereas monthly magazines require longer lead time and national television can be even longer.

Research; the availability of verifiable data on the reach of a particular medium and on the impact of a particular advertisement are becoming more important. The Print Measurement Bureau, a co-operative of periodicals,

advertising agencies and advertisers, was founded to give objective, high quality research on the readership of major magazines and is credited by some with increasing the use of periodicals since there is good evaluation data available. This helped to clean up conflicting and confusing testimony of individual magazines. Similar services are available for other media (BBM for radio, Nielson ratings for TV, NADBank for newspapers, etc). The ultimate research goal of accurately measuring readership is extremely difficult and costly.

Spillover; the amount of advertising spent in Canada is significantly influenced by Canadian access to U.S. media to the degree that many advertising campaigns undertaken in U.S. media are seen to encompass Canadian audiences and thus do not require additional expenses in Canadian media.<sup>(1)</sup>

In selecting between media, the following generalizations tend to hold true although there are many overlaps and exceptions:

Television is used when reach is most important (getting the message to the most people)

Radio is used when frequency is key (repetitive number of messages are needed)

Newspapers are used when current facts are key to the message

Periodicals are used when there is a very specific preference to target the advertising message.

Advertising either is sold by periodicals through advertising agencies or directly. In most cases the periodicals' advertising sales representative works with both the advertiser and the agency to convince them to use a particular medium. Assuming that

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(1) For a major analysis of this phenomenon, See The Publication of Canadian Editions of Non-Canadian Owned Magazines: Public Policy Alternatives, I.A. Litvak and J.J. Maule, Secretary of State, Ottawa, 1978. For instance, in this study they point out that the per capita advertising in magazines by the auto industry is five times higher in the U.S. than in Canada.

the CARD estimates referred to in EXHIBIT 18 are net (after commissions), then it is likely that agencies received about \$40 million dollars in 1981 in commissions on periodical placements of about \$340 million.

Periodicals are most attractive to advertisers of alcohol, food and drugs, (see EXHIBIT 20) largely because of regulations against advertising some of these products in other media and because the product 'looks' best in a glossy photograph. These three categories account for almost 45% of all advertising in consumer magazines. The split is somewhat different from the advertisers' mix for all media, in which food is the biggest (19%), followed by drugs and cosmetics (10%), auto (9%) and alcohols (8%).<sup>(1)</sup>

Another aspect that is advertising related is the fact that companies in Canada do not spend as much, per capita, on periodical advertising due to spill-over from the U.S. For instance, the automotive industry spent five times as much per capita in the U.S. compared to Canada.<sup>(2)</sup>

The space that advertising occupies in periodicals varies significantly by type of periodical and between periodicals of the same type. EXHIBIT 21 indicates that the average percentage of total space occupied by advertising commercial periodicals replying to our survey was 43%, and that the average of non-commercial periodicals

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<sup>(1)</sup> - Source - Elliot Research Corporation as published in Handbook of Canadian Consumer Markets, 1982 Conference Board in Canada.

<sup>(2)</sup> - Litvak and Maule, op. cit., pages 49-51.

was 7%. A review of commercial periodicals by type tended to indicate a slightly lower advertising content for consumer magazines compared to business periodicals, although the range for both was equally extensive.

#### Policy Implications

There are several policy implications to the role of advertising. It is a major revenue source; and thus all government actions should recognize the role it plays in relation to the interplay between this media and others, and the sensitivity to loss or increase in revenues from this source.

In other words, a key question is the degree to which cost increases could be passed on to advertisers and/or subscribers. As shown later in EXHIBIT 41, advertising for the two main categories of consumer and business periodicals represents 63% and over 80% of revenue respectively. We would assume that a periodical would attempt to pass on the proportionate amount of any increase to advertisers. However, there are indications that inter-media rivalry has prevented this. Since periodicals compete with each other and other media, there seems to be a fear of increasing advertising costs to advertisers. Since we were specifically requested not to approach the advertising industry, we have not been able to test fully the price sensitivity of advertising costs. Evidence from the United States indicates that the unit cost of periodical advertising has gone up the slowest of all media.<sup>(1)</sup> This is probably due to increased efficiencies covered by larger circulations as well as by a reluctance

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<sup>(1)</sup> Folio, September 1982, page 66

to discourage advertisers with cost increases.

Nonetheless, the question still remains: to what degree is advertising in periodicals sensitive to price increases? This is key from two points of view. One, if government were to raise costs by, for instance, raising postal rates faster than inflation, would part of the impact be to lose advertisers? Two, if government were to reduce costs by, for instance, lowering postal rates for some periodicals, would this make these periodicals more attractive to advertisers due to the fact that advertising rates would be reduced in real terms? Conversely, if costs are raised and a periodical does not have a notable advertiser base (as is the case for many of CPPA's members), what impact will this have on subscribers since they will have to carry all the cost increase?

Our interviews and case studies could only partly answer these questions since we did not talk to advertisers. The general feeling seemed to be that the raising of advertising rates indeed would negatively impact on advertising lineage. To what degree (eg. how price sensitive are advertisers?) we could not determine. Cost savings probably would have a strengthening effect on advertising lineage but would not likely be directly passed on to advertisers. One point of view that was raised was the possibility of whether the low postal rates for many periodicals in force in Canada are actually a subsidy for advertisers since their costs are kept down. We simply do not have access to enough information to determine the validity of this point.

Certain policy discussions attempt to use the amount of advertising content as the determination of whether a periodical is 'too' commercial to be eligible for policy support. Our own study's terms of reference originally specified that any periodical with over 60% advertising was outside our terms of reference. This was relaxed for the survey in order to see what level of content actually existed. Based on the data in EXHIBIT 21, a level of 70% would encompass most periodicals. We regard the exclusion of 21% of periodicals to be too high for policy purposes if a cut-off of 60% were to be proposed. There is, however, no objective method to determine the cut-off point. In our judgement, 70% is preferable since it has less arbitrary impact.

We note, in Section 3.10, a minor concern with the government's own advertising practices.

### 3.5 Editorial Content

Our view, based on our year's research, is that the chief motivation to purchase or read a periodical is to take advantage of the editorial content of the publication. While some periodicals have high readership for their advertisements (some trade journals and women's consumer magazines in particular), the main emphasis or benefit to the reader is the editorial content.

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Amount of Editorial Content

As indicated in EXHIBIT 22, on average, 55% of space in the commercial publications answering our questionnaire is devoted to editorial content, although this varied greatly. The average for non-commercial publications is 80%. The amount of editorial content varies by type of periodical and its size of circulation. Generally speaking, scholarly/educational, artistic and literary, religious and public advocacy/association periodicals are almost entirely editorial, since they have no advertising except for events or books associated with their purpose (such as the learned societies meetings in a learned journal). There was some indication that volume of editorial content is somewhat higher for consumer periodicals than for business periodicals, but the variation was the same to a great extent.

There are no Canadian data to permit an examination of trends over time of editorial content versus advertising content. In the U.S., the general trend has been to lower percentages of editorial content. In 1971, editorial occupied 53.2% of magazines but in 1981 it had slipped to about 47.0%.<sup>(1)</sup>

Editorial Costs

Normally, editorial costs are quite low as a portion of total costs. Included in these costs are freelance, staff, artwork, photo, editorial research and other editorial costs. As a portion of total expenditures, these were around 15% for commercial periodicals - see EXHIBIT 23.

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<sup>(1)</sup>Source: Halls's Magazine Reports as reported in Folio, Sept. 1982, page 92.



Generally speaking, the smaller the periodical the more is spent on editorial content in percentage terms (to a point where percentages become very low again because of donated time). The availability of free material that is appropriate also influences the cost of editorial content. Due to the high overhead of full-time staff, many publishers prefer to use freelance writers for editorial content. The Professional Writers Association of Canada (PWAC) claims that 90% of all editorial content is written by freelancers. However, our survey indicates that in terms of content, paid staff dominated in both amount of content and cost. The relative importance of various sources of editorial content are shown in EXHIBIT 24. It was obvious, however, that the smaller the publication the more reliance on freelance. PWAC estimates that the average fee for a feature article of 2,500-3,000 words is about \$530. In our interviews we found that freelance writers were paid between \$100-3,000 for a feature article. The larger the commissioning publication and the more famous the writer, the larger the fee.

Irrespective of what source contributes the most to total editorial content, we estimate that, in total, full-time editorial staff were paid approximately \$20,000 yearly in 1981<sup>(1)</sup>. The 1978 Statistics Canada survey of writers indicated average annual earnings of \$7,000 for full-time freelance magazine/newspaper writers - which may have been about \$10,000 in 1983. Based on estimates

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<sup>(1)</sup> Based on Statistics Canada, Catalogue 36-203.

derived by Statistics Canada we estimate that there are about 450 active freelance writers. PWAC currently has about 300 members.

The degree to which full-time staff of sponsoring organizations are available to contribute writings without being costed to the publications budget (especially in public advocacy/association and religious periodicals) has significantly subsidized government and association publications and is a major determining factor in their ability to produce each issue.

### 3.6 The Status of Writers

The earlier discussion of periodical publishing as an entertainment medium alluded to the fact that the creative component does not have the same economic capability to earn large returns as do book authors, recording artists and movie actors because there is no opportunity to have large sales. In the other cultural endeavors, this possibility attracts many in a high risk gamble for the 'big payoff'. The economics of periodical publishing do not operate this way. Thus, fees are set in negotiation at the outset. Our interviews of both publishers and writers indicated that there is no lack of people willing to write and reasonably capable of doing so, although publishers for several big publications did state that quality was somewhat of a problem.

After considering the various points of view, it seems to us that writers are not paid enough to attract high calibre 'product', partially because of the 'vicious circle' of not enough

funds to pay enough to attract the writer to attract the readers to be able to afford to pay. This, when combined with many writers having an uneconomic desire to publish has created a trade-off in the system.

This problem is especially critical for small periodicals, which can least afford high writers' fees, but which attract editorial product on the basis of the creative person's desire to be read at almost any cost to him or herself.

Because writers do not have a strong bargaining position, the money received by them often becomes one of the few discretionary expense controls available to publishers. For most of the industry, the position of the key supplier to their final product is of little concern. The overall view appears to be that the general quality of writing is unaffected by remuneration. Since many writers for smaller periodicals receive little or nothing for their efforts, the industry view may be justified. Most periodicals appear to sell largely because of their approach, style and reputation rather than on the basis of their authors. In fact, some periodicals do not publish authors' names and most people would be hard pressed to name a significant number of writers in their favourite periodicals.

A top free-lancer working for the highest paying magazines in the country still stands to earn about \$10,000 less than a seasoned staff reporter at a newspaper (\$19,600 and \$29,277 respectively).<sup>(1)</sup> Fees for articles appear not be keeping up with

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<sup>(1)</sup> Professional Writers Association of Canada Submission to Woods Gordon, 1983.

inflation: a major feature article of 2,500-3,000 words that in 1964 would have commanded \$500 would pay \$530 today. Free-lancers do not benefit from the social programs (U.I.C., pension plans, etc.) which are generally available to other small business concerns. To date, periodical writers are generally ineligible for Canada Council monies.

Since there are no comprehensive policies or laws regarding payment for public use, and since copyright legislation is in a state of flux, periodical writers typically do not earn residuals.

The specific problem that writers have of being at the bottom of the industry's financial barrel applies generally to the resources given to editorial content.

A relatively recent problem threatening writers is the development of data base storage by major periodical and newspaper publishers. A writer used to be asked for 'first North American publication rights' in contracts with a publisher. Now, for little or no more money, the request is for 'first North American publication rights plus data base storage rights'. Once material is in a data base, it effectively becomes universally available with no further rights to the writer.

Another copyright problem faces the publishers of business newsletters whose remuneration is derived from a relatively few high paying subscribers. Photocopying of these newsletters could threaten their viability. We were unable to establish how widespread this problem is but do know it exists. Generally speaking, it has proved impractical to restrict in-house photocopying.

In other cultural industries such as books or music, the creator has the prospect of attaining significant returns through a "best-seller". The periodicals industry offers no such possibilities since the print run of a periodical is usually fixed regardless of the popularity of any particular article. We believe it would be inappropriate for the Government to interfere with market forces by forcing consumer periodicals to raise writers' remuneration. However, whenever grant money is involved it would seem appropriate to consider whether certain amounts should be reserved for writers. The long range effect of this would, hopefully, be to raise the standard of writing and thus ultimately enable more publishers to justify paying more for editorial material.

#### Policy Implications

The problem of low-paid writers is partially a supply problem (too many) and partially an affordability problem (publishers cannot afford higher fees). We did not sense that this was seriously threatening the future of the industry and found that it was more likely endemic to the industry's economics.

Nevertheless, it has to be a matter of concern that the creative core of the periodicals industry - its writers - exists in such an insecure, unrecognized and ill-remunerated manner. The copyright concerns seem less important in this industry than most entertainment media.

### 3.7 Production

The production aspects of physically creating a periodical represent about 30-40% of all expenses of producing a publication as shown later in EXHIBIT 40. These costs include:

- typesetting
- colour separation
- paste-up
- printing
- binding
- packing/labelling
- shipping.

Based on our survey and Statistics Canada's Census of Manufacturers, in 1981 these components totalled about:

Printing	\$300 million
Typesetting, colour separation, paste-up, photograph, photo-engraving, etc.	\$15 million
Binding, stitching, shipping	\$10 million

We estimate that there are about 4,000 employees in printing operations, as a result of periodical publishing, with a total wage bill of about \$80 million. We also estimate that about \$100 million dollars worth of paper was bought in 1981. Most periodicals use coated groundwood publication paper bought from one of the five major suppliers - Kruger, Abitibi, Domtar, Rolland and Fraser. The availability of supplies varies on a somewhat cyclical basis with the last shortage in 1978. However, recent evidence points to a growing shortage developing in 1984 which could lead to significant price increases in the near future. This is a big change from when we did the survey in mid-1983, in which only 11% of commercial publishers and 7% of non-commercial publishers expressed a concern.

Almost all printing is done in Canada due to the customs rule preventing the importing of advertising material in periodicals aimed at Canadian markets.

Several of the major publishers have their own printing operations or are part of a corporate family that includes printing as one of the activities (e.g., Maclean Hunter, Southam and Comac). As indicated earlier, most publishers, however, contract out their printing activity.

Printing costs varied significantly as a proportion of all costs and this variation seemed to be related to the following factors, on 'an all other factors being equal' basis:

- physical size of publication - the bigger the publication the higher the printing costs - see EXHIBIT 25 for average size of publication, which is 64 pages for commercial publications and 50 pages for non-commercial publications.
- type of paper - the heavier the stock, the more costly.
- use of colour - commercial publications average 20% of advertising material in process 4 colour, and 10% of editorial material.
- frequency - the more often the publication is released, the higher the printing cost is as a percent of total costs.
- usual page size - the bigger the page the higher the costs. Over two-thirds of all periodicals are between 6" x 9" and 8" x 11" with 15% above 11" x 15" and various other sizes being used by selected publications.

Printing techniques varied, with commercial publications being either offset litho (70%) or web off-set (24%). Non-commercial publications used offset litho (67%) and a variety of other techniques. Binding techniques included some commercial publications with self-folding (20%) but most with staple (40%), followed by stitch (20%) and perfect (15%).

In our interviews and survey, questions on technology focussed most on the impacts on production techniques. The use of electronic page make-up, use of computers, photocomposition laser printing, etc. were felt to be the biggest influences and these were not seen to be having an overly dramatic impact on the industry. In any event, these kinds of production changes appear to be occurring without any need for government involvement. None of our interviewees saw a movement away from paper as being the basis of publishing periodicals. The strengths of periodicals as a paper medium are seen to be:

- the permanence of record from a reader's perspective
- universal access and feasibility
- the 'opulence' of advertising message presentation opportunities using colour photographs.
- the lack of an alternative mechanism for business to business advertising.

Very little concern was expressed to us, either by the panels or through the questionnaire-survey responses or in our interviews, that technological change represented much of a threat to the industry from the perspective of a new or different competing media making significant in-roads. Indeed, one very senior member of the industry commented to us that "50 years from now, people will be reading much the same kind of magazines that they do now, produced in much the same kind of way as they are now". We are not so sure of the position 50 years ahead, although for the next ten years the comment is justified. Most technology comments were focussed on the



application of computers to production including electronic page make-up and management (such as computerized subscription systems). These will certainly improve the industry's productivity but are unlikely to have significant impacts on its future compared to other media. While these technological improvements are largely transparent to the reader, they do have major impacts on the publishing organization in terms of capital needs and personnel planning. For small periodicals, this becomes a major challenge. Insofar as government policies exist to assist in modernization, they should be utilized by this industry. Much of the industry itself has not indicated a strong need for special assistance, although some smaller publishers clearly indicated that they would like help.

It appears to us that there is a long-term threat to various segments of the industry of disruption through new electronic distribution technology including:

- the assembly and transmission of editorial copy
- problems with the definition of editorial source and ownership
- distribution via electronic screens in homes or computer printers in homes.

While there is great general consumer interest in computers and electronic developments, we sense a certain apathy in the industry. The issue is whether government should take an active role in redressing this situation, as is discussed in the Park Report<sup>(1)</sup> on scholarly communications. In our view, the problems are not large and they will only affect the commercial sectors such as

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<sup>(1)</sup> Park, Paul: Aid to Scholarly Communications, Social Sciences and Humanities Research Council of Canada, 1981.

directories in the immediate future. We do not think that this is an issue warranting new government action.

### 3.8 Circulation

Canadian and foreign-based publishers utilize a wide variety of channels to distribute their periodicals with both paid and controlled circulation periodicals sharing the same channels (but not always at the same costs). They sometimes split their distribution between various channels (as in the case of single copy sales (retail) and subscription (delivery)) or in other cases use one approach exclusively (En Route in airplanes). For our purposes there are four main categories depending on the physical processes involved:

- o purchased periodicals through retail dealers (e.g., Saturday Night, Time, etc.) using a wholesaler-distributor network (discussed in 3.9 below)
- o purchased periodicals delivered directly to the final address (home or business) using the post office
- o controlled (free) periodicals (addressed and unaddressed) delivered directly to the final address using the post office or, sometimes, private delivery services
- o controlled periodicals delivered directly (e.g. in public locations such as Marquee and En Route) such as theatres and airplanes or as a supplement to a newspaper.

Before discussing some of the particular issues associated with the different types of circulation, it is useful to present some basic data on periodical circulation in Canada.

As indicated earlier there are some 71,000,000 copies distributed on a single-issue basis by publishers operating in Canada

(see EXHIBIT 3 for a breakdown by type of periodical). EXHIBIT 26 describes this circulation on the basis of size of periodical. Using Woods Gordon's estimates, the largest 110 publications (about 2% of titles) account for 56% of all single issue circulation. At the other end of the size spectrum, periodicals with less than 2,000 in circulation comprise 58% of titles but only 4% of total single-copy circulation.

EXHIBIT 27 lists the twenty largest circulation periodicals published in Canada. They are dominated by consumer periodicals and especially television guides which, because of their frequency, occupy six of the top ten positions in annual circulation. Of these twenty, six are French-language (three television guides and the other three french versions of large English-language publications).

Compared to the ranking of gross advertising as reported to the Magazine Advertising Bureau there are some notable differences (comparisons should be made to annual circulation). As shown in EXHIBIT 20 (calculated from shares described in commentary), Chatelaine (English and French) is top with \$29 million in 1982, Maclean's second (\$23 million), Homemaker's third (\$16 million), TV Guide fourth (\$14.9 million), Time fifth (\$14.5 million) and Reader's Digest sixth (\$13.4 million). Since the other television guides are not members of the Magazine Advertising Bureau, their advertising revenues are not published.

As shown in EXHIBIT 28, many periodicals have a long history, with 18% of commercial publications starting before the 1930's. Non-commercial publications tended to spring up in the 1960's and 1970's, as almost 70% were started then. The budget pressures have obviously been affecting this group in the 1980's as fewer non-commercial publications proportionately, have started in the last three years compared to commercial publications.

Not surprisingly, distribution of periodicals closely follows the distribution of population (See EXHIBIT 29), with perhaps Quebec being slightly under-represented. We investigated whether this was a result of undercoverage of Quebec periodicals and do not think that this is the reason. It appears that there are indeed fewer French-language publications to appeal to the Quebec consumer on a per capita basis than there are to appeal to the English-Canadian consumer. It is most likely that this is caused primarily by the significantly smaller market...

A review of data presented in EXHIBITS 3.i and 3.iii cited earlier and Appendix EXHIBITS A.I, A.II and A.III, lead to the following conclusions:

- the French-language market represents about 20% of circulation which is significantly less than its share of population in Canada
- business periodicals are under-represented in the French language, probably as a result of high usage of English in the work-place
- artistic and literary periodicals have a notable over-representation in Quebec, partially because there is a better record kept of them but more probably due to a higher sense of cultural identity

- average circulations are not that much lower for French periodicals than they are for English periodicals. This is probably a result of the fact that there is a high degree of regionality to many periodicals. Also, in the case of English-language periodicals, there are a great number of very small periodicals produced mainly by small associations that lower the average size. In Quebec, these periodicals generally do not exist, since equivalent associations do not exist.

Looking outside Canada, some periodicals do have a degree of foreign distribution but it is almost always minor. Our interviews and case studies indicated a reluctance to pursue foreign markets, largely because they felt their product was too Canadian-oriented to succeed. We estimate that less than 1% of copies go outside Canada. Statistics Canada shows over \$40 million dollars of periodicals being exported in 1981. This is mostly due to Canadian printers producing American periodicals that are distributed in the United States.

