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I N D U S T R Y P R O F I L E

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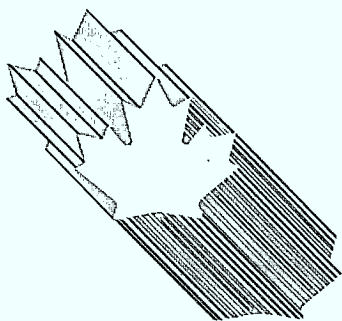


Industry, Science and
Technology Canada

Industrie, Sciences et
Technologie Canada

Publishing

Canada



INDUSTRY PROFILE PUBLISHING

1988

FOREWORD

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In a rapidly changing global trade environment, the international competitiveness of Canadian industry is the key to survival and growth. This Industry Profile is one of a series of papers which assess, in a summary form, the current competitiveness of Canada's industrial sectors, taking into account technological and other key factors, and changes anticipated under the Canada-U.S. Free Trade Agreement. Industry participants were consulted in the preparation of the papers.

The series is being published as steps are being taken to create the new Department of Industry, Science and Technology from the consolidation of the Department of Regional Industrial Expansion and the Ministry of State for Science and Technology. It is my intention that the series will be updated on a regular basis and continue to be a product of the new department. I sincerely hope that these profiles will be informative to those interested in Canadian industrial development and serve as a basis for discussion of industrial trends, prospects and strategic directions.

Minister

1. Structure and Performance

Structure

The industry consists of establishments primarily engaged in commercial publishing alone or in commercial publishing activities combined with printing. The industry is made up of three major sub-sectors: newspapers, periodicals and books. Publishing covers numerous operations which include the gathering of news, the preparation of editorials and the selling of advertising by publishers of newspapers and periodicals, and the selection and editing of manuscripts by book publishers. Not-for-profit publishers are excluded from this profile. Roughly one-third of all firms in this industry, the majority of them in the daily newspaper segment, perform their own printing. The others sub-contract this operation to commercial printers. Commercial printing is covered in a separate Industry Profile.

The Canadian industry was composed of an estimated 1200 companies in 1986 that controlled 1450 establishments. Employment stood at about 46 500 people on a permanent basis. In addition, the industry is an important source of employment for freelancers (primarily writers). The industry's shipments/revenues from sales of Canadian-produced goods (generally described in the industry as "own" goods) totalled \$4.6 billion. For most newspapers and periodicals, advertising is the principal source of revenue. English-language published materials represented about 80 percent of all shipments.

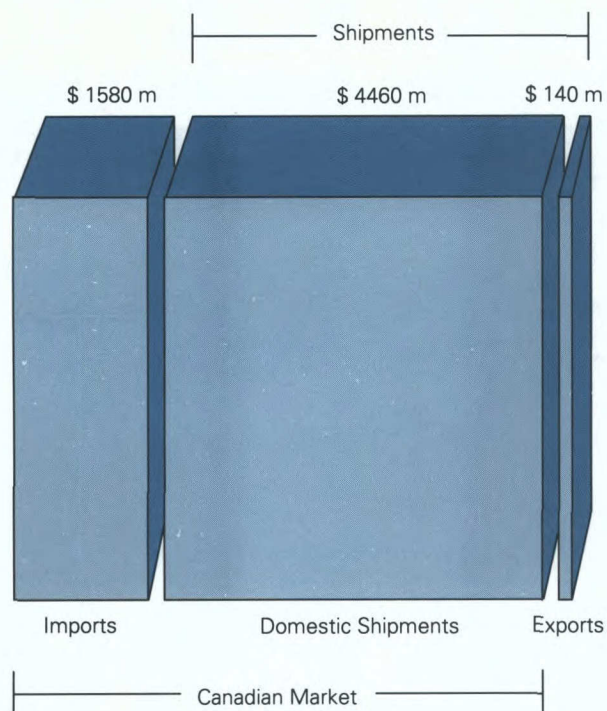
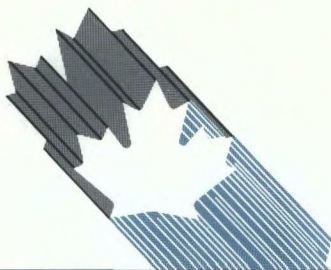
Exports by Canadian publishers were estimated at \$140 million* in 1986 and imports into Canada at \$1.6 billion*. Canada's trade in this field is predominantly with the United States and is conducted primarily by the larger publishers.