#### 3.8.1 Controlled and Paid Periodicals

EXHIBIT 30 provides our estimates of the split between publications which are given to the reader free (controlled) and those that have a price to the reader. Business publications tend to be controlled (77% of single-issue circulation). Consumer publications are split with general consumer publications tending to be paid (70%) and the other components being controlled with an overall consumer average of 60% controlled. Scholarly/educational (96%), and artistic and literary (97%) are almost all paid although there are some significant exceptions to these generalizations. Religious publications are split between categories although those that are 'free' often 'require' a 'donation'.

The growth of controlled circulation periodicals has been dramatic over the past fifteen years. Using Magazine Advertising Bureau data, the share of total advertising revenue of all reporting (major consumer) periodicals accounted for by controlled publications (all owned by COMAC) has risen from 7.1% in 1970 to 20.2% in 1982, while the total gross value of consumer advertising has risen from almost \$30 million to \$196 million.

### 3.8.2 Price of Paid Periodicals

The price paid for commercial periodicals averages about \$1.40 per issue (EXHIBIT 31) and \$13.00 per year (EXHIBIT 32). The single-issue costs vary by size of periodical, use of colour and amount of advertising. However, it was extremely difficult to discern a strong pattern of association between price to the consumer and cost to the advertiser because every situation we reviewed had different sets of conditions.

The price of subscription varies by size, cover price, and frequency. Our survey was not able to discern what the cost of obtaining a subscription was, but it was clear from our case studies that the cost was about equal to several years' subscription revenues. Only long-term frequent renewals show a profit over the cost of attracting the subscriber. Rough indications given to us were that subscription charges are about half of the cover price.

The price of non-commercial publications varied greatly but there was some clear tendency evident for some publications that 50¢ was an artificial price basis for the setting of subscription prices. (This relates to the Post Office's requirement for a bona fide subscription to be at least 50 cents per year.) Obviously, the true cost is higher as the distribution of prices shows in EXHIBIT 32, although there are a lot of publications charging very low amounts.

### 3.8.3 Distribution Channels

About 50% of all periodical circulation included in our study universe is distributed by the Post Office (see EXHIBIT 33). Another 44% is delivered direct to the home or other locations, the vast majority of which consists of television supplements in weekend newspapers. The remaining 6% is sold through retail establishments. Together they account for 961 million individual copies. More information is provided below on newsstand (retail) sales. The remainder of this section describes basic facts on postal delivery. Chapter 5 treats postal policy issues in considerably greater detail.

As shown in EXHIBIT 34, second class postage is used by the majority of publications (by annual volume) representing some two-thirds of total volume. They also represent about 42% of all titles. Second class Code 3 is the largest category by volume (about 50% of all) although it has considerably fewer titles than Code 4.

General postal cost information is shown in EXHIBIT 35 and indicates that postage can vary greatly as a percent of total costs, but generally averages in the 6-8% range.

### Policy Implications of Circulation

The central role of postal policy is the key element of circulation, other than foreign content (which is treated in Section 3.10 below).

The issue of postal rates and regulations is, in fact, of such enormous and over-riding importance to the periodicals industry that we have devoted a specific chapter to it - Section 5 - in this Report. The material that follows is an overview of the concerns. There are a number of key areas.

The true cost of distributing periodicals by post has never been fully determined and this presents some problems to any cost-benefit analysis and the determination of proper rates. It is an important issue and has to be considered.

There is, certainly, a serious question as to whether the postal rate structure is accomplishing the goals that it was originally set out to do. Some even question whether it is a 'program' in terms of a transfer of funds (rather than just a service).

The industry argues strenuously that, since no-one knows what the true cost of distributing periodicals is, it is inappropriate to speak of it as being subsidized. Certainly no one can say how large the subsidy is.

We do not, however, accept the industry argument.

We believe that there is little doubt that the Federal government is substantially subsidizing second class mail. A significant number of respected representatives of the industry averred that it is not proven that 2nd class rates are subsidized, that possibly, taking into account the high degree of publisher mail



preparation, it really does not cost Canada Post more than 4.2¢ per 150 gram copy to deliver an addressed periodical. We suspect that this is more a political than a scientific stance.

It is inconceivable to us, based on what we have seen of Canada Post volumes and revenues by class, that the true cost of 2nd class Codes 3 and 6 in particular is not very substantially more than the present rates. Indeed, if the true cost were to be as low as the present reduced rates, those parts of the periodicals industry paying commercial rates, e.g for 3rd class unaddressed mail, must be very substantially overcharged.

Because there is no accurate cost information available, it is difficult to determine the complete level of support involved. However, we feel that government is, without any question, subsidizing some components of the industry.

The major issue from government's perspective then becomes to determine the cost to the taxpayer and whether Canada is getting a reasonable 'return'. A corollary to this is whether the government would like to increase, decrease, or keep the subsidy.

Because reduced second class rates have been increased less than other rates, the amount of federal support has increased rapidly. The gap between the reduced rates and commercial rates is now so large that if it were decided to end the subsidy, the amount and rate of increase necessary to do so would likely threaten the survival of much of the industry.

What began many years ago as a relatively simple attempt by the Canadian government to assist in the distribution of relatively

few periodicals (Canadian and foreign) by giving them advantageous postal rates has now become an extremely complex and extremely expensive flow of Government support to a substantial industry.

The industry often referred to the perplexing array of regulations and mailing requirements. In our view, the mailing requirements are no different from those set for all classes of mailers, and the main problem lies not in the regulations themselves but in the lack of recognition of the costs that are involved. Thus, while postage cost for some categories has stayed low, other costs have been added to the publisher. In our interviews these tended to be reported as one-time costs that were very difficult to quantify.

Eligibility rules were a basic issue for both the government and private sectors of the industry. These were of two major types - the treatment of consumer controlled circulation periodicals and association periodicals. The importance of both is obvious in terms of volume and number of mailers. The issues encompass both economic policy and all aspects of cultural policy and are developed further in Section 5.

### 3.9 The Retail Distribution Network

The retail network is a major component to the distribution of a select number of Canadian periodicals. As was shown earlier, only 6% of all periodicals distributed by Canadian publishers use the retail network. These are mostly consumer magazines.

EXHIBIT 36 shows that retail sales in 1981 represented 37% of all paid sales of ABC members in Canada.<sup>(1)</sup> This is down from 43% in 1971. This is largely the result of changes in the distribution of TV Guide (much more emphasis on subscription sales), which accounts for almost a third of the distribution of ABC members in annual volume terms. Without TV Guide, Time or Reader's Digest, the share of newsstand sales increased from 30 to 32% from 1971 to 1981 which represented a 150% increase in volume terms.

Aside from postal issues, the distribution situation was raised most often as an issue. As a consequence, we examined the retail distribution network in some detail and the results are described below.

#### 3.9.1 Key Players

The key players in the retail distribution system are: Publisher, Distributor, Wholesaler and Dealer (Retailer).

Publishers are responsible for selecting a national distributor, ensuring the copies of their publication are delivered to wholesalers, and paying, if appropriate, any Retail Display Allowances to retailers. The Retail Display Allowance (RDA) is described below.

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<sup>(1)</sup> This analysis was based on ABC data. In an effort to make each year's data comparable, we attempted to make the coverage consistent from year to year for Canadian periodicals by adding in data for excluded publications in various years.

Distributors provide publishers with marketing and certain accounting services. They deal directly with wholesalers and also with major retailers. The manner in which distributors operate depends on the periodicals with which they deal. In general, distributors do not physically handle Canadian publications; they play the role of marketing intermediary between publishers and wholesalers. Foreign publications are a different matter; in this case, distributors may become involved in physically handling products - particularly if the periodicals are of non-U.S.-origin. There are five national distributors in Canada:

- Coast to Coast Distributing Company
- Gordon & Gotch (Canada) Ltd.
- Master Media Inc.
- T.V. Guide Inc.
- Distrior.

In addition, the CPPA operates as a distributor for a range of smaller Canadian publications.

Wholesalers are responsible for the physical delivery of periodicals to retailers. They also organize the collection from retailers of unsold copies which they either shred or return to the publisher if the latter so instructs. Wholesalers, then, control both deliveries and returns of unsold sales. Most retailers depend on data provided by wholesalers to make their claims to publishers for payment of RDA. Publishers and distributors may also use wholesalers' data to analyze sales performance.

There are about 40 wholesalers in Canada, of which 37 are members of Periodical Distributors of Canada (PDC). PDC members

control the bulk of the physical delivery system by means of exclusive territories. They do not compete with each other and, in most areas of the country, have no competitors at all. There are no foreign-controlled members of the PDC.

The development of exclusive territories is based on several factors:

- the need to control returns so that one wholesaler is not paying for another's returns
- the efficiencies of not having overlapping delivery routes or self-defeating competition in each retail location.

Evidence found in earlier studies<sup>(1)</sup> and our own research indicates that this is indeed a "natural monopoly" situation that benefits all involved.

We heard a large number of complaints that wholesalers were to 'blame' for the lack of presence of Canadian periodicals on newstands because of various types of biases:

- more profitable to push foreign periodicals
- decision systems used to determine racking are based on past patterns and if you are new you are not part of the pattern
- basic bias against Canadian periodicals.

According to the information we could gather, wholesalers do have a major impact on what gets 'racked' in a store. We could find no evidence that they were unduly biased against Canadian periodicals. They point out that retailers (and themselves) need the product to turn as much as possible to make its use of space

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(1) Annual Report, Director of Investigation & Research, Consumer and Corporate Affairs Canada, Combines Investigation Act, March 31, 1979.

worthwhile. They felt that simply because someone 'thinks' their publication will do well if exposed long enough is no reason to believe it will. This opinion is based on years of close experience. We tend to agree with the wholesalers on this point. However, the issue could only be answered authoritatively by a major real-life test - we refer to this later. At the same time, there is scope for wholesalers to be more co-operative with new Canadian ventures, and the various sectors of the industry should work to find ways to maximize the opportunities of smaller Canadian periodicals.

There are indications that exclusive territories will not always exist. In Toronto, for example, the following firms, who are not members of PDC, provide wholesaling services:

- Gordon & Gotch
- High Point Periodical Ltd.
- Intercity News

These firms have succeeded in competing by:

- o delivering periodicals with which PDC members do not deal;
- o making deliveries to non-conventional retail outlets;
- o offering, in some cases, a superior marketing service and higher discounts to retailers.

On the whole they do not, however, compete head-on with PDC members; they operate mainly in the areas where PDC members provide a poor service or no service at all. Gordon & Gotch, for example, as a national distributor, only wholesales magazines where PDC members will not do so.

Retailers generally make the final decision on which magazines they are prepared to sell. In the case of large stores and

chain stores, the retailer tends to take absolute control of periodical purchases. Small corner stores, on the other hand, are more influenced by the wholesaler's advice. A critical issue for all retailers is the amount of space to devote to the sales of periodicals. Display space is not limitless and magazines compete for footage with other products. Retailers will naturally choose to sell those periodicals that are the most popular with customers and provide the highest levels of profit. These two factors are linked but are not necessarily identical. The profit from selling a foreign magazine can be considerably higher than for a Canadian magazine. This is particularly true of European periodicals although it also applies to a large number of U.S. publications. Control of retail price is the key to this equation. While Canadian magazines have a publisher-controlled retail price, many foreign magazines have an additional mark-up which increases the profit on single-copy sales. In the case of foreign periodicals with a large Canadian circulation, additional mark-ups are rare, but for smaller-circulation foreign periodicals extra mark-ups can become significant. Here, small-circulation Canadian magazines, sold at a fixed price, find themselves competing with foreign magazines whose price may vary according to what the retailer wishes to charge.

### 3.9.2 Financial Flows in the Distribution System

EXHIBIT 37 describes a typical interaction between Publishers, Distributor, Wholesaler and Dealer (Retailer).

The theoretical breakdown of income between the parties involved in producing, distributing and selling periodicals is approximately as follows (assuming a cover price of \$1):

<u>Participant</u>	<u>Income</u>
Publisher	40¢
Distributor	10¢
Wholesaler	20¢
Retailer	<u>20¢ + 10¢ (RDA)</u>
	<u>\$1</u>

Many (though by no means all) publishers pay a Retail Display Allowance (RDA) to retailers which, in theory, equals 10% of the cover price of copies sold. In order to receive RDA, retailers have to complete a special RDA return each quarter detailing sales of every eligible periodical. The data for this return is provided to the retailer by the wholesaler (NOT the distributor). The retailer sends the return to the distributor who then claims RDA from the publisher on the retailer's behalf. Payment of RDA may come either directly from each publisher or (exceptionally) via the distributor.

However, the wholesaler makes a charge of between 1% and 1-1/2% (usually the higher figure) in return for providing the retailer with sales information. In addition, the wholesaler makes a delivery charge to each retailer (Metro Toronto News reportedly charges \$1.95 for delivery).

Therefore, a revised breakdown of income distribution would be:

<u>Participant</u>	<u>Income</u>
Publisher	40¢
Distributor	10¢
Wholesaler	20¢ + 1.5¢ (delivery charge)
Retailer	<u>20¢ + 10¢ - 1.5¢ (delivery charge)</u>
	<u>\$1</u>



A retailer's net sales are calculated on the basis of deliveries received less unsold returns. Returns are taken back by wholesalers and either shredded or sent on to the publishers. Most retailers fail to account for their own receipts and returns; wholesalers are therefore the focal point of the statistical information on sales. The charge for returning unsolds made by wholesalers to publishers (or distributors where the distributor has taken title) is about 12¢ per copy.

Income to the publisher is long in coming. Typical terms received by the publisher from the distributor are 75 days after the first day of off-sale. For example, for monthly publications published on the 1st of January 1983, the 75-day period would commence on the 1st of February and payment would fall due on April 17, 1983. However, full payment on January's issue would not be made on this date, because the payment calculation takes into account the outstandings for February and March in the following manner (assume that gross publisher sales amount to \$1,000 in each of the first three months January to March and that unsolds amount to \$250, \$70 and \$150 respectively):

	<u>Gross Sales</u>	<u>Less Unsolds</u>	<u>Net Sales</u>
January	\$1,000	\$250	\$750
February	1,000	70	930
March	<u>1,000</u>	<u>130</u>	<u>870</u>
Total	<u>\$3,000</u>	<u>\$450</u>	<u>\$2,550</u>

First Net Payment for January =

3 months <u>net</u> sales	-	\$2,550
Less 2 months <u>gross</u> sales	-	<u>\$2,000</u>
		\$ <u>550</u>

In this example, on April 17, the publisher is entitled to receive \$550 or 73% of the January sales owed to him by the distributor.

Suppose that, instead of the above scenario, gross sales increase by \$500 in each month while the percentage of unsolds remains the same:

	<u>Gross Sales</u>	<u>Less Unsolds</u>	<u>Net Sales</u>
January	\$1,000	\$250	\$750
February	1,500	105	1,395
March	<u>2,000</u>	<u>260</u>	<u>1,740</u>
Total	<u>\$4,500</u>	<u>\$615</u>	<u>\$3,885</u>

First Net Payment for January =

3 months <u>net</u> sales	-	\$3,885
Less 2 months <u>gross</u> sales	-	<u>\$3,500</u>
		\$ <u>385</u>

Here, the publisher's reward for increasing his sales is a penalty in the form of a longer credit period given to the distributor. In this case the publisher receives a mere 51% of his net January sales. Obviously, once growth slows down the publisher's cash flow improves considerably but for the periodical expanding sales the problem can be significant.

Under these circumstances non-subscription paid distribution is often considered to be a cost rather than a revenue-earner for the publisher. Any comparison of total

distribution costs (mail and retail) between paid circulation and controlled circulation periodicals must take this into account.

As EXHIBIT 37 shows, the distribution system gives rise to large differences in the period of credit given and enjoyed by each of the key players. Although credit terms are always subject to negotiations, a typical example is as follows:

CREDIT TERMS APPLICABLE  
TO THE DISTRIBUTION SYSTEM

<u>Publisher</u>	<u>Distributor</u>	<u>Wholesaler</u>	<u>Dealer</u>
100-120 days	60-90 days	0-30 days	n/a

Some U.S. publishers, because of their size and influence are able to demand prepayments from distributors. Where this is not the case, both distributor and wholesaler reap the benefit of a cash flow at the expense of the publisher.

Policy Implications

Newsstand sales are regarded by publishers as key to building a strong subscriber base and a larger circulation. Thus, although they represent a smaller portion of sales than subscriptions, they have an important role in expanding the industry. One key aspect of newsstand sales is the presence of foreign publications. This is treated in more detail below.

The most striking difference between the periodicals industry in Quebec and the industry in English Canada comes from the difference in the basic nature of the market place. The French market has (apart from language) three prime distinguishing features

- the limited size of the overall market
- the considerably greater geographic concentration of the market
- the great distance from foreign French markets.

These factors mean that periodicals in Quebec:

- have, for broad interest publications, a much smaller potential market than do English language periodicals in English Canada
- are easier to distribute, and depend largely on urban distribution and, at that, to a very high degree on distribution in Montreal and Quebec City
- have limited foreign competition.

There are differences between the Quebec and English Canada distribution industries. In Quebec the ownership linkages between a few large publishers and the distribution industry are much stronger than in English Canada, creating some potential limitations on the entry of new periodicals into the market to compete with existing periodicals.

In both Quebec and English Canada, through numerous interviews with distributors, wholesalers, publishers and industry considerations, we found that the existing arrangement for distribution and wholesaling are, generally, not the cause of the difficulties faced by Canadian periodicals on the newsstands, and in particular are not the cause of the difficulties faced by small Canadian periodicals on the newsstands.

Newsstands are suited to a very particular type of periodical. Low-circulation periodicals, particularly artistic, and literary, and scholarly publications are not likely to do well on the newsstands, and could not begin to afford to stock even a small part of the more than 20,000 newsstands in the country with product.

The hope for retail sales of artistic and literary and scholarly periodicals in Canada is for a relationship with very particular kinds of retail outlets to be built up over time across Canada, so that the very limited market for the periodicals can identify with these outlets. Individual periodicals are unlikely to have the means to find or distribute to such outlets, and a distributor serving such periodicals is unlikely to be a going concern. The best hope for such periodicals is through cooperative attempts, such as represented by the distribution area of the CPPA.

### 3.10 Foreign Publishers and Publications

With the exception of a very few special instances, (Time and Jehovah's Witness) all publishers operating in Canada are Canadian-owned. This is due to several factors:

Legislation - The Income Tax Act (Section 19) disallows advertising costs as tax deductions for advertisements aimed at a Canadian readership and placed in periodicals that are not Canadian-owned or that consist largely of foreign material. This effectively increases the cost of advertising by fifty percent in non-Canadian owned periodicals.

Local Familiarity - many periodicals succeed because they reflect a particular regional or a local flavour that is best identified and interpreted by a local or Canadian organization.

Lack of Customs Duty - this permits the importation of periodicals without customs duties on the editorial or advertising content. Only where advertising contains messages specifically aimed at Canadian readers could the periodical become a prohibited good under Schedule C of the Customs Tariff. Under this measure, any foreign publication which contains more than 5% of its total advertising directed at Canadian audiences in any of the past four issues is barred from entering Canada. Thus, there is no advantage to printing locally versus using large press runs in foreign plants.

As a result of the lack of tariffs and discrimination against foreign-owned periodicals in terms of advertising (Section 19 of the Income Tax Act), there is no satellite production here, with the exception of Time and Jehovah's Witness, as there has been in many other manufacturing industries and as in other cultural industries such as the record industry.

Historically Strong Publishers - Canada has had a long history of strong newspaper and periodical publishing organizations such as Southam and Maclean Hunter and thus a vacuum has not developed into which a more skilled foreign-based firm could open operations and exclude Canadian firms.

The high degree of Canadian ownership of publishers operating in Canada is similar to the levels in other media and communication industries such as newspapers, radio and television.

However, the degree of foreign ownership of publishers publishing in Canada does not mean that Canadians only 'consume' Canadian periodicals. On the contrary there is a high influx of foreign-originated publications that are mailed to Canadians or sold on newsstands.

There are no comprehensive estimates of circulation by country of origin since all data sources are incomplete by varying degrees. Recent calculations by Statistics Canada, which are reasonably comprehensive for commercial consumer, farm, trade and TV guides indicate that foreign publications are a minority of the total circulation of periodicals in Canada. About 25% of all CARD and ABC consumer periodical single-issue circulation in 1981 was foreign originated, almost all of which came from the United States - see EXHIBIT 38. No other segment had a notable degree of foreign presence. This is mainly due to the large number of special interest

and regional publications that appeal to Canadians only and that dominate all categories other than consumer periodicals. If, on the other hand, the twenty largest Canadian periodicals are measured against the twenty largest U.S. periodicals the share of market is not any different.

For a closer in-depth view of foreign-originated publications, we had to rely on CARD and ABC-based data as reported by Statistics Canada. These show that of all U.S. periodicals with circulation in Canada, the top 20 represent about 4.5 million copies on a single issue basis. The top 20 Canadian periodicals have a total single-issue circulation of about 13.5 million copies. Thus, at the top end of circulation of consumer periodicals, foreign periodicals account for the same 25 percent of market as they do for all periodicals. Unfortunately, the data calculated by Statistics Canada does not go back many years, nor is it divided by retail or subscription channels. Thus, we have examined ABC data directly to determine the share of market of United States periodicals on newsstands and through subscriptions. Since ABC only covers large consumer periodicals our analyses can only be confined to this one segment although our judgement is that the remaining consumer periodicals not covered would not alter the trends.

As shown in EXHIBIT 39<sup>(1)</sup>, the foreign share of total annual circulation dropped substantially between 1971 and 1981 from a level of 70% in 1971 to 60% in 1981. This was partially a result of slightly better performance in the newsstands of Canadian periodicals but mostly as a result of a large drop in subscription share of market held by U.S. periodicals. This latter trend was somewhat a result of Maclean's going weekly. ABC figures exclude controlled circulation periodicals - through their strong growth in the past fifteen years, it is likely that the Canadian share of market has actually increased faster. The level of foreign penetration in the consumer field based on ABC data and shown in EXHIBIT 39 is notably higher than that calculated by Statistics Canada and shown in EXHIBIT 38 (60.5% versus 25.5%). This is a result of controlled circulation periodicals (excluded from ABC) and the many Canadian periodicals that choose not to join ABC.

In Quebec, foreign periodicals are much less of a threat. The major source of foreign periodicals is 3,000 miles away. The comment was made to us that "the impact of foreign-owned periodicals in Quebec is similar to the impact of British periodicals in English Canada - tiny compared to the impact of American periodicals".

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<sup>(1)</sup>These analyses exclude Time, Reader's Digest and TV Guide. If the latter two are added in 1981 to the Canadian segment, the share of market held by U.S. firms would drop to 38% of subscriptions and 62% of newsstands.



Policy Implications

Foreign ownership and consumption of foreign material has been very important to policy formulation in the past fifteen years. The large degree of Canadian ownership is a direct result of these policies.

Both the income tax and customs legislation provide significant levels of protection to the industry.

A third, minor, protective measure is FIRA, which has the ability to prevent foreign-controlled businesses from setting up business in Canada. There are no special provisions of FIRA that apply to periodicals.

The recent decision to terminate reduced postal rate privileges for foreign magazines will provide further protection.

The Canadian industry has made good use of these advantages and enjoys a large market share. However, while the overall situation is reasonably satisfactory, foreign magazines (primarily U.S.-based) do have the substantial majority of newsstand sales.

The potential for foreign magazines to enter the Canadian market was amply demonstrated by Newsweek. The decision to permit Newsweek to do so appears contrary to all the other measures to limit foreign competition and is presumably an aberration rather than a harbinger for other foreign magazines. The decision to terminate postal subsidies for foreign publications supports this view.

The industry has expressed some concerns over the enforcement of the 1976 amendments to the Income Tax Act which were designed to prevent tax deductions for advertising expenses incurred in foreign magazines destined for Canadian readers.

Industry representatives have told us that they have reason to believe that the amendments are, in certain instances, being substantially violated. The same representatives have told us that they have attempted to deal with Revenue Canada on the matter, and have come to the conclusion that the amendments are not a matter of concern to Revenue Canada, partly because they would be very difficult to enforce and partly because the cost to Revenue Canada appears to be greater than the potential tax recovery. To provide better enforcement, a fairly complicated chain of bookkeeping would have to be followed, involving the advertiser, its advertising agency and the periodical in question, and this might only be possible quite a long time after the advertisement in question was placed.

This concerns us, since, ultimately, an unenforced law runs the risk of becoming a useless law.

Another aspect of current practice in relation to the Income Tax Act which seems curious is the Federal Government's use of foreign magazines. Since the Federal Government pays no tax, it is not discouraged from using these magazines by a cost penalty, as are private advertisers. Indeed, since some foreign magazines have reduced their rates to compensate for their aftertax disadvantage, the Federal Government has a positive incentive to choose them.

There may also be a temptation for government to not advertise in bilingual periodicals so that it can avoid its own rule (and therefore the expense) of having to place advertisements in both official languages.

The degree of consumption of foreign periodicals continues to be a matter of policy consideration. However, although

it is hard to measure comparable market shares between cultural industries, we suspect that the periodical industry, next to newspaper readership, has the highest Canadian content in terms of exposure to consumers.

### 3.11 Foreign Ownership of Canadian Periodicals

During the course of our research and interviews, a number of instances came to light of foreign-owned businesses currently operating in Canada who were not currently publishers but who were interested in putting equity into existing Canadian periodicals.

Such businesses would, in most instances, be subject to approval by FIRA before being allowed to become publishers.

We note that periodicals published in Canada with editorial material that met postal specifications would not be excluded from receiving 2nd class postal rates on the grounds of foreign ownership. It would, however, be subject to the 1976 Amendments to the Income Tax Act. (i.e. Canadian advertisers would not be eligible to deduct their advertising expenditures as a pre-tax expense).

### Policy Implications

Foreign ownership of Canadian periodicals is not nearly as serious a matter for concern as the sale of foreign-published periodicals imported into Canada with the exception of recent developments in specific competitive markets (medical and computer), where there is a pressing and worrisome problem of foreign-owned firms creating ownership structures which appear to bypass FIRA.

In some situation there may be some cause for tapping foreign investment, although the two cases cited above do not seem to be the most appropriate. There are several points to be made here. The Canadian periodicals industry does not, as far as we can determine, suffer from a shortage of equity and working capital although we are told that many CPPA members would disagree. It is an expanding industry, probably more attractive to potential entrants than any other cultural industry in Canada. Nevertheless, there are, for whatever reason, opportunities perceived by some sources of foreign capital (particularly those with interests in the printing industry) for the creation of new or expansion of existing Canadian periodicals. By 'Canadian', we mean here periodicals that are clearly Canadian in terms of the overwhelming representation of Canadians at all levels of their staff, as well as in terms of the origin of editorial material.

Policy dangers and dilemmas for the government exist in that:

- foreign equity might, in some instances, have an advantage over Canadian equity (experience and scale of operations of foreign owner).
- foreign equity might, whatever the intentions and safeguards, influence the nature and content of the periodicals towards that which exists in the relevant foreign country.

Policy advantages for the government are that:

- trade restrictions are reduced
- capital is brought into Canada
- both the industry and the public benefit from a larger, healthier industry.

### 3.12 Financial Health of Periodical Publishing

It is extremely difficult, in quantitative terms to determine the financial health of the industry. Previous research (see the Bureau of Management Consulting) utilized special tabulations from Statistics Canada's tax access files. Unfortunately, most periodical publishers do not only publish periodicals, and thus it is very difficult to isolate their publishing activities from other activities.

Despite the data problems, a critical aspect of this study has been to determine the financial health of the industry. From our viewpoint and based on the best information available, it is our opinion that the commercial sector of periodical publishing is in a relatively healthy state when all factors, especially the latest recession, are taken into consideration. The only generalizable exception to this is the state of small commercial publications which, due to their very nature, are unstable and thus are rarely financially healthy. This segment is discussed in more detail below. Our investigations indicated that the non-commercial sector is not faring as positively as the commercial sector due to budget cutbacks in the supporting organizations. Before commenting in more detail on the overall financial health we first discuss the major determinants of costs and revenues.

#### 3.12.1 Sources of Expenses and Revenues

As shown in EXHIBIT 40 manufacturing costs are the key component of costs, representing between 30% and 40% of total costs.

The pattern varied by size of commercial publication, generally because the larger the print run the higher the manufacturing costs as a proportion of all costs. Editorial, General Administration and Circulation were the other notable categories in consumer periodicals. Advertising sales costs were significantly higher for business periodicals who seemed to focus on the selling of advertising rather than the selling of the periodical to consumers. Distribution includes postal costs.

EXHIBIT 41 displays the breakdown of revenue sources by type of periodical. There is considerable variation depending on the type of periodical. Advertising varies from 1% for the non-commercial segments to 83% for the major business categories. The importance of advertising for consumer periodicals varies depending on size. Periodicals with over \$1 million in revenue receive 63% of their revenue from advertisers. Periodicals smaller than \$1 million are less successful in attracting advertisers (48%) and may rely on some form of subsidy.

### 3.12.2 Relationship of Revenues to Costs

There are several issues related to linking particular revenues to specific costs that are best characterized by the question: do subscriptions pay for themselves? That is, is the cost of obtaining one subscription higher or lower than the fee paid by the reader excluding all other costs. This is key if one takes a position that there should be a bona fide price for a subscription. "Bona fide" is sometimes taken to mean a price that provides the publisher with a return that at least covers the costs of obtaining the reader and, perhaps, the cost of printing the publication.

It was clear from our interviews, case studies and survey that every periodical has at least a slightly different set of circumstances and some have very different circumstances. Each publisher can vary the mix of revenues and expenses in an almost limitless variety of positions in an attempt to make a profit. We were unable to design a general financial "model" which would permit all these factors to be determined. Examples of the variable mix options are:

- all advertising revenue and no paid revenues (controlled)
- lower price to get higher circulation to get greater advertising fees
- higher prices to get more paid revenues and less advertising fees
- more subscriptions to obtain cash flow rather than retail sales
- Lower print costs (smaller periodicals) to save on expenses but which reduces advertising revenue.

An examination of data in EXHIBITS 40 and 41 provide some indication at a macro level of analysis. As noted before, business periodicals (with the exception of newsletters) rely very heavily on advertising and thus the relationship between paid revenues and advertising is less of an issue. The focus is on commercial consumer periodicals.

For consumer periodicals with more than \$1 million in revenue, circulation expenses represent 17 cents on the dollar. Paid revenues from circulation represent 37 cents on the dollar. Thus at this gross level of analysis, circulation revenues exceed circulation costs. However, the 20 cents in the dollar will only partially cover the cost of printing which is 38 cents in the dollar. It is clear,

generally, that circulation revenues cannot support the sales and production costs of obtaining the reader. However, we were informed of several significant exceptions to this which proves our earlier statement on endless variations. However, for companies that rely on advertising, it would be rare that subscriptions do more than return the cost of marketing, let alone the production and distribution costs of fulfilling the order.

### 3.12.3 Profitability of Commercial Periodical Publishing

Our survey indicated that the average profit before tax of all commercial publishers in 1982 was 5% of total revenues with twice as many publishers having a profit as showing a loss - in a year when overall profit performance by companies in Canada was dismal. EXHIBIT 42 portrays a general measure of financial performance for those commercial publishers answering the financial question in our survey for the years 1980, 1981 and 1982. As noted, the profit performance has been relatively positive, although one cannot base a conclusion on the one question without access to equity and debt positions. We were also shown some significant examples of losing operations.

While all sizes of firms did not perform in 1982 as well as in 1981 average profit did stay in the black. Several other points are worthy of note:

- profits seemed to have shrunk somewhat since 1979, although when these data are compared to similar data in the earlier Bureau of Management Consultant's study - see EXHIBIT 43 - the range of ratios are about the same.



- medium-sized firms seem to be somewhat more profitable than small or large firms, although our sample is probably not big enough to be definitive on this. Also, it should be remembered that CPPA members did not respond to the survey as well as would have been preferred.
- EXHIBIT 44 indicates, for 1982, the distribution of companies by profit performance, which indicates a clustering around the break-even point for small periodical publishers and around the 1-4% profit ratio for medium and large companies.

Our interview program did not reveal a financial problem for well established publishers, although this was less true for small or new publishers.

We could not determine the profitability of periodical publishing firms by sector (consumer, business, etc.) because several major firms publish several types of periodicals. However, we did examine the profitability of larger periodicals in the two main sectors - as shown in EXHIBIT 45. This table shows the average percent operating surplus or deficit and the overall average. According to this sample, the 25 largest profit-oriented periodicals reporting financial data to our survey, trade publications tended to be more profitable than consumer periodicals on a percent of revenue basis. The data on average surpluses and deficits indicate that there can be quite a wide swing in profitability from periodical to periodical. Tabulations (not shown) on size of periodicals indicate similar findings to date by size of publisher, i.e. that larger publishers tend to be more profitable than small publishers, although there were some noteworthy small publishers which were profitable.

There have been very few failures of major periodical publishing firms in the last five years, which is unique in comparison to other cultural industries such as book publishing and record production; in fact, in comparison to almost any industry.

There have also been almost no failures of major periodicals except the demise of the 'weekend roto' magazines as a result of changes in the newspaper industry. The other exception is the merger or buy out of competitor magazines, some of which might have been for financial reasons but most of which, as we understand it, were for competitive reasons.

According to CARD, the number of new periodicals has been growing. Tabulations done by Magazines Canada for consumer periodicals shows a net growth of 186 magazines from 1977 to 1983 or just over 26 a year. The past two years have shown a slower rate of new growth (11 each year) than previous years but it is still growth in the face of a significant recession.

"Net" growth tends to underestimate the actual number of additions and deletions. These have averaged between 75-125 for births and deaths of all types of periodicals each year which implies a turnover rate of about 10%.

Of the profit-oriented publishers replying to our survey, 25% indicated that their line of credit was insufficient and only 5% could not obtain a line of credit. In all but one case, these were small periodical publishers who were unsatisfied or could not obtain a line of credit. In our discussions with industry representatives, most firms could either rely on the financial backing of their parent firm or their own internal cash flow.

The line of credit situation for small publishers points up the specific financial problems of this group of companies:

- often they are undercapitalized at the beginning and have no equity to speak of to raise debt financing
- it was reported to us by printers and publishers that many of these publishers are supported by the printer, who will extend credit and, as stated by one printer "takes the full risk but does not share in the full return if the publication succeeds".
- not only are these firms undercapitalized at the outset; they lack the ability to attract an infusion of new capital during operation.
- according to various estimates, there are upwards of 50 to 100 new magazines which open (and a similar number which close) each year.
- many new magazines do not have experienced management.

In fact, all of the above problems are typical of small businesses in Canada. The biggest additional problems are the lack of fixed assets or inventory with which to obtain debt financing, and the high risk nature of the product due to its need to develop readership over a period of time.

#### Non-commercial Sector

The non-commercial sector includes a wide range of types of periodicals government, scholarly, religious and association based. Each of these types has its own pattern of funding support.

Academic publishing of periodicals seems to be relatively strong in comparison to academic book publishing. The number of scholarly journals being supported by the Social Sciences and Humanities Research Council of Canada (SSHRC), the Natural Sciences and Engineering Research Council (NSERC) and the National

Research Council grew by about 400 percent between 1971 and 1981 with none, as far as we are aware of, closing. Both the Park Commission<sup>(1)</sup> (Aid to Scholarly Communication) and the Social Science Federation of Canada<sup>(2)</sup> noted strong cost pressures for added production expenses, as well as dwindling support from granting agencies in real dollar terms, but neither report indicated a crisis was at hand. Journals seemed to have been able to trim costs and raise subscription prices.

Association-based periodicals generally reflect the financial performance of the association. There is no data to indicate whether association membership is rising or falling, but one would have to assume that, as the unemployment rate went up, membership fell, thereby tightening the budget situation of association periodicals. Certain discussions we have had with various associations indicate that in poor economic times, companies and individuals cut back on their memberships as part of an austerity program. This then undermines the association's ability to publish its periodical(s).

#### Policy Implications

##### General

The general financial health of the industry as indicated by the information related in this section, and other signs,

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<sup>(1)</sup> op. cit.

<sup>(2)</sup> Davidson, R., 1983, mimeograph .

such as the growth in circulation and advertising which are described in sections below, means that the environment for policy action is not compounded by major "future of the industry is in doubt" problems as in several other cultural industries; in fact, policy-making can be done with the knowledge that the industry is in a relatively good position.

#### Small Periodical Problems

Along with a list of other problems which largely arise from being small and underfunded, the publisher of the low-budget, low-circulation periodical faces formidable obstacles in making his periodical known and available to that segment of the public which might like to read it. These publications are often in the artistic, cultural and literary sector and thus are regarded as especially important for cultural expression and development.

To a very large degree, artistic, cultural and literary publications have to rely on word of mouth publicity and on consumers seeking them out rather than on active promotional campaigns.

Very often, the potential market for an artistic, cultural and literary publication is too thinly spread, and too hard to define through normal demographic analyses for the publisher to do other than:

- make the publication available in retail outlets which are known to carry such publications
- solicit sales using the lists of cultural organizations whose members are likely to be interested in the subject area of the publication

- attach himself to a cultural organization, which then publishes it and earmarks a certain portion of membership dues for the periodical.

Organizations such as the CPPA are significant in assisting cultural periodicals reach a wider range of retail outlets, both within their home publishing area and across Canada. They benefit by being able to reach more distribution outlets than they would likely be able to reach on their own or through commercial distributors and wholesalers (who generally only handle medium to large circulation consumer and business periodicals). Moreover, the CPPA operates on an extremely small budget, which handicaps its scope.

The CPPA began a distribution business in 1977, which now handles 135 periodicals of its 189 periodical members; 90 of these are handled by it on an exclusive national basis. The CPPA has 235 active retail accounts, from coast to coast. It works through local wholesalers in Ottawa and Montreal.

We found that the kind and degree of problems associated with small periodicals in Quebec are about the same as in English Canada.

In Quebec, there are moves to merge the industry association, 'L'association des éditeurs de périodiques culturels québécois' with the embryonic cultural periodicals distributor, 'Diffusion Parallèle' and thus try to build up an effective, unified voice and distribution agency for Quebec cultural periodicals.

The potential for helping cultural periodicals through the CPPA and its distribution arm in particular, and perhaps through a merged 'association des éditeurs de périodiques culturels québécois' and 'Diffusion Parallèle' is very significant, and merits consideration of substantial governmental support.

The Canada Council with what little funds it has, is currently running a competitive program (competitive because it does not have nearly enough money to do the job properly) which gives \$5,000 to \$10,000 to periodicals already receiving publishing funds to help them with promotion.

We note that we have not been able in this study to generate the data to back up our hypothesis that the Canada Council is short of adequate funds both for operating grants to small deserving periodicals and for promotion assistance grants.

We believe, however, that there is a good chance that the hypothesis will be found to be valid, and suggest that what is needed is for the Canada Council to demonstrate, through a series of case studies, what has happened, economically, to circulation, employment, creative content, creative remuneration by type of activity and revenue and expense by component of a number of periodicals (say 10) have been continuously funded by it over the last five years. This should show what in fact the impact of grants has been.

The host of management, equity, cash flow and other problems common to most small periodicals are simply a problem of size, and are not greatly amenable to assistance through policy.

It should also be noted that virtually all the direct grants given by government agencies on cultural, scientific or scholarly grounds go to small periodicals.

### 3.13 Summary of Issues

The foregoing discussions have raised a number of perceived problems and issues confronting some or all of the components of the periodical industry. They are summarized in EXHIBIT 46.

There are some issues that we regard as of little or no concern from a policy setting or revision perspective.

FIRA - Foreign Ownership - complaints about FIRA are similar to those any business person would voice in Canada and the restrictions they place have very few negative impacts on the industry. Those probably could be handled on an ad hoc basis and do not require a specific policy review.

Technology - while the industry seems somewhat complacent, the threats and opportunities are relatively minor and, in our view, do not require specific policy consideration.

We have noted (in Section 3.11) some policy plusses and minuses in terms of relaxing restrictions on foreign equity acquiring or creating periodicals in Canada with Canadian content. However, see Section 6.7 regarding small periodicals.

Other issues do have some impact on policy planning, but they are not very commanding in terms of their importance to policy and program planning:



grants to artistic and literary periodicals: these have slipped in real terms over the past and there is some cause for alarm. However, because these are already major programs they do not require new government directions to be set and thus we view them as relatively minor in a overall sense.

writers remuneration: since the creative core of the industry is key to Canadian culture this is a problem worthy of concern. However, because it is a market-forces problem, the government will not be able to have a major impact.

foreign competition: the industry enjoys one of the highest levels of Canadian ownership and consumption of all cultural industries. This should continue to be guarded but, in our view, is currently only a problem of enforcement which does not require major new initiatives.

small periodicals: these are typical problems of small business. The presence of so many small operators indicates entry is relatively easy and that government should support their on-going viability to the same degree it sponsors small business growth in all sectors, through its general programs of support for small businesses.

marketing and distribution: there are several dimensions to this problem. Access to newsstands has long been voiced as a major problem for small, more culturally-oriented periodicals. While this is cause for some government support it is not a critical problem, simply because the market does not exist for most of these periodicals nor could they afford the access.

government purchasing of advertising is really a matter of policy consistency and is not of key importance to the industry.

export marketing is of some interest since it would help increase market size and meet Canada's international cultural aspirations. However, the nature of the product dictates that this will always be a limited marketing opportunity.

In fact, when we review all the policy-related issues that were voiced during our research, the only real issue of major policy importance is the postal program. There are several dimensions to this problem:

rates: the industry is concerned that these costs not increase unduly and the government is concerned about whether the subsidy is benefiting Canada appropriately. The industry is also concerned that postal preparation requirements be properly recognized as part of the increase in costs.

regulations: the unequal access of periodicals to different rates is a major concern of those included and excluded. Not only does the existence of different rates cause problems, but also the interpretation and application of the rules deciding who should or should not get the rates is a major issue. These issues are of major importance to the controlled circulation press and to associations.

the real costs of delivering periodicals: the lack of knowledge on actual costs confuses the discussions.

Because of the prime importance of postal policy, we address the issues and policy options in the following separate chapter.

#### 4. POLICY AND STRATEGIC CONCERNS

##### 4.1 Introduction

It is not practicable to go further without looking at the implications for the government of changing its present policies, programs and legislation. The internal priorities of the government, from broad objectives such as cultural concerns to practical matters such as the overall cost of its periodicals initiatives, form an essential backdrop to an examination of the industry issues and options facing the government.

##### 4.2 The History of Government Involvement

The health and existence of periodicals has been of importance to the Canadian governments virtually as long as Canada has existed. Periodicals stand in a unique position between the news media, newspapers, broadcasting on the one hand and books on the other. Newspapers and broadcasts try to capture the information of the moment, books try to record for all time the essence of history or cultural accomplishment, while periodicals typically serve the mid-term.

###### 4.2.1 Federal Government Involvement

The original concern of government was simply that periodicals originating in any country be available to Canadians. The issue was communication, the ability of Canadians to have access on a reasonable basis to periodicals, regardless of where they lived.

This was part of a broad interest throughout the development of Canada towards the provision of easy flow of materials and communications, highlighted by such events as the CN Railway, the CP Railway, the completion of the Trans-Canada Highway, the Interprovincial Pipeline and, more recently, the Anik satellites.

In the case of periodicals, the single most significant event was the statutory provision of preferential postal rates. It was clearly recognized that newspapers and periodicals played a significant communicative role, and it was determined that the government should subsidize distribution through the Post Office so that all Canadians could receive periodicals more cheaply than they might otherwise, and also so that all Canadians would pay the same amount to receive them, regardless of where they lived.

Also included in the Post Office Act were definitions of the kinds of subjects that the Government regarded as meriting subsidy. With the passage of time, a more intricate system of basic conditions, exclusions, rates and regulations grew up around this postal subsidy system. With the transformation of the Post Office into a Crown Corporation, the subsidy program ceased to be statutory, and became open to regulatory change. However, until this change occurred it was difficult to make frequent changes in the statutory rate, with the result that increases in this rate lagged increases in other postal rates. The net result was that the total amount of the subsidy grew very rapidly and became substantial.

The current relationship between the Department of Communications and the Canada Post Corporation is that the Department

transfers of the order of \$53 million annually (1983-84) to the Corporation to subsidize reduced postal rates for periodicals, newspapers, books and educational films. This transfer represents an estimate of that share of the loss incurred by the Corporation which could be directly linked to the policy of reduced postal rates and is based in part on the extra revenue that the Corporation would obtain if it immediately removed all second class rates and substituted 3rd class bulk or other appropriate rates.

The portion of the transfer that applies to periodicals has been estimated by us, in discussion with the Department, as being of the order of \$34 million.

The Post Office's own share is not known since no generally acceptable cost studies exist.

In the discussion to this point, we have used the term "subsidy" when referring to concessionary postal rates. Many in the periodicals industry would disagree with our wording. Their contention is that they do so much in the way of mail preparation to qualify for 2nd class rates that the remaining cost to the Post Office is equal to or less than the rates charged. There is no cost information available which would confirm the industry's view and we believe the circumstantial evidence does not support it. We do know that all second class rates are significantly less than "commercial" postal rates for similar mail which is often similarly prepared. Thus, if 2nd class rates are not subsidized these other rates must be grossly in excess of costs - yet the Post Office overall does not make a profit. Moreover, most unsubsidized mailers cannot find a cheaper

comprehensive alternative to the Post Office. For example, unaddressed controlled circulation periodicals are likely the cheapest form of mail to deliver and the senders do a great deal of preparation. They use the Post Office in spite of being charged almost three times the rate that subscription consumer publications pay.

For other concessionary rates, e.g. that paid by addressed controlled circulation publications, the picture is not as clear. Thus, we are unable to estimate the true amount of the total subsidy although we have no doubt that a substantial one exists, particularly in regard to the 2nd class Code 3 rates.

A second principal government concern, that of the cultural content of communication, came later. Federal policy was initially concerned simply with Canadians having the ability to appreciate and enjoy the arts when it set up the Canada Council in 1957 (following the report of the Royal Committee headed by Vincent Massey and Pere Henri Lévesque in 1953). The thrust then was on the quality and quantity of cultural product. It was not particularly on whether or not that product was Canadian-owned, created or performed. Nor was it particularly on culture in a broad sense -- it was aimed at the arts.

Since 1957, the Canada Council (and its successor agencies, resulting from the split in 1978 of the original Canada Council into a Canada Council for the arts and a separate Social Sciences and Humanities Research Council) has supported hundreds of periodicals of an artistic or scholarly nature, albeit with modest grants, totalling only a few million dollars in 1983.

Starting somewhat before the establishment of the Canada Council, and accelerating rapidly in the last twenty-five years, has been a third concern; a concern with Canadian content and with a Canadian cultural identity in a broad sense.

This has many implications and takes on many forms. The main areas of concern are: the degree to which content is generated by Canadians, the degree to which content reflects some aspect of existence in Canada, and ownership. Policy and programmes have increasingly sought to give advantage to entities owned by Canadians, as well as the material produced by Canadians that express insights into one of the many distinctive forms of cultural diversity in Canada.

Finally, at the same time that a concern developed to aid Canadian ownership and content, an awareness grew that to do this means actively preventing foreign periodicals not from coming into Canada, but from having too much of an advantage in the marketplace. This is true whether that advantage comes from the economic advantage of incremental press runs, from distribution, from access to capital or from a long time recognition in the minds of Canadian readers.

The keys to this have been advertising and postal distribution. Through progressive legislated steps springing from the recommendations of the O'Leary Commission<sup>(1)</sup> and the Davey Special Committee,<sup>(2)</sup> foreign magazines printed abroad have been inhibited from coming into Canada with any appreciable advertising aimed

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<sup>(1)</sup> Royal Commission on Publications, 1961

<sup>(2)</sup> Special Senate Committee on Mass Media, 1970

specifically at the Canadian market, and foreign magazines printed in Canada have been placed at a disadvantage with Canadian media buyers. Restrictions have been placed on foreign equity acquiring or starting Canadian publications, and, as announced in July 1983, the reduced postal rates given to non-Canadian periodicals printed and mailed in Canada or mailed in Canada are to be phased out.

Thus, as a result of legislation reflecting this concern over recent years, a growing variety of economic disadvantages, customs tariffs, non-access to grants, etc. now face non-Canadian-owned periodicals in Canada.

Today, the relative balance between the various historic objectives of the program is unclear. Concessionary rates have been provided without any thorough recent justification and clearly some of the original motivations for these rates may have changed. This does not mean that the rates are not justified; all recent reviews, including the O'Leary Commission, the Davey Special Committee and the Applebaum-Hébert Committee,<sup>(1)</sup> have supported the principle of the reduced rates. It simply means that the grounds for their existence may have changed, perhaps substantially. It seems that as Canadians have become better educated and more affluent with access to many forms of communication media, the focus of the postal programs has in fact become shifted from the communication objective to cultural nationalism.

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<sup>(1)</sup> Federal Cultural Policy Review Committee Report, 1982



4.2.2 Other Levels of Governments

Provincial Programs in Support of Periodicals

These fall into three categories:

Direct Grants

The following is a listing of grants to artistic, cultural and literary periodicals:

Grants to Artistic, Cultural and Literary Periodicals 1981

	Total Grants	No. of Periodicals	Average Grant
Ministère des Affaires culturelles (Québec)	\$ 371,300	39	\$ 9,520
Ministère de l'Education	\$ 616,700	34	\$ 18,138
Ontario Arts Council	\$ 320,450	54	\$ 5,926
Alberta Culture	\$ 16,000	4	\$ 4,000
British Columbia Cultural Services Division	\$ 10,000	4	\$ 2,500
Nova Scotia Cultural Affairs Division	\$ 7,000	1	\$ 7,400
Manitoba Arts Council	\$ 6,000	2	\$ 3,000
Saskatchewan Arts Board	\$ 4,500	1	\$ 4,500
New Brunswick Cultural Affairs Division	\$ 1,200	1	\$ 1,200

Programs directly aimed at supporting periodical sales

Under the Ontario Half Back program, lottery tickets which failed to win prizes received a cash value of half their purchase price when applied towards, among other things, a subscription to a Canadian periodical. It has proved modestly effective in attracting readers into the marketplace.

Programs restricting alien ownership of periodicals or related industries

In 1971, the Government of Ontario passed the Paperback and Restricted Distributors Act. It provides that no corporation shall carry on business in Ontario as a distributor of paperbacks or periodicals if more than 25 percent of its beneficially held shares are in the hands of, or under the control of, non-residents (exempting corporations carrying on business before 1971).

Provincial Governments in Ontario and Quebec have provided modest support to periodicals, mainly through direct grant programs, although assistance from lotteries and restrictions on foreign ownership have also helped the industry. Other provinces and municipalities have provided only token levels of assistance.

Thus the overwhelming influence on the industry has been and continues to be the Federal Government.

4.3 Overview of Current Policies and Programs<sup>(1)</sup>

Generally speaking, there are two types of programs that have a significant bearing on the functioning of the periodical industry - 'direct' such as grants, and 'indirect' such as postal regulations. Some of these programs and policies have been directly oriented at one or more components of the periodical industry and others have been more widely aimed.

EXHIBIT 47 lists the more significant programs and the broad sectors (including readers) of the industry on which they have the most impact.

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<sup>(1)</sup> For our purposes, we use 'policy' to mean the broad direction of government objectives, goals and principles. We use 'program' to mean the specific mechanism by which these policies are implemented.

#### 4.3.1 Direct Assistance Programs

The direct assistance programs consist of grants given to publishers by various federal and provincial agencies and are important to a particular segment but are relatively insignificant to the industry as a whole when compared to the impacts of the indirect programs on the industry.

#### 4.3.2 Indirect Assistance Programs

The indirect programs targeted at the industry include: the postal rate structure and mailing regulations; income tax provisions that disallow advertising expenditures made in certain periodicals from being eligible for deductions as a business expense; and customs regulations prohibiting the importation of periodicals with certain types and amounts of advertising.

Other general programs that are more broadly oriented have a notable impact on periodical publishing. The most important of these is the exclusion of periodicals from the class of products on which Federal Sales Tax is levied. Minor impacts are felt from the Copyright Act and FIRA.

The following sections describe each program and list their main impacts on periodical publishing.

#### 4.4. Direct Grant Programs

The programs of direct assistance through federal agencies include those from the Canada Council, the Natural Sciences

and Engineering Research Council and the Social Sciences and Humanities Research Council. Ontario, through the Ontario Council for the Arts and in Quebec through the Ministère des Affaires culturelles, also have large programs. Other provinces provide minimal grants.

The programs of direct assistance through federal agencies are as follows:

The Canada Council's Program

The following is a listing of grants to artistic and literary periodicals:

Grants to Artistic and Literary Periodicals, 1981

	<u>Total Grants</u>	<u>No. of Periodicals</u>	<u>Average Grant</u>
Canada council/ Conseil des Arts du Canada	\$1,113,494	72	\$15,736

[not included in the above are:

- o a few grants to arts service organizations who publish periodicals
- o a small program of grants for promotional assistance
- o any grants received by publishers under the Exploration program or under the Individual Awards Management Training Program].

The Council's program of assistance to periodicals is designed to encourage artistic expression and foster awareness of the arts and literature in Canada. It supports the publication of periodicals which serve as outlets for artists and writers (fiction, poetry, drama or literary criticism) or which provide reflective or critical commentary on the visual or performing arts in Canada.

In this program, the Council also supports publication of children's periodicals which sustain creativity and intellectual

curiosity among children or help develop a taste for reading or the arts among the young.

The assistance provided by the Council is not intended to cover past deficits incurred by the publishers; the Council's support is made available as a contribution to the cost of the publisher's forthcoming yearly publishing schedule. Publishers are expected to generate significant revenues from sales of their issues and are invited to seek assistance from other available sources of funding. Details of eligibility, renewals, application procedures, deadlines and assessment procedures are contained in Appendix E. The impact of this program and options in the future are discussed in Section 6.

It should be noted that, in addition to its program of direct assistance to periodicals towards their publication, the Council also gives grants to Service organizations, which, in some cases, publish a periodical as one of their main activities.

The Council also has a Supplementary program of small grants, (of the order of \$5,000 to \$10,000) specifically to support promotional programs of periodicals already receiving operating support from the Council. These promotional grants are awarded by competition.

Additional programs emanating from the Canada Council potentially, if indirectly, of benefit to periodicals are the Exploration program and management training programs (through the Individual Awards Program).

The Natural Sciences and Engineering Research Council's  
Scientific Publication Grants

Scientific publication grants are intended to assist in the provision and maintenance of high quality Canadian publications for the dissemination of original research results in the natural sciences and engineering; exceptionally, these grants assist in the provision and maintenance of high quality Canadian publications for the promotion of a broader understanding of science and engineering by the Canadian public.

The Council offers grants in support of Canadian scientific and engineering research publications to assist in covering publishing costs. Applications for publication grants are reviewed in detail by the NSERC Grant Selection Committee for Scientific Publications which recommends grants in the best interest of scientific publishing in Canada. The Committee has limited resources at its disposal and all requests for financial assistance are in direct competition for funds in an assigned budget.

Further details of this program are contained in Appendix E. The impact of this program and options for its future are discussed in Section 6.

The Social Sciences and Humanities Research Council's Program

The purpose of the learned journals program is to encourage and support the publication of journals intended to communicate the results of work in the social sciences and humanities which meets the criteria of professional scholarship: in particular, competence in the subject matter and objectivity in presentation.

The Council ordinarily expects that a major objective of any journal receiving its support will be the publication of works by Canadian specialists in the field of interest covered by the journal. Applicants must therefore satisfy the Council that there is or can be, within that field, enough Canadian writing of good quality to justify the existence or the foundation of such a journal in Canada. They must also establish that there is in Canada an existing or potential public which would benefit from the circulation of the journal and would be likely to subscribe to it regularly.

In applying these considerations to proposals for new journals, the Council takes particular account of the existence of journals in the same or related fields already publishing in Canada.

Moreover, the Council in examining any request for assistance considers, as a major factor, the quality of the content as determined by scholarly criteria.

As an exception the Council considers applications on behalf of journals with a body of contributors located mainly outside the country. In such instances it must be proved to the satisfaction of the Council that there already exist in Canada, within the journal's field of interest, organized groups or study centres which have demonstrated particular competence in the field and which would regularly use the journal as a vehicle of publication. Further details of the programme are contained in Appendix E. The impact of this program and options for its future are discussed in Section 6.

In 1981 grants to scholarly publications from the NSERC and SSHRC were as follows:

Grants to Scholarly Periodicals 1981

	Total Grants	No. of Periodicals	Average Grant
Social Sciences and Humanities Research Council	\$1,496,610	99	\$15,117
Natural Sciences and Engineering Research Council	\$ 489,500	40	\$12,237
	<u>\$1,986,110</u>	<u>139</u>	<u>\$14,288</u>

Source: Statistics Canada, Catalogue 87-511, 1981

4.5 Indirect Assistance

We noted in Section 3 the restrictions in support of the Canadian periodical industry contained in the Income Tax Act, Schedule C of the Customers Tariff, and the Foreign Investment Review Act. The first two protect the industry's access to Canadian advertisers, and the third protects the Canadian control of the industry.

Two other general programs impact on the periodicals industry, an exemption from federal sales tax (F.S.T.), and the Copyright Act. Of these two programs, only the F.S.T. exemption is of major significance to the majority of the industry.

All magazines, imported and Canadian, are exempt from F.S.T., which is levied on most manufactured goods. It has been estimated that the value of this exemption, which also applies to foreign periodicals, is over \$30 million annually. The exemption is due to a significant degree to international conventions such as the



Florence Agreement (UNESCO) which promotes unrestricted trade of cultural products<sup>(1)</sup>.

We believe the exemption is a sensible one both for Canadian and imported periodicals. Suggestions have been made that the exemptions should be ended and replaced by a tax credit based on editorial expenditures of Canadian periodicals. There is, however, no guarantee that revenues derived from the tax would be used in this way. The tax would flow into general revenues and the industry would have to fight hard to obtain any corresponding benefit. If the benefit were to be based upon editorial cost, many small periodicals which rely upon free editorials would be penalized. More generally, however, we believe there is merit in a conviction that cultural products should be available as cheaply as possible. Few would wish or expect to see only Canadian periodicals in Canada. The existence of a wide range of foreign products provides coverage for subjects which have too narrow a market for a domestic publication to cover, as well as providing that difference in perspective which is essential to cultural stability.

Also, radio and television do not pay FST on the sale of airtime; any imposition of FST on the periodicals industry would alter the competitive conditions between media.

In any event, Canada's ability to change this situation is limited and the matter would not warrant further discussion except

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(1) Canada is not a signatory to the Florence Agreement but espouses most of its provisions.

for the fact that the tax cost is large, possibly in excess of \$30 million (.09 times printing value of \$312 million and other production costs of \$25 million - see EXHIBIT 13).

The Copyright Act (1924)<sup>(1)</sup>, which is sadly out of date, is currently under revision. In its present form, it gives periodical writers the right to recognition of their authorship, but little else. The writers feel that they have little negotiating room to prevent their work being stored in electronic data banks and then being accessed by users without pecuniary benefit to the writers. They are also concerned that they receive no benefit from library usage.

#### 4.6 Overview of Cost to the Government

Cost and efficiency have to be a concern to the Department particularly in light of the Government's overall budgetary deficit. The cost of federal assistance to the periodicals industry, as outlined below, is substantial. However, cost must also be related to benefits. As noted throughout this report, the Canadian periodicals industry is a cultural success, suggesting that the funds provided have been well spent.

The primary, direct costs to the government are:

- the cost of the postal support program, currently estimated at a little more than \$34 million annually (c.f. 4.2.1) plus whatever losses the Post Office may make on the service.
- the direct grant programs (discussed earlier in this section) totalling a little over \$3 million.

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<sup>(1)</sup> We note, however that the Department of Communications and the Department of Consumer and Corporate Affairs have recently released a White Paper on copyright.

The other cost to government is the exemption of the periodicals from the Federal Sales Tax. The cost of this exemption has been estimated as being in excess of \$35 million; however, we have not examined it thoroughly, since we do not think that a case can be built for imposing the tax on the periodicals industry, and in any event there is international pressure not to tax cultural goods.

#### 4.7 Overview of Cultural Concerns

When we began the study, we noted that:

- "the broad objective of this study is:  
to review federal government policies and programmes affecting the Canadian periodical industry, and to recommend modifications and/or to develop new policy initiatives where warranted".

In our proposal we suggested that two essential objectives lay behind these aims:

- "the overall cultural objective is to secure and maintain the national identity of a major portion of the periodicals industry, and to provide the Canadian reader with access to a wide range of domestically produced products;"
- the overall economic objective is to maximize the historical strength and opportunities for growth of the Canadian periodicals industry in the face of formidable obstacles, including a relatively small and widely dispersed population and intense competition from foreign periodicals."

We suggest that, really, the word 'cultural' has three different areas of meaning:

- cultural/communicative: as applied to any exchange of information.
- cultural/characteristics: as applied to the mores and ways of a people (a nation or a part of a nation), what defines them, gives them identity and character, attracts them to each other and brings them together and sets them apart from another people.

- cultural/artistic and literary: as applied to the arts, particularly the fine arts: music, theatre, dance, the visual arts, the written arts; and, to a lesser extent, the crafts; and, to some degree to scholarship and learning generally.

All three meanings have applicability to the periodicals industry.

#### 4.7.1 The Periodical as Communicator

Periodicals have many unique communicative roles. "A magazine offers itself first of all as a way of opening up intellectual or social or professional territory that otherwise would remain closed to the reader...

Beyond that, on a more sophisticated level, a magazine can be viewed as a way of focussing material that is otherwise incoherent. A good magazine first identifies a set of ideas, facts or opinions which are floated loose. The magazine assembles them, assesses them and delivers them in a coherent form to its readers..."<sup>(1)</sup>

Magazines can make this contribution because they stand in a unique position between the news media (newspapers, broadcasting) on the one hand and books on the other. If newspapers and broadcasters try to capture the information of the moment, and if books try to get down for all time the essence of history or cultural accomplishment, then magazines typically serve the mid-term...

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<sup>(1)</sup> Canadian Periodical Publishers' Association: Brief to the Federal Cultural Policy Review Committee: 1982

#### 4.7.2 The Periodical as an Expression of the National Character

Many periodicals uniquely provide a specifically Canadian environment. Private television and radio are dominated by American programming; newspapers, typically, carry large quantities of material produced by foreign wire services. Magazines, on the other hand, are in almost all cases written and edited mainly by Canadians. The degree to which a periodical is a valuable cultural asset in our second sense depends on the quality (rather than the quantity) of its editorial content. This is a matter of subjective judgement.

#### 4.7.3 The Periodical as Artistic, Literary or Scholarly Creation

Canada has a good range (over a thousand titles) of artistic, 'cultural' (in our third sense), literary and scholarly periodicals.

#### 4.7.4 The Concept of a 'Cultural Periodicals' Industry

We suggest that the primary interest of federal cultural policy is moving away from the breadth of the first definition (communicative), and more towards the second (characteristics) and third (artistic and literary) which have considerable interlinkage.

Before proceeding further to try to define government interest in these last two forms of cultural expression through the periodicals industry, it is worth taking a look at what happens in other cultural industries. When one looks at film, radio, television, music composition, writing, dance, painting, one finds a spectrum that runs from the highly commercial and profitable to the areas of

creation that have only the remotest opportunity to realize a profit or be commercial.

In other words, economics is a factor; the potential government interest in a periodical from a cultural perspective is influenced by the periodical's actual commercial success or its potential for commercial success.

The issue is partly confused by the changing tastes of the public; a highly commercial form at one time can metamorphose into being artistically (or more broadly culturally) valuable but of scant commercial potential at another time. The reverse can also happen; an obscure but culturally respected area of creation can become sought after and highly commercial.

One can only deal with the particular state of affairs that exist at a particular time.

We suggest that the government has to look at the commercial and non-commercial sectors separately; both contain potential members of a 'cultural periodicals' industry.

Within the commercial sector, the aim of the government should be:

- to ensure, if possible, that they remain commercially viable.

Within the non-profit sector, the aims of the government should be:

- to identify periodicals of particular cultural value
- to determine whether or not any have commercial viability; if so, to assist in appropriate ways in the achievement of that commercial viability.
- to determine, for periodicals which are unlikely to become commercially viable, the conditions under which assistance will be given, and the nature of that assistance.

#### 4.8 Overview of Economic Concerns

From the government's point of view, its main concern is the \$34 million that it puts out in postal subsidies each year. The question has to be asked: "is this a good use of the money?"

It is valuable to set this sum against other cultural programs such as:

a) Agencies

Canada Council  
Social Sciences and Humanities Research Council  
Canadian Radio-Television and Telecommunications Commission  
Canadian Film Development Corporation  
National Film Board  
Canadian Broadcasting Corporation  
National Arts Centre  
Public Archives  
National Museums Corporation.

b) Direct DOC Programs

#### 4.9 Overview of Targetting Problems

The chief difficulty with the postal subsidy program is that it is not easy to target support towards groups of periodicals chosen for support on cultural grounds.

The more the government moves from economic objectives to cultural objectives (particularly as it moves through the cultural objective spectrum from "communicative" to "characteristics" to "artistic and literary"), the more it is going to have to find ways of setting and implementing policy based on qualitative rather than quantitative criteria.

4.10 Limitations to Changes in Government Policy and Programming

It has to be emphasized that the government has limited manoeuverability in contemplating changes to its programs of assistance.

The postal subsidy program is so extreme that it offers virtually free mailing at the 2nd class code 3 rate and is engrained in the heart of the structure of the periodicals industry. Any alleviation of the costs of this subsidy is likely to be slow and difficult.

The protective measures (Income Tax amendments, Customs tariffs, FIRA) are needed as much as they have ever been needed to protect the Canadian advertising market for the Canadian periodical. They may be needed as well as to protect Canadian ownership of Canadian periodicals, though this is a more open policy issue.



## 5. OPTIONS FOR POSTAL POLICY AND PROGRAMS

### 5.1 Introduction

With very few exceptions, this is the dominant program from the perspective of all sectors of the industry and government. While prime focus is usually placed on the rates and regulation of 2nd Class mail and whether a periodical can obtain this rate class, the entire postal rate structure is involved.

### 5.2 Description

Briefly described - the program of 2nd class mail is a structure of rates, regulations, conditions and exclusions set and administered by Canada Post. To gain the 2nd class rate privileges, a publisher must apply to Canada Post on behalf of a particular publication and must theoretically, at least, meet a number of 'basic conditions' and 'exclusions'. These are presented in EXHIBIT 48. While the conditions appear complex, in practice most periodical publishers who are large can qualify if they are also able to devote sufficient resources to doing so and, are prepared, if necessary, to reorganize their affairs somewhat (e.g. by setting up a separate publishing subsidiary). Generally, non-publishers are excluded, with exceptions based on content. The most notable exclusion from 2nd class privileges is the non-addressed controlled circulation periodical (such as Quest). Many small publishers, as well as trade and professional associations, have also been excluded from time to time because they were unable to comply with a strict interpretation of the regulations or did not understand them well enough to use them to their advantage.

In addition to meeting these provisions, a periodical that is successful in being granted second class status must face a complex welter of mail preparation regulations regarding size, labelling, sorting, pre-packing, etc. which are somewhat more stringent than those faced by most other types of mail.

Once a Canadian publisher is successful in gaining second class reduced rate privileges, he is eligible for one of two rates:

Code 3

- if he is producing an addressed, subscription (or otherwise customer-paid) periodical, he will pay (under 2nd class code 3): 4.2¢ for a 150 gram copy (a typical weight). Most consumer periodicals fall into this category as do many cultural, literary, scholarly and religious ones.

Code 4

- if he is producing an addressed periodical for which the customer does not pay (i.e. an addressed controlled circulation), he will pay (under 2nd class code 4); 13.8¢ for a 150 gram copy. Most business publications fall into this category.

5.3 Impact

These rules may be compared with his options if he does not receive 2nd class privileges:

- if he has house-to-house unaddressed mail, he can use unaddressed 3rd class bulk mail, which has rates which, subject to negotiation depending on volume and distribution patterns, are likely to be of the order of: 11.2¢ for a 150 gram copy.
- if he has a large enough volume for a particular mailing, and it is addressed, and is prepared to accept somewhat slower service than 1st class he can use addressed 3rd class bulk mail and will pay: 30.4¢ for a 150 gram copy. The minimum volume per mailing is 5,000 pieces within a province or 10,000 pieces nationally, but interim rates can be negotiated for lesser volumes or for combined mailings of unidentical pieces.

- can use addressed 3rd class regular (which applies only to parcel shaped mail), and will pay: 64¢ for a 150 gram copy.
- the top regular rate he will pay will be 1st class, which is an addressed rate, and is: 85¢ for a 150 gram copy.
- there may be reasons why he would elect to use the 3rd class book rate which is an addressed rate and which has some content restrictions.

Thus, both class and rate code within 2nd class are important factors in varying mailing costs.

- a Canadian publisher mailing a 150 gram periodical may have a rate which is more than twenty times the rate paid by another publisher with a different kind of 150 gram periodical.
- even within the 2nd class rate structure, mailing costs for a Canadian publisher for a 150 gram periodical can vary between 4.2¢ and 13.8¢.

Weight can also have a significant impact on total cost (except in 2nd class code 3 and 6) as shown in the following table.

IMPACT OF WEIGHT ON MAILING COSTS

	<u>100 gram</u>	<u>200 gram</u>
2nd class code 3	4.2¢	4.2¢
2nd class code 4	10.1¢	17.5¢
2nd class code 5	18.2¢	32.2¢
2nd class code 6	5.3¢	5.3¢
3rd class bulk unaddressed	9.3¢	13.1¢
3rd class bulk addressed	22.1¢	38.7¢
3rd class regular addressed	48.0¢	80.0¢
1st class	64.0¢	106.0¢

A non-Canadian publication which is successful in qualifying for second class reduced rates is eligible for one of two rates (Codes 5 and 6):

- if it is an addressed, not printed in Canada, subscription (or otherwise customer-paid) periodical and mailing it in Canada, it will pay (under 2nd class code 5): 25.2¢ per 150 gram copy.

- if it is an addressed, printed in Canada, subscription periodical and mailing it in Canada, he will pay (under 2nd class code 6): 5.3¢ per 150 gram copy.

The non-Canadian publisher must, of course, meet the same basic conditions and exclusions as Canadian publishers.

These two rates for non-Canadian publications are currently being phased out.

A foreign publisher who does not qualify for reduced rates will pay the same rates as a Canadian publisher who does not qualify.

The program of reduced 2nd class rate privileges has a very significant impact on the consumer periodical sector.

According to our survey, the average periodical has a gross profit of about 3-5% of revenue, (with a lower net profit). Coincidentally, costs of mailing periodicals for large circulation periodical is about the same level. If there were to be no subsidy for consumer periodicals, rates would have to rise at least three times (even if we ensure that unsubsidized rates stay as low as those paid by unaddressed controlled circulation consumer publications). Thus, unless there were to be significant changes in prices or advertising rates most periodicals would operate at substantial loss without subsidized rates. We discuss below the prospects for changing prices and advertising rates.

Under the program, most consumer periodicals receive the 2nd class rate code 3. This rate has a different effect on the expenses of different periodicals, depending mainly on the circulation size of each issue as shown in EXHIBIT 49 for paid circulation

periodicals. For the smallest periodicals, mailing costs are insignificant, accounting for only 0.2% of total costs, whereas for the largest periodicals, mailing costs account for 5%. It will be noted that other postal costs, for promotions and renewals are, in all cases, in excess of the mailing cost to subscribers.

For a typical consumer, non-addressed, controlled circulation high volume consumer periodical, which does not qualify for 2nd class reduced rate privileges, high delivery costs are offset by the lack of postal costs related to promotional and renewals mailing.

The table below shows the cost breakdown for an unaddressed controlled circulation periodical with a circulation of 300,000 per issue:

Cost of Mailing for an Unaddressed Controlled Circulation Periodical

Cost of mailing by	
3rd class unaddressed bulk:	12%
Other:	88%
Total:	<u>100%</u>

Source: Woods Gordon interviews and survey-questionnaires

If subscription periodicals did not have 2nd class Code 3 rates, the percent of their budgets taken up by periodical mailings would rise from a current 0.2 percent to 5 percent (depending on circulation) to: (adjusting for a new expense total)

- 4 percent (for low-volume periodicals at 1st class rates), or:
- 16 percent (for high volume periodicals at 3rd class bulk addressed), or:
- 55 percent (for high volume periodicals at 1st class).

We estimate that consumer subscription periodicals derive more than 90 percent of the benefits of the reduced 2nd class rates that apply to periodicals, including codes 3, 4, 5 and 6. Of this benefit high circulation periodicals (such as Maclean's, Chatelaine, Time, Reader's Digest, and TV Guide) would receive very substantial benefits as shown in EXHIBIT 50.

It should also be noted that foreign periodicals, either mailed in Canada or printed and mailed in Canada, receive concessions under the 2nd class system approaching \$8,000,000,<sup>(1)</sup> and that one periodical, Time, accounts for nearly half of this.<sup>(2)</sup>

The program of reduced 2nd class rate privileges has a very significant impact on the business periodical sector. This is the most substantial sector of the periodicals industry, after the consumer sector, consisting of business, trade, technical and professional periodicals, agricultural periodicals and business newsletters.

About a third of business periodicals titles are paid circulation, or 600 titles accounting for about 15 percent (1,152,500) of single issue copies. We estimate that nearly all of these receive 2nd class code 3 benefits. The others fail on some ground of eligibility, such as ownership, frequency, volume of advertising, etc.

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<sup>(1)</sup> Calculated on a somewhat different basis to the earlier estimate of the order of \$34 million in revenue foregone by the Post Office to provide reduced rates (that is, no elasticity of usage has been calculated).

<sup>(2)</sup> This concession will end within the next few years as a result of the July, 1983 Federal Government decision.

The effect of the 2nd class code 3 rate program varies by size of circulation in a manner similar to that for consumer periodicals.

Two-thirds (1,200) of business periodical titles, or 85 percent (132,600,000) of total business periodical copies in a year, are controlled circulation addressed. The effect of the 2nd class code 4 programme on these is substantial, since more than 50 percent of these controlled business publications use 2nd class code 4 - non-subscription addressed (the others use 3rd class or 1st class). These periodicals do have some list maintenance expenses, and the breakdown of their postal expenses, as a percentage of their total expenses for a typical periodical, is as follows:

Mailing Costs as a Percentage of Total Cost  
for Addressed Controlled Circulation Periodicals

Cost of mailing by 2nd class	
Code 4 addressed:	8
Other:	92
Total	<u>100 %</u>

Source: Woods Gordon Survey and interviews.

We note that:

- the single issue volume for a typical business periodical is much less than that for a typical consumer periodical
- unlike the situation in the consumer periodicals sector, there is no small group of business periodicals receiving the major part of business periodical reduced 2nd class rate benefits.
- since Code 4 rates are so much higher than Code 3, the subsidy, if any, for much of the business press is much less significant than for other sectors.
- unlike the case for consumer periodicals, there is no large presence of foreign business periodicals, although there is no guarantee that this will not change.

Most established or well-organized cultural periodicals receive the 2nd class code 3 rate as addressed, paid circulation periodicals, although they may lose such privileges from time to time due to inability to conform to the regulations.

The effect of the rate, by circulation, is similar to that for low-circulation consumer periodicals, i.e. it represents an extremely small part of the budget of these periodicals. It also represents a very small part of the overall 2nd class subsidy by the Department of Communications. The total expenditure on postage for mailing by all artistic, cultural and literary periodicals in Canada is less than \$400,000 a year.

However, nearly all of these periodicals would not have the volume to qualify for any 3rd class bulk rates. Every now and then, one runs afoul of the stringencies of Canada Post, and is forced either to attempt to get 3rd class book rates or has to mail at 1st class. The extra cost to small cultural periodicals if they had to mail at 1st class rates would be in the order of \$6,000,000 a year, and the effect on their budgets traumatic.

Most scholarly journals receive the 2nd class code 3 rate as addressed, paid-circulation periodicals. The effect of the rate, by circulation, on their budgets is similar to that for cultural periodicals.

A majority of religious periodicals receive the 2nd class code 3 rate as addressed, paid - circulation periodicals. Their circulation varies from very small to very large. The impact of postal rates on their budget is similar to that for consumer periodicals.



Religious publications are also little affected for the most part because of low circulation. However, two religious publications, the United Church Observer and the Watchtower, which are both very large, do receive very large benefits (now being phased-out for Watchtower).

The postal subsidy has distorted the choice of distribution by the industry. It could be argued, for example, that the reason Canadian periodicals do relatively well at subscription sales and relatively poorly on the newsstands is that the second class rates have pulled the industry towards subscription sales and away from newsstand sales. Perhaps, if substantial financial incentives had existed to obtain newsstands sales over the past twenty years, combined with high periodical postage mailing rates, we might have seen a greater presence of Canadian periodicals on the newsstands and less subscription sales.

In summary, the existence of 2nd class Code 3 is of immense importance to eligible periodicals. The level of benefit compared to alternative rates is immense. The lion's share of the benefit falls to the mass circulation consumer periodicals and, to a lesser extent, business periodicals. Benefits of the 2nd class program to small periodicals, even if they qualify, are small in total dollar volume, though not on a per-piece basis. The benefit of 2nd class code 4 is more difficult to substantiate. We believe a benefit does exist although it is unquestionably smaller than for code 3. Of course, in the absence of true costs of postal operations the existence and amount of subsidy for any code of 2nd class cannot be

accurately estimated. However, we are convinced that some subsidy exists or that other mail users (such as unaddressed controlled circulation periodicals) are grossly overcharged.

Many in the industry and, indeed, the Applebaum-Hebert Committee, contend that it is the reader who is the prime beneficiary of 2nd class postal rates. In our view, the benefit is split about evenly between publisher and reader. If, as some contend, only the reader benefits, then the abolition of 2nd class rates would have little impact on publishers -- a state of affairs with which few in the industry would agree. Should 2nd class rates be abolished we would anticipate a number of impacts. First, subscription rates would increase, although likely by less than the postal rate increase; thus, readers would be hurt. U.S. studies<sup>(1)</sup> suggest that the price elasticity of periodicals is low -- but if this is so the question arises as to why more periodicals do not put up their prices in any event. Second, advertising rates would increase although, as noted earlier, we were not permitted to investigate this aspect. The industry contends that such increases would cause them difficulties because of the competition from other periodicals and other media. In our view, competition from other unsubsidized periodicals, including controlled circulation magazines, would be somewhat offset by the fact that the vast majority of publications would be affected and, therefore, each would raise prices and rates, in much the same way as they cope with other cost increases, such as paper costs.

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<sup>(1)</sup> See U.S. Industrial Outlook, 1983, U.S. Department of Commerce, and Folio, September 1983.

Another impact on readers of higher postal rates could be conversion of some subscription magazines into unaddressed controlled circulation ones. We do not feel this would occur in many instances, but to the extent that it does, some existing readers would be removed from the circulation list.

Another possible impact is that subscription magazines would seek to purge their subscription lists more vigorously of readers who do not match their advertisers' requirements, since publishers would likely wish to reduce the volume of mailings. The purging would likely result in increased concentration of promotional efforts in urban areas among more affluent readers.

Concerns for the readers' plight has to be tempered by several considerations. First, on the whole, readers of periodicals are more affluent than the population at large and can likely afford to pay higher prices should this prove necessary. Second, with increased affluence and the expansion of modern communications, few readers lack access to other media, or to periodicals (through libraries). In other words, the original motivation for concessionary rates (communication) is now much weaker than it once was.

#### 5.4 Postal Policy

The major options available in regard to postal policy relate to changes in rates and eligibility. Minor matters involve adjustments to the administration of the postal regulations and the undertaking of a cost study.

However, before discussing each option and its relative merits, it is appropriate to ask whether government should not have clearer objectives for postal policy. As has been stated earlier, the motives behind the policy have changed over time but these changes are not necessarily reflected in the eligibility criteria.

Structure of postal rates, eligibility conditions and regulations are deeply engrained in the Canadian periodicals industry. The historical pattern that has embedded itself in the industry in the years since the first Postal Act in 1875 has, as stated above, probably made it impossible ever to completely remove the reduced 2nd class rates. The 2nd class Code 3 rate in particular is so low that it is virtually a free rate. Contemplation of programs involving percentage increase in the rate is difficult, since one really needs hundred of percentages of increases for the rate to begin to approach what are the probable costs of the Post Office.

#### 5.5 The Broad Range of Options in Regard to Postal Rates

The options really are:

- i) - to make no change in postal rates (other than inflationary increases)
- ii) - to make some increases in rates, primarily for the motivation of reducing the amount of government subsidy, secondly to introduce more economic equity into the market place
- iii) - associated with ii), to make specific changes in the relationship between rates to favour a particular cultural policy thrust
- iv) - to make radical changes in postal rates, primarily for the motivation of making drastic reductions in the amount of government subsidy.

### 5.5.1 Maintaining the Status Quo

If the Government were to make absolutely no change to the status quo (other than to phase-out mailed - in - Canada and printed - in - Canada rates, as has already been announced), it is unlikely that any significant established periodicals would go under in the next 5 years.

Canadian consumer magazines, by far the largest part of periodical circulation (if one excludes TV and Radio periodicals), have a healthy (75 percent) share of all sales of foreign and Canadian consumer periodicals in Canada. When one look at share on a channel-of-distribution basis, one finds that Canadian consumer magazines have a large share of subscription sales (59.3 percent of single-issued copies sold by subscription in Canada), and an overwhelming share of controlled circulation sales (in excess of 95 percent), but only a 23 percent share of single copy (newsstand) sales. Newsstand sales are clearly the Achilles heel of Canadian consumer magazine sales. However, there has been a mild increase in the percent of Canadian periodicals on the newsstand over the past eleven years; it rose from 20.4 percent in 1971 to 23.0 per cent in 1981. Newsstand sales are thus slightly less of a problem than they were 10 years ago. Clearly, Canadian periodicals are becoming a little more competitive than they used to be on the newsstands. Overall, the annual sales of Canadian consumer periodicals that the members of ABC have risen from 59 million copies in 1971 to 72 million in 1981.

In terms of viability as a whole, there are indications that the industry is a growing one. Along with the television industry, the periodical industry has increased its share of net advertising expenditures in Canada over the past decade (the losers have been newspapers and outdoor signs, while radio has held a fairly even relative position). Industry specialists say that periodicals as a whole, especially special interest periodicals, have a strong future.

Within the industry, the major shift has been away from foreign periodicals, in terms of type of periodicals, and towards controlled circulation, in terms of type of distribution, although it should be noted that the largest firm in the business, Maclean Hunter, has steadily increased its share of market compared to other large firms, despite the fact that all its consumer periodicals are subscription magazines. Its increased share, however, is largely explained by the acquisition of periodicals and transformation of Maclean's to a weekly magazine.

Thus, the reduced rate status quo poses no threat to the industry, or any part of it. There are, in summary, powerful arguments for a no-change policy:

- it is the least disruptive policy. Any major increase would seriously affect the present competitive balance between subsidized and unsubsidized media
- the industry's ability to bear significant increases is uncertain
- the existing policy has worked well in producing a cultural industry that is substantially Canadian in both ownership and content, something that has not been achieved in any other major cultural sector

- since the true costs are presently unknown, an appropriate level of increase cannot be established. Any significant increase might be too high, especially for 2nd class code 3, and perhaps for 2nd class code 4
- much of the industry would be content with a policy of maintaining the status quo.

#### 5.5.2 Making Some Increases in Postal Rates

Against the status quo backdrop, several points of concern exist from the point of view of the government.

First, we believe that there is little doubt that the Federal government is substantially subsidizing second class mail. (See section 3.8.3)

The Federal Government has to be concerned about justifying any program involving large subsidies, and therefore has to be concerned about the rationale for the 2nd class rates.

Second, the volume of Federal support has burgeoned, particularly in the last few years. When one compares the volume of periodicals now receiving support under the 2nd class rates, and the degree of that support, we find that the growth of Federal subsidization has been far faster than the growth of the industry, however it is measured.

What began many years ago as a relatively simple attempt by the Canadian government to assist in the distribution of relatively few periodicals (Canadian and foreign) by giving them advantageous postal rates has now become an extremely complex and extremely expensive flow of Government support to a substantial industry.

Transfers from the Department of Communications to the Post Office now represent an extremely large annual subsidy of tens of

millions of dollars through its transfer payments to the Canada Post Office. The Department needs to know if it is really necessary to maintain these transfers or, alternatively, whether there is a more effective way of using this money on behalf of the periodicals industry.

Third, and part cause of this, reduced 2nd class rates have failed to grow at anything like the rate of growth of unsubsidized Post Office rates (i.e. 1st, 3rd and 4th class rates).

Fourth, the ability of the Federal Government to focus effective support on any particular sector of the periodicals industry is severely limited due to the outdated framing of the conditions, exclusions, rates and regulations that make up the reduced second class rates.

Fifth, there is some evidence that the postal subsidy has distorted the choice of distribution by the industry.

Sixth, there is clear evidence that the smallest and most needy periodicals benefit least from the subsidies. This is just one of the effects of the reduced second class rate system that goes beyond simply subsidy. The subsidy system still also substantially benefits foreign periodicals; the government has recognized this through its commitment to phase-out the subsidies for mailed-in-Canada and printed-in-Canada postal rates.

A seventh aspect of concern for the Government is the practical difficulty of making any changes. Because the subsidy has been in place for a long time, to alter it significantly will be difficult. The industry is a complex one, made up of many types of



activity, and interacts with a host of economic and cultural activities and industries needed to create, produce, distribute and use periodicals. Particular patterns of product, growth and sales have developed over the years. All the parts of the industry, moreover, compete to a greater or lesser degree - for example, with newspapers, radio, television and outdoor signs for advertising, with many industries for paper, and so on. Changes in postal sales are likely to ripple through large parts of the industry. Also, in some instances - rural Canada for example - the Post office is the only realistic distribution link possible.

The eighth concern for the government, and the one that we believe is the most serious, follows from this: it is that the system of reduced 2nd class rates, as it now exists, is no longer an effective instrument whereby the government can pursue any clear economic, communicative or cultural goals in the periodicals industry.

Under the status quo, the role of the government is limited to letting the industry grow in whatever way it wishes, which may not be in accord with the cultural policy aims of the government.

From the point of view of the industry, the reduced postal rates are seen as a mixed blessing.

The very substantial reductions in postal rates are accompanied by complex and frustrating mail preparation and pre-sortation requirements.

The industry also questions, as we have mentioned, whether or not the reduced second class rates are indeed a subsidy or whether they are in fact much closer to the Post Office's true cost of doing business than it admits.

Also of concern for the industry, or for sections of the industry, is the present status of criteria whereby some periodicals receive second class rates and some do not. These concerns exist on two levels:

- a major concern exists in that subscription periodicals receive a second class rate and controlled circulation periodicals do not.
- a minor but serious concern exists in that many of the judgments made as to whether a particular periodical receives second class status or not are arbitrary, are made against the backdrop of overly complex and illogical regulations, and are made by officials with no understanding of or particular interest in the overall economic, social and cultural intent of the second class rates.

And while the present rate structure has permitted the industry as a whole to flourish to a modest degree and has also permitted the slow but steady increase in the share of periodicals market in Canada occupied by Canadian periodicals, it has substantially distorted the structure of the Canadian periodical industry, particularly in its choice of method of distribution.

We suggest that any moves in the near future to increase the subsidized postal rates over and above the inflation rate ought to have three objectives in mind:

- they ought to bring the rate structures closer to a cost base
- they ought to be done carefully, by stages, with considerable monitoring as to the impact on the health of each segment of the industry
- they ought to keep in mind the different rates that now exist, by sector, for periodicals that are competing against each other in that sector.

5.5.2.1 Equalizing 2nd Class Codes 3 and 4 Over 10 Years

One such pragmatic course of action toward removing the contradictions in the postal structure would be by:

- a) freezing the amount of the total government subsidy in real terms, and
- b) equalizing 2nd class code 3 and 2nd class code 4 over 10 years.

If this were done, one might follow the following course of action in modifying the existing 2nd class code 3 and 2nd class code 4 over 10 years:

1. Some assumption would have to be made as to the current real total cost to the Post Office of delivering a piece of 2nd class mail (of a certain weight and specification: different rates would apply to different weights and specifications, much as at present).
2. An assumption would also have to be made as to the current amount the government is paying, through DOC and through other subsidies to Canada Post, towards the cost of the delivery of that piece of mail<sup>(1)</sup>.
3. The difference between 1. and 2. is then the amount of additional revenue for that piece of mail that has to be earned from its customers by the Post Office.

If one chooses to maintain this net revenue needed by the Post Office, allowing for its increase with inflation, the objective, under this option, then becomes to equalize both the 2nd class code 3 and the 2nd class code 4 rates, in a manner which achieves this, over 10 years.

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(1) Other subsidies could be reduced and cost savings incurred by the CPC; as long as these shifts cancel each other out, it will not change the net position as discussed here.

The following Table carries out this exercise. It assumes (as a hypothetical estimate):

- a real total postal cost in 1983 of 54.0¢ per typical piece of 2nd class code 3 or 4 mail
- a real total subsidization by the federal government in 1983 of 45.0¢ per same typical piece
- the difference being the net revenue needed by the Post Office.

Hypothetical Move Towards a Single 2nd Class Addressed Rate Over 10 Years

Scenarios	<u>¢ / 150 Gram Copy</u>										
	<u>83</u>	<u>84</u>	<u>85</u>	<u>86</u>	<u>87</u>	<u>88</u>	<u>89</u>	<u>90</u>	<u>91</u>	<u>92</u>	<u>93</u>
1. Real total postal cost (assumes 10% inflation)	54.0	59.4	65.3	71.8	79.0	86.9	95.6	105.2	115.7	127.3	140.0
2. Real total postal subsidy (assumes 10% inflation)	45.0	49.5	54.5	60.0	66.0	72.6	79.9	87.9	96.7	106.4	117.0
3. Net revenue needed by the Post Office	9.0	9.9	10.8	11.8	13.0	14.3	15.7	17.3	19.0	20.9	23.0
<u>2nd Class Code 3:</u>											
4. a) adjusted to equal 2nd class code 4 over 10 years	4.2	4.5	4.8	5.0	5.3	5.6	5.8	6.1	6.4	6.7	7.0
5.b) adjusted to equal net cost to the Post Office over 10 years as well	4.2	5.0	6.0	7.0	8.4	9.9	11.7	13.9	16.5	19.5	23.0
<u>2nd class code 4:</u>											
6.a) adjusted to equal 2nd class code 3 over 10 years	13.4	12.7	12.0	11.4	10.7	10.0	9.4	8.7	8.0	7.5	7.0
7.b) adjusted to equal net cost to the Post Office over 10 years as well	13.4	12.4	11.8	11.3	11.8	12.2	13.2	14.7	16.8	19.6	23.0

The effect of this is, over 10 years, to double, approximately, in real terms the 2nd class code 3 rate compared to what might be expected if rates were only adjusted by inflation:

	¢ / 150 Gram Copy										
	83	84	85	86	87	88	89	90	91	92	93
2nd class code 3 as per preceding proposal	4.2	5.0	6.0	7.0	8.4	9.9	11.7	13.9	16.5	19.5	23.0
2nd class code 3 at 10% inflation	4.2	4.8	5.3	5.8	6.4	7.0	7.7	8.5	9.3	10.2	11.2

and to drop by 30 percent, approximately, in real terms the 2nd class code 4 rate compared to what might be expected if rates were only adjusted by inflation:

2nd class code 4 as per preceding proposal	13.4	12.4	11.8	11.3	11.8	12.2	13.2	14.7	16.8	19.6	23.0
2nd class code 4 at 10% inflation	13.4	14.7	16.2	17.8	19.6	21.6	23.8	26.2	28.8	31.7	34.9

The net result of such an exercise would be a single periodical 2nd class rate, related more rationally to costs than today's rate.

Other adjustments would of course come into effect for such influences as:

- the size, shape and weight of the periodical
- (perhaps:) the volume of individual mailing and the concentration of mail delivery
- changes in the real total postal cost other than due to inflation.

Under this option, there is an increase in the economic viability of controlled circulation periodicals and a decrease in the economic viability of paid circulation periodicals (assuming that no other counterbalancing programmes are introduced by the government):

- periodical mailing costs for paid circulation periodicals will rise from 6 percent of the budget to 12 percent of the budget for large circulation periodicals (less for smaller circulation)
- periodical mailing costs for controlled circulation periodicals will drop from about 12 percent of the budget to about 10 percent of the budget.

The two key questions are:

- is this change in the relative position of paid circulation periodicals and controlled circulation periodical competitively significant?
- if it is, does it matter?

The "swing" in percentage of the publisher's expense budget is about 8 percent (6 percent up for large consumer paid circulation periodicals, 2 percent down for large controlled circulation periodicals).

Neither side of the industry is believed to be comfortably profitable; estimates of industry profitability over the last ten years suggest that revenues exceed expenses by about 5 percent on average.

Thus, the "swing" of about 8 percent represents, approximately, one-and-a-half times the profitability of a typical publisher. It is, therefore, a serious matter.

The premise, nevertheless, is that, although we accept both the present existence of a substantial subsidy and of the need to maintain most of the effect of it for some considerable time to come,

there has to be a compromise way of producing a simpler rate structure, that perhaps reduces the extreme nature of the rate differentials over time, but which does not destroy the health or prospects of any part of the industry.

5.5.2.2 Moving 2nd Class Code 3 Towards 3rd Class Bulk Unaddressed and Moving 2nd Class Code 4 Towards 3rd Class Bulk Addressed

If rate increases are made over and above inflation, a milder, and competitively better, option may be as follows (looked at by sector):

Consumer Sector

The rates of major usage and minor usage available are:

- major usage: 2nd class Code 3: 4.2¢/150 g copy:  
paid subscription periodical
- major usage: 3rd class bulk unaddressed: = 11.2¢/150 g copy:  
controlled circulation periodical
- minor usage: 1st class: 85¢/150 g copy: paid subscription  
periodical.

Perhaps a practical option is, assuming that all non 2nd class rates increase with inflation, to increase the 2nd class Code 3 rate by the same absolute dollar amount by which the 3rd class bulk unaddressed rate increases. This is a pragmatic approach to increasing the rate. It means that, at 5 percent inflation, the real increase in the 2nd class Code 3 rate over 10 years would be 65%:

1: 3rd class bulk unaddressed now	: = 11.2/150 g copy
2: 3rd class bulk unaddressed after 10 years @ 5%	: = 18.2
3: Absolute increase in 3rd class bulk unaddressed after 10 years @ 5%	: = 7.0
4: 2nd class Code 3 now	: = 4.2
5: 2nd class Code 3 after 10 years @ 5%	: = 6.8
6: 2nd class Code 3 plus 3	: = 11.2
7: 6 minus 5	: = 4.4
8: 7 as a percentage of 5	: = 65%



It also has the advantage that in time, the 2nd class Code 3 rate will rise to equal the rate with which it is most competitive. Several comments are in order:

- we are of the opinion that the government needs a program of increasing the 2nd class rate which it can use continuously. This option is amenable to such a use. The increase in 2nd class rates by the same absolute amount as for the 3rd class bulk unaddressed can be tried for one, two or more incremental moves. If problems begin to occur in the industry, it is unlikely that they will be of a magnitude that cannot fairly easily be rectified by a cessation of the policy.
- it does represent a simple formula approach that is easily applied.
- we realize, of course, that the real cost of 2nd class Code 3 service is probably much greater than that of 3rd class bulk unaddressed. All this option does is redress some of the cost inequity.

Business Sector

The rates of major usage and minor usage available are:

major use: 2nd class Code 4	: = 13¢/150 g copy
significant use: 2nd class Code 3	: = 4.2¢/150 g copy
major use: 3rd class bulk	: = 30¢/150 g copy addressed
very minor use	: = 85¢/150 g copy

One potentially practicable strategy would be to increase 2nd class Code 4 rates by the same absolute amount that the 3rd class bulk addressed rate increases. This would mean that, at 5 percent inflation, the real increase in the 2nd class Code 4 rate over 10 years would be 89%:

1: 3rd class bulk addressed now	: = 30¢/150 g copy
2: 3rd class bulk addressed after 10 years @ 5%	: = 48.9
3: Absolute increase in 2	: = 18.9
4: 2nd class Code 4 now	: = 13.0
5: 2nd class Code 4 after 10 years @ 5%	: = 21.2
6: 2nd class Code 4 plus 3	: = 40.1
7: 6 minus 5	: = 18.9
8: 7 as a percentage of 5	: = 89%

It also has the same advantage that the corresponding consumer option has, of eventually eliminating the 2nd class rate.

Artistic and Literary Sector, and Scholarly Sector

Any actions the government takes in regard to the postal rates enjoyed by periodicals in these sectors does not represent a very significant financial programme for government compared to the number of titles involved, the annual number of single issues circulated and the cultural and intellectual importance of these sectors.

We suggest that:

- either the government follow the same course as for consumer periodicals (the financial effect on both the government and the periodicals is negligible) described above, and, if necessary, compensate some or all of the periodicals involved with direct grants.
- or the government remove all these periodicals from reduced rates and compensate them for having to pay 1st class rates with direct grants. (The reason for doing this would simply be to try and get low-circulation periodicals out of the reduced postal rates system purely for reasons of administrative streamlining).

5.5.2.3 Summary

In summary, there are strong arguments in favour of a cautious policy of increasing rates (i.e. arguments against the status quo) which are:

- increasing rates could reduce costs to government (including the department and the post office)
- there would be greater equality of treatment between similar publications
- rates would more nearly reflect cost.

### 5.5.3 Cultural Implications of Rate Changes

The first argument is that all commercial periodicals are basically funded by advertising dollars.

Controlled circulation periodicals are virtually entirely funded by advertising dollars.

Subscription periodicals often spend as much, or nearly as much, getting and maintaining subscriptions as they receive in revenue from subscribers, so the net revenue contributed from subscription to the editorial, publishing and distribution costs are slim.

Further, subscription periodicals are, by and large, no better in editorial content, either in quantity or quality, than controlled circulation periodicals. Readership tests done by such organizations as PMB (the Print Measurement Bureau) suggest that controlled circulation periodicals compete well for readership with subscription periodicals.

Further, the Government has no business influencing the choice of distribution methods of publishers.

Controlled circulation publishers maintain that they prefer, in principle, to mail controlled addressed mail rather than controlled unaddressed mail; the only thing holding them back is the cost of 3rd class bulk addressed mail. A major controlled circulation publisher maintains that, if he was given a significantly lower rate for controlled addressed mail rate, he would switch to controlled addressed mailing. This would both give him more control over who

received his periodicals and would permit him to remove those who did not want to receive his periodicals from their list, something he cannot do using controlled unaddressed distribution.

The second argument is a cultural one, and centres on certain qualitative assumptions.

Over recent years, the fight to develop a distinct Canadian culture or family of cultures has intensified. Significant moves on the part of the Federal Government to concern itself with Canadian culture on a broad scale really began with the founding of the Canada Council in 1957 as a result of the findings of the Massey - Lévesque Commission. Since that commission, a number of other public bench marks - the Grattan O'Leary Commission, the Davey Special Committee among them - have concerned themselves with an increasing Canadian ownership presence and quality in the periodicals industry.

In most areas of cultural endeavour, there are several principles behind government aid:

1. The government helps enterprises that are Canadian-owned and controlled
2. The government is concerned that Canadian content is as pervasive as practicable throughout all areas of the enterprise
3. The government is concerned to see that Canada benefits from cultural products that are reflective of a clear, in-depth facet of the Canadian experience, that have a profound sense of individuality, that are recognizable by others as unique and valuable and distinctly Canadian
4. The government is concerned that activities representing the pursuit of excellence in the areas of the arts and literature and scholarship be encouraged.

For a long time, Canada was dominated by foreign periodicals, with their reflections of the character, values and preoccupations of other societies - of one other society in particular, the United States of America. Increasingly, subscription consumer periodicals have grown to take a more and more significant place in the consciousness of Canadians. However, with the possible exception of Maclean's, this Canadianization of the consumer periodicals market is only part way to maturity. Periodicals such as Time, National Geographic, Newsweek, and Sports Illustrated, still play a major role in the market place.

Two relatively recent events add a new dimension to the consumer periodicals industry. The first is the advent of mass distributed controlled circulation periodicals. The second is the very recent formation a few months ago of the Canadian Magazine Council, representing some 12 subscription consumer periodicals.

Each of these events has the potential to have a profound influence on cultural communications between Canadians. The question is, what role should the government play in what is unquestionably a fierce contest between the two. The Canadian Magazine Council argues that its method of taking the periodicals industry into the future by relying on the development of substantial subscription audiences is the more deserving of Government support. It agrees that subscription periodicals get little net revenue from the development of subscription (it has some ideas as to how the government could deal with that, which we discuss elsewhere under options for promotional aid), but believes that the fight to get and

maintain subscribers has a profound effect on editorial content. It agrees that a number of practices - such as the giving away of non-inexpensive items as inducements to take out a subscription, of hard-selling and of keeping subscribers on the mailing list for a periodical for some time after the subscription has lapsed - make it sometimes less than automatic that a reader has bought a subscription because he really wants the periodical. But they note that the long term health of a paid circulation periodical ultimately depends on keeping significantly more than half of your subscribers at renewal time. They also note that paid circulation periodicals are truly available to all Canadians, wherever they live, at the same price. Controlled circulation publishers, although they offer to make their product available to readers outside their controlled circulation target zones at special rates, nevertheless could not give it to these readers for free as they do to readers within their normal distribution areas. And they emphasize that the reader makes a much clearer decision in indicating that he wants the periodical, in the case of a paid-circulation periodical, than he does for a controlled circulation periodical.

We note, as a side comment here, that in all cases where the government is aiding an arm's length developer and/or communicator of cultural material, the government sets great store in the preparedness of consumers to pay to receive the product. Whether it is dance, theatre, opera, symphony concerts or book publishing, the extent of performing event tickets sold (as opposed to "papered") or books sold (as opposed to given away) is a primary indicator of the

health of that cultural endeavor and, after it has reached a certain degree of maturity, its worthiness of receiving federal support. And in the few cases, where the public receives the product for free, or frequently for free, as in the case of CBC or NFB for example, the Government aids the cultural/communications institution solely to lessen or entirely remove the influence of advertising or other commercial forces over the product.

Federal support for controlled circulation periodicals would fit into neither of these categories.

There is one other thing to be said in defence of the current special status of paid circulation consumer periodicals, and it comes about because of the particular stage of evolution that Canada has reached culturally. An ideal to be aimed at for Canada is that of a diverse and flourishing periodicals industry - much of which can now be said to exist - but within which a very small number of periodicals have risen to such a degree of acceptance that they become universal symbols of Canadians themselves, in the way that Time or The New Yorker do for the United States or that Punch or The Economist do for the United Kingdom. Such periodicals, it is believed by such publishers such as the Canadian Magazine Council, are much more likely to emerge from a carefully built subscription base than they are from the totally advertiser-dominated controlled circulation base. Moreover, the formation of the Canadian Magazine Council, containing as it does such periodicals as Equinox, Saturday Night and Harrowsmith, periodicals which (unlike the vast majority of periodicals in the Canadian Periodical Publishers' Association) are

commercially viable but which also have built a very high level of genuinely original values that can be recognized as having a distinctive Canadian character . It is a serious step in the development of the industry towards meeting such goals.

We recognize the difficulty and dilemma of making a judgment between these two kinds of argument. We note that the present system of reduced second class postal rates, however economically inequitable, is sufficiently broad to allow the emergence of such periodicals as Equinox, Saturday Night and Harrowsmith on a self-sufficient basis, with the possibility that one or more of them, or Maclean's or some other existing or as yet un-created Canadian periodical may grow to great quality, stature and recognition, while being eccentric enough to exclude controlled circulation periodicals.

It may be that controlled circulation periodicals, regardless of economic fairness or unfairness, do not need reduced 2nd class rates, and that to give them postal rates closer to those enjoyed by subscription periodicals might threaten the viability and growth of ultimately more important periodicals.

Thus there is no simple answer as to whether it is or is not desirable to move to a simpler, more cost-based set of subsidized postal rates which removes or lessens the differential between paid circulation and controlled circulation periodicals. It very much depends on your cultural point of view.



In support of this line of thinking, we note the following recommendation from the Applebaum - Hébert Report:

Recommendation

52. The federal government should enlarge its commitment of support for Canadian magazines through both the Canada Council and the Department of Communications. The Council should establish a two-pronged system of grants based on the twin elements of content and demand, similar to the redesigned subsidy program already outlined for book publishing. The department should initiate an economic development program for the magazine industry similar to the one recommended by this Committee for book publishing.

If the Government wishes to strengthen its commitment to the cultural development of periodicals, both in the commercial and in the non-profit sector, this is a valid option to consider.

5.5.4 Changing the Postal Rates Drastically

The 2nd class rate system, as it now exists, is complicated, and has many features which are not justifiable economically and which may not be justifiable culturally.

Nevertheless, the existing subsidies are almost certainly needed, at least in the short and medium terms. Estimates of profitability in the industry vary, but around 5 percent is widely quoted as a percentage of revenue or expenses.

Since periodical mailing costs represent about 6 percent of expenses for a typical high-circulation periodical, an increase of rates by 620 percent to the lowest non-subsidized rate (the 3rd class bulk addressed rate) would mean that periodical mailing costs would increase to about 35 percent of expenses (adjusted for the new total expense level), an increase wiping out its profits nine times over.

The immediate removal of all second class reduced postal rates would have a traumatic effect on the industry. The industry as a whole exists in an extremely competitive advertising market, which is more than ever sensitive to the cost per thousand of reaching readers, and would probably lose ground to other media. The part of the industry which currently receives the reduced rates would be hit with a substantial cost increase representing many times its current profitability; a significant number of periodicals would probably fail. That part of the industry would also be seriously disadvantaged vis-a-vis that part which does not.

At the same time, there are no clear short term alternatives to the reduced second class postal rates whereby the Federal Government can aid the periodicals industry. The major problems of the industry lie in the marketing and distribution area, and the reduced rates are one, effective, way of helping the publisher to get his product to readers.

In the longer term, the impact of removal of reduced second class rates for consumer periodicals would still be severe. As a whole, the consumer periodicals industry is currently viable, but is not regarded as a highly profitable industry. It faces strong competition from foreign periodicals, particularly on the newsstands. Even though impressive gains have been made for Canadian periodicals on the newsstands over the last twelve years, Canadian consumer periodicals are still outnumbered more than three to one by foreign periodicals. Among ABC subscription sales, there is some indication

that the share of the market held by Canadian periodicals is also increasing, but there is still a presence of more than one third foreign periodicals.

It is a moot point as to just how severe the impact on the Canadian consumer periodicals industry would be if the second class rates were removed over the reasonably long period of time - say ten years. This would mean that the percentage that postal costs occupied of a publisher's budget would rise to about 45 percent (from the present level of around 6 percent) for that part of the industry with high circulation receiving the rates, assuming that the publishers were prepared to accept the slower deliveries of addressed 3rd class bulk mail.

In terms of the competitiveness of the industry in retaining advertisers and readers in competition with other media (that is, forgetting for the moment about internal competition within the periodicals industry), an interesting test case will be the way the industry reacts to the current drastic increase in coated paper costs. Since coated paper costs represent (at an estimated 12 percent of expenditures), considerably more than the amount a typical periodical expends on reduced second class rates (estimated at 5 percent on average), it will be very interesting to see the impact of what is predicted to be a 30 to 50 percent increase in the cost of coated paper. This is equivalent to a 72 to 120 percent increase in second class rates or, for a 150 g periodical at second class code three, an increase from the present 4.2 ¢/copy to 7.1 ¢/copy or 9.2 ¢/copy in one year. (This is a lot less than the 620 percent

differential between 2nd class Code 3 and 3rd class bulk addressed just discussed).

In terms of competition within the industry, this must be seen against the backdrop of the seven most pertinent existing rates:

- 2nd class code 3: qualifying subscription addressed periodicals : 4.2¢/150 g copy
- 2nd class code 4: qualifying controlled circulation addressed periodicals : 13.8¢/150 g copy
- 3rd class bulk unaddressed : 11.2¢/150 g copy
- 3rd class bulk addressed (bulk, but lower volume) : 30.4¢/150 g copy
- 3rd class regular addressed : 64 ¢/150 g copy
- 1st class regular : 85 ¢/150 g copy

There is a ratio of more than 20 to 1 between the largest and the smallest of these rates.

The most favoured consumer periodicals, including virtually all large consumer subscription periodicals receive 2nd class code 3. Their chief competitors, the large controlled circulation periodicals use the 3rd class bulk unaddressed rate for most of their copies and the 2nd class code 4 for a few.

Removal of the second class reduced rates over time for this major group of consumer periodicals has two significant implications:

- it will multiply seven fold the periodical mailing costs of the subscription second class code 3 group (currently 4.2 ¢ per 150 gram copy) by forcing them to the next lowest rate, which is 3rd class bulk addressed at 30.4 ¢ per 150 gram copy.

- It will take major consumer subscription periodicals from having one-third the postal rate of controlled circulation periodicals to having three times the rate of controlled circulation periodicals.

It should be noted that the effect of removing the 2nd class rate for a small consumer subscription periodical is even more severe, since the alternative of 3rd class bulk rates does not apply and the periodical is forced to go to 3rd class regular (bulk but lower volume) or 1st class rates, representing an increase of over twenty fold.

Such shifts favouring controlled circulation periodicals would be bound to result in a significant increase in the use of controlled circulation and a significant decrease in the use of subscription development as a distribution method.

They might or might not result in a significant redirecting of the industry's energies towards newsstand sales.

#### 5.6 Eligibility Criteria

There are two major questions regarding current criteria establishing eligibility for concessionary postal rates - unaddressed controlled circulation periodicals (which are mainly consumer periodicals) and association periodicals.

#### Unaddressed Controlled Circulation Periodicals

The options with respect to unaddressed controlled circulation periodicals are to continue to exclude them from concessionary rates, to allow them concessionary rates (only 2nd class Code 3 would be of interest since the 3rd class bulk rates which they

presently use are less than 2nd class Code 4), or to bring 2nd class Code 3 rates up to match class 3 rates.

The question of the treatment of unaddressed controlled circulation periodicals is most difficult. The arguments in favour of continuing to exclude them from 2nd class Code 3 are as follows:

- the industry is used to current costs and any change would upset the competitive balance
- controlled circulation magazines by definition are not available to all Canadians and do not therefore meet the implied objectives of the program
- providing concessionary rates to consumer controlled circulation magazines could be very costly since the controlled circulation part of the business press and many association periodicals would demand similar treatment.
- granting concessionary rates for unaddressed mail could lead to government subsidizing the delivery of mail that some people did not want.

The arguments to the contrary are:

- the existing situation is unfair. In some instances at least, the controlled circulation product is equal to or better than its subsidized counterpart. (However, they are free to convert to paid circulation anytime.)
- the existing differential in rates is larger than was ever intended. It is likely an accident of history that 2nd class Code 3 rates are below class 3 bulk unaddressed rates.
- The option of raising 2nd class Code 3 rates to at least equal 3rd class bulk rates has all the advantages of continuing to exclude the controlled circulation magazines from subsidization but none of the disadvantages. However, there are other pros and cons of this option as discussed earlier.

#### Association Periodicals

At present, some associations enjoy 2nd class status while others are excluded. The options are to continue as at present, to exclude all, to allow all to participate, or to set new criteria.

If the status quo is maintained, the advantages are few:

- little disruption will be caused
- some good periodicals will continue
- non-profit organizations traditionally get special treatment

The disadvantages are:

- associations essentially produce controlled circulation magazines yet get subsidized rates
- the distinction between those who are subsidized and those who are not is not based on merit but on financial resources - only the relatively large and the wealthy can afford to establish a separate publishing entity
- there is no good reason why the narrow interest groups which many associations represent should receive public funds.

Extending 2nd class mailing privileges to all associations would have all the disadvantages of maintaining the status quo plus substantially increased costs yet would add few benefits.

On balance, the advantages appear to lie solidly in favour of removing mailing privileges from all associations except those who can make a special case for subsidy by virtue of some special quality of their periodical or because their periodical has broad distribution beyond the membership of the association.

One way of helping to do this is to get the minimum annual subscription for eligibility at \$3.00. This will at least ensure that some significant allocation of funds from members is made to the operations of the periodical. This needs to be associated with a condition requiring the periodical to be available to non-members of the association, and perhaps with a condition requiring a certain percentage of subscribers to the periodical to be non-members of the association.

### 5.7 Administration of Regulations

Currently, the Post Office appears to follow three primary rules (somewhat at variance with the literal reading of its regulations):

- i) it looks for a periodical to have bona fide subscribers (for Code 3)
- ii) it looks at the independence and interests of the publisher (i.e. his freedom from other activities or from an association)
- iii) it applies, rigidly, all the published rules as to frequency of issue, mailing identification and data, etc.

Our survey and interviews indicated a number of minor irritants in the administration of 2nd class, mainly to do with iii) above. It seems that small periodicals often fall foul of the law because the regulations are complex and not well understood. Medium and large publishers generally have no such problem. The Post Office is already dealing with this problem through educational programs.

The Department has several options:

- to support Post Office efforts
- to take over administration of regulation itself or arrange for an independent agency to do so
- to encourage the Post Office to enforce the spirit of the regulations rather than the letter.

Of these options the first and last seem the most practical.



### 5.8 A Cost Study

One option that the industry feels essential is an objective study of the cost of providing 2nd class postal service. To be acceptable to the industry, the work would have to be performed by competent persons from outside the Post Office... The advantages of this option are:

- it would remove or substantiate a major industry objection to rate change
- it would permit the department to determine whether its transfer payments to the post office were too high
- it would enable government to determine appropriate rate increases if it were to end or reduce subsidies.

There are certain disadvantages associated with such a cost study:

- the costs are those of the Post Office, not the department
- the department's only 'right to know' arises from its transfer payments
- the outcome of the study may not be definitive
- the results will result in problems for whoever is proved to be benefitting most from the program (i.e., industry, the department or the Post Office); whichever party is hurt will likely find fault with the study findings.
- the study will reopen a question already settled, i.e., the level of transfer payments from the department to the post office.
- the cost of a good study will be several hundred thousand dollars
- the experience of the U.S. Postal Service has been that cost studies have not reduced the contentiousness of postal rates.

## 6. OTHER OPTIONS FOR POLICY AND PROGRAMS

### 6.1 Introduction

This chapter sets out a range of policy and program options available to government to deal with the major issues outlined earlier in this report other than those relating to the Post Office (which have just been discussed). The range chosen is not comprehensive but does cover all major options, including the most practical ones. A recommended set of options is contained in Chapter 7.

#### 6.1.1 Goals

The introduction to this report and the chapter on current government policies and programs discussed a number of major objectives on the part of government. These concerns may be summarized as:

- a strong desire to ensure that the industry remains a healthy one, which enjoys a strong market position vis-a-vis foreign publications
- an equally strong wish to encourage the industry to reflect the diversity and character of Canadian culture (in its broadest sense)
- a wish to see the industry continue to play an important role as a vehicle of communications to and between Canadians. With the ever-increasing diversity and power of other communications media, however, it cannot be argued that Canadians lack communications vehicles. Thus periodicals have to justify support as a communications tool: by reference to both their special niche in the market (as a communicator and interpreter of the medium term) and by virtue of their high level of Canadian content (unlike, for example, most broadcasting vehicles).
- a desire to ensure equality of treatment between publishers of similar publications

Accompanying all these concerns is a constraint, namely program costs, which is likely to become increasingly important to government and which will probably require some reduction in the goals listed above.

The industry's goals are more diverse than those of the government but may be summarized as:

- o a very strong desire to retain all current programmes regardless of costs. In this context, each sector of the industry speaks for the specific programmes of interest to it e.g., the postal program is most highly regarded by its major beneficiaries, whereas grants are favoured most by artistic, literary and cultural periodicals.
- o an equally strong wish to determine actual costs of postal service.
- o a wish on the part of some sectors (e.g., cultural periodicals) to increase and extend the amounts and types of financial assistance to be made available by government.

Some important exceptions to these goals come from sectors of the industry which are currently excluded from the benefits of government programmes. For example, we noted in Section 5 that unaddressed controlled circulation periodicals do not enjoy 2nd class postal privileges and consequently believe that either they should be given equal rights or others should lose theirs. Similarly, while most types of periodicals support some cultural assistance, many of the more successful commercial publishers appear to have little sympathy for programmes designed to make smaller or newer publishers more competitive (e.g. through government subsidies or management training schemes).

We have not examined the goals of readers in relation to periodicals policy. We would, however, venture to speculate that most periodical readers (and the public at large) are generally unaware of both the nature and cost of current programmes. Perhaps the most significant thing that can be said about readers is that they have shown strong support for the industry, through their purchases, and may therefore generally be presumed to support the policies which have made the industry's survival and growth possible. On the other hand, the ready availability of popular foreign product on newsstands may have defused the kind of criticism that has fallen on other cultural policies (such as restrictions on access regulations for broadcasters, which has pushed some popular foreign channels out of some cable services).

#### 6.1.2 Objectives

Translating these somewhat diffuse and, in some cases, contradictory goals into specific policy objectives, it appears reasonable:

- to see that the health of every sector, and significant subsectors, of the periodicals industry continues, and to avoid sudden disruptive changes
- to encourage the continuance and strengthening of a commercial Canadian periodicals industry
- to encourage the continuance and strengthening of the artistic, cultural, literary, and scholarly periodicals industry, both commercial and non-profit
- to see that a Canadian presence in all areas of the industry is maintained and strengthened (particularly in the areas where it is weak)
- to see that all Canadians have access to periodicals on as equal a basis as is reasonably possible

- to especially encourage those periodicals which have a significantly Canadian character in terms of their ability to reflect clear and distinct aspects of the diverse Canadian character
- to encourage the recognition and support of Canadian writers and other creative members of the periodicals industry as measured by circulation (domestic share of market, and advertising total revenues and share)
- to achieve the above in an efficient, cost effective manner.

### 6.1.3 Changes Needed

A review of goals in relation to the impacts of current policies and outstanding issues suggests that little change is needed in relation to the following programs:

- o Federal Sales Tax Exemption. While this programme is costly, removal would be difficult because of Canada's international commitments and because it would be injurious to industry health.
- o 1976 Income Tax Amendments. By and large these have worked well. They are accepted by the industry as having had an impact both on reducing the share of market of two foreign consumer periodicals, (one of which, Time, thereafter remained foreign and the other of which, Reader's Digest, restructured its affairs so as to become Canadian) and of encouraging Maclean's magazine to become weekly. There is no reliable way of quantifying the overall effect of this legislation since then, other than to say that it is probable that many other high-circulation foreign periodicals would probably have brought split runs into Canada seeking Canadian advertising. Given that the total advertising in Canadian periodicals is over \$300,000,000 annually, it is clear that substantial dollars are at stake.

One of the effects of the amendments to the Income Tax Act was that Time effectively ceased to publish a Canadian version. The reduction in cost associated with this change enabled Time to reduce its advertising rates and partially offset the effects of the amendments. Advertisers who pay no tax, like the Federal Government, thus have more incentive to advertise in Time. The only issue is the question of enforcement. We believe the Act must be enforced if it is to survive. The only question is how to determine whether it is currently being ignored. We treat this question directly in our recommendations.

- o Schedule C of the Customs Tariff. This has also worked well. It has had a substantial effect in limiting the amount of advertising directly aimed at the Canadian market in split runs of non-Canadian periodicals entering the country. The consumer periodicals have the lion's share of advertising in the periodicals industry. Enforcement of Schedule C has been questioned by the industry, but we do not believe that it is a problem.
- o The Copyright Act has little impact, since the sale of subsequent rights in respect of periodicals has been limited. With the increasing importance of computerized databases, copyright assumes more importance, but will likely never achieve the importance found in other cultural industries such as books, where there are huge potential royalties for "best sellers". Copyright is however of critical importance to writers in scholarly periodicals.

Beyond these four programmes, however, serious consideration must be given to a number of current programmes. The following are the principal concerns which must be addressed in terms of examining alternatives to current policies:

- are the direct grants through cultural and research agencies needed?
  - o are they effective?
  - o are changes needed?
- is the government's own direct role as a part of the publishing industry appropriate?
  - o what is the effect on the industry of government publications?
  - o what is the effect of government purchase of advertising?
- what are the distribution problems of the industry?
  - o to what degree have they been caused by government through its postal policies and programs?
  - o what new programs might help?
- does the government have a responsibility to look out for the well-being of the creative elements of the industry, especially writers?

## 6.2 Overview of Policy Options

We have identified a number of options under each of the areas that we have identified in earlier sections as being of significant concern to policy makers. Several specific options were rejected at the outset as being impractical and were not reviewed in depth. These include:

- abolish direct grants. Many smaller artistic and literary periodicals owe their very existence to grants. The total cost to government is small and the benefits to Canada far outweigh the costs.
- introduce Canadian quotas for newsstands. Such action is not favoured by many publishers, would antagonize retailers and would not likely contribute to increased sales.
- compulsory unionism for writers. Besides being difficult to arrange and enforce we do not believe government should undertake this role.

These rejected options will not be discussed further.

## 6.3 Direct Grants

The Canada Council, the Social Sciences and Humanities Research Council and the Natural Sciences and Engineering Research Council have given grants to artistic, literary and scholarly periodicals for some time.

The overwhelming majority of grants go to small circulation artistic and literary periodicals and scholarly journals.

Artistic and literary periodicals do benefit very significantly from direct grants from federal agencies.

Aside from the federal contributions through the Canada Council, only Quebec and Ontario provide substantial grants. Grants received by periodicals from these agencies are usually a major part of their budget -- sometimes (for the smaller ones) one half to two-thirds; almost always more than 20 per cent. The major part of the senior literary, cultural and artistic, periodicals sector depends heavily on these grants and would likely go out of business if they did not receive public grants.

Readers also benefit substantially from these grants since without them, as mentioned above, artistic cultural and literary periodicals would be unavailable. However, only a small number of readers of these kinds of periodicals exists.

In considering its options, the Government has to take account of the fact that grants are essential to the survival of most of these periodicals. Thus, if present policy is continued some periodicals will die. The advantage of a small cost saving must be offset against the artistic, cultural and other values of the periodical concerned. Obviously decisions have to be made on a case by case basis, but the amounts of money involved are so small (\$3 million for the Canadian Council grants) compared to the potential subsidies of 2nd class that they do not seem significant. It would seem appropriate to use some of the funds saved by ending 2nd class Code 5 and 6 for foreign periodicals to increase grants. We feel that grants should be increased each year at least by the Consumer Price Index (C.P.I.).



However, to ensure that value for money is obtained and to reduce "vanity printing", grants should be related to sales and not to print runs.

Scholarly periodicals do benefit very significantly from direct grants from federal agencies. Whether or not a particular publication would go out of business or not if it did not receive public grants is questionable.

The support of scholarly publications is an issue. There has been a trend over recent years for universities to shift a growing percentage of budgets which they had traditionally supported onto the shoulders of Federal agencies. It could be argued that universities have a direct responsibility to fund their scholastic publications, particularly since a large amount of the material published is written by relatively well paid, often tenured, academics mainly for motives of career development under the 'publish or perish' philosophy.

Association periodicals represent some policy difficulties, in that an association may publish a periodical that is, to all intents and purposes, a quality artistic, literary or even scholarly periodical, but whose finances and control are intimately connected to the broader aims of the association.

The government has a choice, in contemplating support, of dealing with the association or of dealing with the periodical.

Where the subject matter and editorial thrust of the periodical is clearly identifiable with the kind of product normally

supported by a federal agency in the business of supporting periodicals for artistic, literary or scholarly reasons, it probably makes sense to continue that method of support. Where, however, the periodical is chiefly one vehicle for broad social and political advocacy thrusts made by an association, then it probably makes more sense for federal involvement to be directly with the association per se.

#### 6.4 Government Purchasing of Advertising

So far as government advertising is concerned it should consider the following options:

- to advertise only in Canadian periodicals
- to direct a minimum portion of its advertising (say 10%) to advertising in periodicals which have shown to grant agencies that they are worthy of government support.
- it should consider strictly adhering to advertisement placement policies which parallel and simulate those in the industry
- it should treat advertising in foreign periodicals by having the same penalty for it that such advertising has for Canadian advertisers
- it should reflect, in placing advertising, the principles it follows in other areas. For example, it should not undermine the principle of bilingualism by not advertising in bilingual periodicals so that it can avoid its own rule (and therefore the expense) of having to place ads in both official languages.

#### 6.5 Newsstands, Promotion and Distribution

##### 6.5.1 Newsstands

That the percentage sales of Canadian periodicals on Canadian newsstands is still so low is a matter of concern to some,

but not all, periodical publishers. As noted earlier, increasing newsstands sales may create cash flow problems for some publishers who have limited financial resources. We have also suggested that the postal program itself may bias distribution away from newsstands. It is also unclear whether it is realistic to expect the smaller publications that complain about poor access to be able to be viable on newsstands.

The following options exist:

- to provide selected periodicals (which are judged to have financial resources and worthwhile products) with grants to be used specifically for newsstand promotion
- to provide special retail allowances for retailers.
- to undertake a real-life controlled test by special arrangements and financial support.

The advantages of supporting efforts to increase newsstand sales are:

- newsstand periodical buyers are often regarded as excellent candidates for converting to established subscription periodical readers
- the public image of Canadian periodicals would be enhanced if they had a greater presence in public places such as newsstands.

However, the disadvantages are substantial and may well outweigh the benefits:

- it would be difficult to select which periodicals should receive special funds for newsstand promotion
- it is not clear that presence on newsstands can provide additional sales (the real-life test would have to be undertaken first)
- increasing newsstand sales results in a short term cash drain which could be ill-afforded by those most in need of assistance.

#### 6.5.2 Promotion of Commercial Cultural Periodicals

One option proposed by the Canadian Magazine Council to be considered is that whereby a 'Periodical Rate', a rate comparable to 2nd class Code 3, be established to be used to allow publishers to mail all magazines, promotional material, correspondence, invoices and renewal notices. We feel that this option has all the disadvantages of the existing mailing privileges under code 3 and reinforces bias against newsstand sales.

#### 6.5.3 Distribution of Artistic and Literary Periodicals

It is extremely difficult for small cultural periodicals to find a niche in the normal distribution channels. The CPPA has done an excellent job of placing a growing number of Literary periodicals in a growing number of retail outlets across the country.

This is probably a much more efficient way of distributing and promoting these periodicals than leaving each to fend for itself. We do not have a cost-effectiveness analysis of this program, and believe it would be useful to obtain one, particularly if this program is to be continued and if its expansion is contemplated.

Consideration might be given to boosting the resources available to the CPPA for this work.

If circumstances develop favourably in Quebec in terms of a new, stronger, small periodicals organization emerging from the fusion of the present 'association des éditeurs de périodiques culturels québécois' and 'Diffusion Parallèle', a similar policy might be applied.

## 6.6 Writers' Remuneration

Writers, who are the core of the industry are given little consideration by most publishers. Their remuneration is extremely low and uncertain. Raising writers rewards should be a priority for government, not simply because doing so might increase the quality of writing but mainly because simple justice demands action. The following options should be considered:

- making direct payments to periodical writers who have demonstrated merit by the quality of their work. This option suffers from the disadvantage that it requires considerable judgment on the part of the government
- providing cultural and other agencies with additional earmarked funds for writers for periodicals being funded by these agencies. This requires less judgment than direct payments and is less open to abuse.

## 6.7 Small Periodicals

### 6.7.1 Management and Other Problems

Small non-profit artistic, literary and scholarly periodicals have a host of problems, most of which they have in common with all very small businesses. (We exclude small commercial-sector periodicals from this discussion, since it was the firm view of the industry that the market environment was currently a healthy one for them).

There is a limited degree to which these problems can be the focus of government policy and programs. Apart from present programs assisting many of these periodicals with grants and, through the CPPA, with distribution and general management-related

professional advice, which programs can be augmented, the government has few practical options in providing programs for such a large number of small entities.

In our view, the most practical course is:

- to continue to encourage the CPPA in its distribution efforts
- to continue to encourage the CPPA in its training programs and management skills dissemination.

#### 6.7.2 Technology

The CPPA pointed out to us that two major areas of computerization are of particular interest to many CPPA members. Word processors which feed directly into computerized typewriters and can cut costs and save time (copy has to be proofed only once, and expensive corrections at the galley stage can be eliminated). Many smaller magazines are interested in acquiring word processors or computerized typesetting machines, but they have difficulty financing them and are unable to find out what equipment is available and compare them.

Many smaller magazines can no longer manually handle their growing subscription fulfillment tasks, and for a variety of reasons, often do not want to use a mailing house. Micro-computers and minis can handle fulfillment programs, but again, money and information are scarce. Many publishers have programmed their fulfillment program from scratch - an expensive process. The industry might be able to avoid duplication of effort if more information was available on existing programs.

#### 6.8 Export Market Development

We looked carefully at the opportunities for exporting Canadian periodicals, both from the English-language and from the French-language industry. We concluded that there appeared to be little opportunity at the present for the development of significant market for a Canadian periodical abroad, but also felt that it would be a desirable element of government policy to be open to such a development in the future, and to be prepared to assist it at the right time.

#### 6.9 Foreign Ownership

We note that the Post Office regulations do not restrict a periodical from receiving 2nd class status solely on the ground that it is foreign-owned. "Canadian", from a Post Office point of view, means

"a periodical which is a regular or special issue of a newspaper or periodical, as the case may be, which has its editorial (news and comments) content published, set, edited and printed in Canada but does not include:

- ( i) an issue that is produced or published under a licence from a person who produces or publishes issues of a newspaper or periodical that are printed, edited or published outside Canada, or
- (ii) an issue, the contents of which, excluding advertisements, comic supplements and features, are substantially the same as some or all of the contents of one or more newspapers or periodicals that are not first edited in Canada and are printed or published outside Canada."

However, the periodical must be Canadian-owned for an advertiser to be able to claim income tax deductions from advertisements placed in it.

There are several examples we came across of foreign-owned printers wishing to expand into the periodicals publishing business.

We suggest that there are grounds to consider this potential increase in equity available to the industry sympathetically. However, this should not be done without an assessment of the political risks downstream in terms of later sale of such periodicals.

#### 6.10 Tax Measures and Other Policies and Programs Used in Other Cultural Industries

While the programme of reduced postal rates is generally popular with the periodical industry and appears to have helped produce a strong Canadian industry, it is costly. It is worth briefly examining whether equally or more satisfactory results might be achieved through other programs at lower cost.

Programs of assistance to cultural industries may be classified into two groups on the basis of the administrative procedures used. The first group, which include programs such as tax incentives and the Book Publishing Development Program, set out certain regulations and procedures which can be administered without involving judgements as to the merits of the content of the applicant's product. The programme of concessionary postal rates is of this type. The second group, characterized by such programs as Canada Council grants and the Canadian Film Development Corporation, is generally much more selective in its support and makes judgement,



often through peer group juries, as to which applicants are worthy of support.

Given that the industry has a very large number of potential applicants for funding it would be clearly impractical to attempt to assess the merits of each individual application. Thus the main options to the postal program are of the first type. There may be a case for some supplementary assistance on a case by case basis, as is discussed elsewhere in this report, but the industry generally would be opposed to such assistance being provided to "commercial" periodicals.

The specific options considered herein are:

- variants of the Book Publishing Development Program (BPDP), and
- tax incentives.

The BPDP, administered by the Department of Communications, provides financial incentives to Canadian publishers to increase their presence in Canadian and foreign markets. Applicants for assistance are required to demonstrate their capability by being in business for two years before applying and by demonstrating publishing expertise.

There are eight components of the program. Some of them apply to such matters as company analysis, industry research, training programs, market research, etc. It would be possible to provide funds to publishers to enable them to carry out research, training programs, etc., through the use of direct grants, as an alternative to the indirect postal benefits they receive.

If the total amount of funding were to be set out at a level which would permit each publisher to pay the difference between the commercial postal rate and the concessionary rate, the industry would be as well off as at present. Indeed, it would have a major advantage; it would now be able to choose the method of distribution which best suited it. In some instances, this would lead to more newsstand sales and fewer subscription sales. In other cases, publishers might choose to invest the funds received in other ways e.g. in editorial, and in production facilities. In general, the removal of the distorting influence of subsidized postal rates would be advantageous.

On the other hand, there would be some significant problems which would likely outweigh the advantages. First, the cost of such a scheme would be higher than the present cost to the Department. Under the existing agreement with the Post Office, the Department only absorbs that portion of the postal subsidy which is the foregone increase in net revenue which would have resulted from raising concessionary rates to commercial rates. If the use of the Post Office were to decline under a direct subsidy, as is likely under a BPDP type of scheme, there might be pressure on the Department to increase its subsidy (although it is the job of the Post office to solve its problems by operating in a commercially viable manner).

The second major problem would be an administrative one. The BPDP requires far more information of each book publisher than is required to administer the postal subsidy, and there are far more periodical publishers than there are book publishers.

Third, there would be some tendency for publishers to concentrate deliveries in major urban centres where competitive private delivery services could be found and where advertisers would value markets most. This action would work against one of the objectives of the postal program - the national interchange of ideas without penalty for remote locations.

In summary, we believe the disadvantages of a BPDP type of scheme would far outweigh the advantages.

#### Tax Incentives

There are many types of incentives that could be used to assist the industry - the following have been considered:

- concessionary tax rates for periodical publishers
- incentives for investors in periodicals
- special tax write-offs for advertisers

The advantages and disadvantages of each of these is discussed below but before doing so we cover some general considerations. First, changes to the tax system require the co-operation of a number of government departments and take a long time to implement. It would likely be three to four years before major changes could be made. Second, the cost of these incentives are generally difficult to forecast or control. Third, the cost of tax incentives will likely ultimately be borne by the Department. Fourth, tax incentive schemes would only apply to taxable activities. Consequently, they would only apply to "commercial" periodicals and not to those produced by non-profit organizations which constitute a significant part of the industry. All these considerations work against tax changes.

Concessionary tax rates for periodical publishers:

Publishers might be provided with specially low rates on all or part of their income arising from publishing Canadian periodicals. This would permit publishers to use the tax saved to increase circulation, improve content or acquire other assets. The main advantage of this scheme is that it would promote the most rational use of funds, without the distortions induced by subsidizing particular costs. The scheme would also concentrate income in the hands of profitable publishers thus tending to increase efficiency. However, it is also clear that a tax scheme of this type would result in a very different distribution of subsidies than is the case at present. The result would likely be the closure of the least profitable, because they could not offset higher postal costs with lower taxes.

Special tax concessions for investors in periodicals:

Investors in new periodicals might be allowed to write off part of their investment against other income, i.e. in a similar manner to MURBS or film schemes. Provided the underlying business venture is sound, a great deal of new investment capital could be raised which could assist new small periodicals. It is not, however, clear that the industry greatly needs new capital. Established periodicals would not be much assisted by this program and would be in severe financial difficulty if postal rates were to be raised.

Tax concessions for advertisers in Canadian periodicals:

A write-off for tax purposes in excess of the cost of advertising could be offered to advertisers as an incentive for advertising in Canadian magazines. Advertisers already benefit indirectly from the postal subsidy, so the write-off would have to be sufficient to compensate for this and provide some additional incentive. More advertising revenues would be of considerable benefit but Canadian magazines already have a large share of Canadian advertising, hence, any additional amounts would be largely at the expense of other media. The distribution of the benefits would be quite different from the benefits of postal subsidies.

On balance, we believe that the disruptions caused by various tax measures outweigh their advantages.

## 7. POLICY AND PROGRAM RECOMMENDATIONS

### 7.1 Introduction

The following recommendations are made with the intent of meeting government objectives vis-a-vis the periodicals industry and also of providing it with a flexible and pragmatic set of programs that can be adapted quickly and without major dislocation to any part of the industry when changing conditions warrant it.

### 7.2 Canada Post

#### 7.2.1 Policy

We recommend the following long term policy elements (with the caution that in many respects the existing effects of government policy are desirable and any changes should be made with extreme care):

1. The government needs to develop a clear statement of its objectives vis-a-vis the periodicals industry. The government can have a variety of types of goals: it can have goals for the cultural industry - economic, communications, cultural; and it can have goals for itself - cost saving, efficiency, rational use of funds, political. We found that, in certain critical areas, the goals of the government are not clear, and that these goals have to be resolved in some detail before certain economic decisions can be made.
2. The policy of subsidizing major elements of the periodicals industry should continue. It is not practical to remove it, nor will it be for a very considerable time to come, since it is deeply embedded in the economics of the industry. However, if it cannot be removed without significant damage to the industry's financial health or the share of market currently enjoyed by Canadian periodicals, its degree should be lessened over time.
3. It should be regarded as a combined subsidy for the industry and the consumer.

4. It would be helpful to set it against a clear understanding of the actual costs of the Post Office in servicing each component of the industry. However, given the high degree of subsidy that exists, minor changes could be made in the absence of further knowledge.
5. The approach to subsidies must be pragmatic, one that can be altered quickly and without major dislocations to meet changing conditions and objectives.
6. The money spent by the government must be more targetted.
7. The aim should be to reduce, over time, the cost to the government of the subsidy program.
8. Eligibility criteria need to reflect active government policy more narrowly and accurately.
9. Programs should be applied only to Canadian-owned periodicals.
10. The government should decide to what degree it intends to differentiate in principle between paid circulation addressed periodicals and controlled circulation addressed periodicals.
11. The consumer must have the opportunity to request and to refuse receipt of a periodical if a subsidy is involved.
12. Government policy should support the principle that its own domestic advertising expenditures should support Canadian media.

#### 7.2.2. Program Description

The industry is basically a healthy one, and from the point of view of cultural and communications goals, the government might do well to leave it alone.

1. We recommend that a study be made of the sensitivity of the industry as a whole to advertising rate changes, and of the competitive sensitivity of the main sectors and sub-sectors to advertising rate changes.

The periodical industry is a critical communications, cultural and economic component of Canada.

It is appropriate for the government to provide financial and regulatory support to cope with the geographic reality of Canada and the natural marketing advantages of publications based in the U.S.

The provision of such support to date has undoubtedly benefitted the industry, but it is impossible to estimate the extent to which benefits can be attributed to the individual programs.

The rates provided by the Post Office have been entrenched in the cost structure of periodical publishers to the extent that major and relatively fast changes would be very harmful.

There is clearly a degree of inequity in the present rate structure between different classes of periodicals.

There is an unknown but substantial subsidy to 2nd class code 3 periodicals. It is less certain the extent of subsidy to other 2nd class codes.

We were unable to estimate the market sensitivity on advertisers of increased postal costs, nor are we able to estimate the actual cost to the postal system of delivering any of the classes of periodicals mail.

It is thus impossible to make specific recommendations on the immediate and long term postal rate structure.

If the government finds it necessary, due to changing policy priorities, to reduce the level of support to the periodicals industry, we think that, insofar as regulatory measures probably do not cost the government any significant amount of dollars, foregone or otherwise, that there would be little financial gain in changing these.

Thus, if these priorities revolve around financial concerns, the only significant mechanism to reduce expenditures by government is through the postal program.

Given that there is a significant sensitivity in the industry to change in postal rates, any change must be effected with extreme caution.

We would suggest that, if any changes are found to be necessary, they be done in a way which reduces inequities between periodicals.

This leads us to focus on the lowest rate, that is on second class code 3.

The chief aspect of changing postal rates then becomes whether or not second class code 3 is too low and whether it contains an unnecessary degree of subsidy.



The position of the industry is that, unless one knows what the true cost is, one cannot make a recommendation on this (or any other) rate.

Given the arguments which we have presented earlier on this viewpoint, we believe that some amendments to this rate can be considered without knowing the exact costs of periodical delivery.

The failure to raise postal rates in step with inflation over the past 15 years has effectively increased, substantially, the level of government subsidy. In order to avoid this in future, the minimum that must happen is that postal rates must increase in step with inflation.

If the government wishes to reduce the level of subsidy to the industry, we recommend that it consider increasing the second class code 3 rate. However, any such action should be extremely moderate and should be gradually phased in with a very close program of monitoring progress. The industry's co-operation in this process should be sought. We do not recommend any major increase over the short term, because of the potential harmful impact these increases could have on major established and newly emerging subscription periodicals.

As an opening position between the Department, the Post Office and the industry, we recommend that the following be considered as a flexible, pragmatic, reasonable interim solution (as described in Section 5.5.2.2):

- a) the second class Code 3 rate be increased in the future by the same amount as the absolute dollar increase in the 3rd class bulk unaddressed rate until the rate approaches the cost of the service.
  - b) the second class Code 4 rate be increased in the future by the same amount as the absolute dollar increase in the 3rd class bulk addressed rate, until the rate approaches the cost of the service.
  - c) the above rate increases be closely monitored as to their impact on the industry, and their rate of increase slowed if significant problems appear to be caused.
  - d) the resulting above rates be compared to the costs indicated by the study of Post Office costs, and further policy and program inferences drawn.
2. eligibility criteria for 2nd class privileges be simplified and tightened.

3. The minimum subscription rate per annum for periodicals receiving the 2nd class rate Code 3 be increased to 50¢ per copy.
4. The minimum paid circulation of subscribers to an association publication who are not members of the related association be 25%.
5. There should be an on-going mechanism provided, once the cost allocation study is complete, for updating and tracing costs on a periodic basis.
6. The government (or the Post Office itself, since it is now a Crown Corporation) consider making a full and thorough cost allocation study of the Post Office's costs and of the movement of periodicals through the postal system, so that costs can be ascribed to every category of mailing for which the Post Office or DOC might contemplate a rate or a regulation.

- this could clear up uncertainty in the industry as to the relationship between rates and costs
- it will help justify rate changes
- it will assist in the establishment of new rates
- it should be conducted by an independent body
- it should be preceded, or should begin, with the establishment of principles of cost allocation.

#### Cost

A study of the external and internal sensitivity of the industry to advertising rate changes is likely to be of the order of \$250,000.

The cost of a proper study of postal costs is likely to approach \$300,000.

It is not possible for us to estimate whether or not they represent, in terms of present volume, an actual saving to the Department of Communications, since we do not have a detailed description of the formula by which transfer payments between the Department and the Post Office are established.

Nor is it possible for us to estimate whether they represent, in terms of present volume, an increase or decrease to Canada Post in the cost of providing service.

Future changes in the type and volume of periodicals mailing will, of course, add to the impact of these program changes versus what would have happened without the changes.

Timing

We recommend that the above programs be implemented as soon as possible.

Impact

We believe that none of the above programs, if implemented with caution in this way, will have an adverse effect on the industry, and that they should save the Federal Government significant sums of money over what they would otherwise have spent. We note, however, that there are risks involved; the industry is a complex one, with considerable internal competition and considerable competition with other media, and all postal rate changes made by the Government should be monitored most carefully.

Comment

We note that there are controlled circulation periodicals outside the system of reduced rates which are very probably as deserving as those inside.

We have been unable to find a mechanism to bring them in which does not involve horrendous costs or arbitrary judgments.

We think that if the industry and the government can come up with a limited cost solution, this would be desirable and acceptable.

### 7.3 Income Tax Act

#### 7.3.1 Policy

1. Section 19 of the Income Tax Act disallows tax deductions by Canadian advertisers for advertising placed in foreign media aimed at Canadian audiences. This policy should be retained.
2. These amendments should be systematically enforced. It is widely believed in the industry that present enforcement is erratic.

#### 7.3.2 Program Description

We recommend that:

1. Section 19 of the Income Tax Act be retained.
2. A program of enforcement be set up involving:
  - a review of Canadian advertisers in foreign periodicals
  - instructions via the Department of Revenue to the auditors of advertisers to see that appropriate accounting takes place.

#### Cost

The cost to the Federal government should be nominal -- under \$100,000 annually.

Timing

The program should be implemented as soon as possible.

Impact

The program should ensure that the amendments, strongly approved of by the Canadian periodicals industry, remain effective legislation.

7.4 Customs Tariff 99221-1

7.4.1 Policy

Schedule C of the Customs Tariff (1964) prohibits the entry into Canada of foreign periodicals which contain more than 5 percent Canadian advertising.

This policy should be maintained and efforts made to ensure that it is enforced.

7.4.2 Program Description

We recommend that:

The 1964 amendments to Schedule C of the Customs Tariff be retained. From time to time checks should be made to see that the policy is being enforced and if it is not then steps should be taken to ensure it is enforced.

Impact

The impact will be positive on the Canadian industry, in that it will reinforce the principle that Canadian domestic advertisers expenditure should support its own industry.

7.5 Direct Grants

7.5.1 Policy

1. Existing policy in regard to grants via the Canada Council, the Social Sciences and Humanities Research Council, and the Natural Sciences and Engineering Research Council should be maintained.
2. Grants via the Canada Council should be substantially increased, subject to an economic review of the effect of grants on periodicals which have been continuously published for more than five years.
3. The remuneration of artistic and literary writers writing for non-profit periodicals should be increased. One way the government can give some leadership in this, albeit limited, is by providing the Canada Council with a step-increase in funds that it can then pass on to current recipients of publishing grants to be used solely for payment to writers.
4. Further consideration should be given to the Applebaum - Hebert recommendations in regard to selective writing grants to deserving writers (commercial and non-profit sectors); we believe, however, that it will not be easy to increase, on a general basis, fees to writers writing for commercial publications without impinging on market forces.
5. Commercial artistic and literary periodicals, and those commercial consumer periodicals judged to be of significantly social and cultural value, should be assisted in their promotional efforts.

7.5.2 Program Description

We recommend that:

1. Existing programs via the Social Sciences and Humanities Research Council and the Natural Sciences and Engineering Research Council be maintained and increased annually at the rate of increase in the consumer price index (C.P.I.).
2. A steep increase be made in grants via the Canada Council for periodicals it now supports, earmarked for payment to writers.
3. This earmarked grant be thereafter increased with inflation.
4. A substantial grant increase be given to the CPPA to augment its distribution and promotion agency, subject to an initial cost effectiveness overview and targets for future cost effectiveness.
5. A grant be contemplated for the proposed merged 'association des éditeurs de périodiques culturels québécois/diffusion parallèle' in Quebec if the prospects appear good that it can work effectively as a distribution and promotion agency for small artistic, cultural and literary periodicals.
6. A review be made of the impact of grant criteria on the prospects of a non-profit periodical growing into a commercial periodical.
7. Consideration be given to providing longer-term financial commitments to periodicals, to enable them to develop firmer long-term plans.

Cost

The costs would be in the order, per annum, of:

- \$ 400,000 to the Canada Council for writers
- \$ 100,000 to the CPPA for distribution
- \$ -- (undetermined) to the association des éditeurs de périodiques culturels québécois/diffusion parallèle for distribution.

TOTAL \$850,000

Timing

These programs should be in place by January 1985.

Impact

These programs should:

- aid periodical writers.
- aid in the promotion and distribution of small periodicals.

7.6 Direct Government Involvement

7.6.1 Policy

Government currently advertises in many commercial and non-profit periodicals.

In as far as the government as commercial advertiser is concerned, we suggest that it should place its advertising on a commercially fair basis that is compatible with its own social and cultural policies.

7.6.2 Program Description

We recommend that:

1. The government, its agencies, and Crown Corporations, not be discouraged from advertising in bilingual periodicals because of the expense involved in following its own policy of having to place both French and English ads.
2. The government, its agencies, and Crown Corporations, recognize that Canadian advertisers have an economic disincentive to publish in foreign periodicals, and therefore give itself an economic disincentive to publish in foreign periodicals (such as paying an amount equal to the cost of the advertisement into a special fund, to be used for awards in the industry.)



Cost

The costs of 1 and 2 will consist of extra cost for advertising in bilingual periodicals and an extra cost equal to the present cost of advertising in foreign periodicals.

Timing

These programs should be implemented immediately.

Impact

These programs will strengthen bilingual periodicals and will reinforce the impact of the amendments to the Income Tax Act. They will also provide a perhaps substantial fund to be used for awards in the industry.

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