As indicated earlier, the Canadian publishing industry is made up of three major sub-sectors: newspapers, periodicals and books. Together these sub-sectors account for about 85 percent of the industry's revenues. Only a handful of companies operate in more than one of these three major sub-sectors. General commercial printing activities such as the production of catalogues and advertising matter account for most of the balance of the industry's revenues.

Newspapers

The newspaper sub-sector comprised about 500 establishments in 1986 which employed approximately 30 000 people with revenues of about \$2.5 billion. Advertising accounted for an estimated 75 percent of its revenues. Virtually all newspapers are controlled by Canadian interests. Several Canadian publishers own newspapers in the United States; however, their combined share of the U.S. market is small. There is little international trade in this product, as newspapers essentially serve local needs. Canadian exports were less than \$10 million in 1986, while imports into Canada stood at around \$30 million.

* These statistics are only rough estimates since Statistics Canada trade data do not differentiate between publishers and commercial printers. In addition, small shipments through the mail system are not included in existing data.



**Imports, Exports and Domestic Shipments
1986***

** Data for 1986 are estimated.*

Periodicals

This sub-sector consisted of about 750 establishments in 1986 which employed approximately 10 000 people with revenues of about \$800 million. Advertising represented about 60 percent of revenues. Non-specialized periodicals (also called consumer periodicals) accounted for about two-thirds of the sub-sector's output. Business, agricultural, religious, school and fraternal periodicals accounted for the balance. Nearly all Canadian periodicals are controlled by Canadian interests. Canadian exports were estimated at \$20 million, representing close to three percent of total shipments, while imports into Canada reached about \$550 million, accounting for almost 40 percent of the Canadian market. Most of the imports are in consumer periodicals: U.S. products account for nearly 75 percent of newsstand sales of English-language periodicals in Canada.

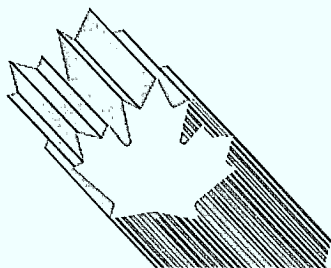
Books

The book sub-sector comprised about 200 establishments in 1986 which employed about 6000 people with sales of Canadian-produced books estimated at roughly \$525 million. In addition, nearly one-third of the book publishers in Canada act as agents for foreign publishers. This activity, which involves importing and marketing, generated additional sales of around \$300 million in 1986. Canadian book exports reached an estimated \$110 million, or about 20 percent of total production in 1986; however, one firm accounted for over 90 percent of all exports. Imports into Canada (including books imported by other than Canadian publishers) were estimated at \$1 billion, accounting for nearly 70 percent of the Canadian book market.

Whereas the newspaper and periodical sub-sectors are predominantly Canadian-owned, foreign ownership in the book sub-sector is significant. Foreign-owned firms (primarily U.S. and British) account for 40 percent of the sub-sector's sales of Canadian-produced books and 70 percent of publishers' sales of imported books. Agency business accounts for approximately 55 percent of total sales for these firms. In contrast, agency business represents only around 20 percent of Canadian-owned book publishers' sales. Even though the foreign agency business is a relatively small source of revenue for Canadian-owned publishers, it is pointed out that this activity allows these firms to finance indigenous book publishing.

Competition among publishers and publications is strong in the periodical and book sub-sectors. In the newspaper sub-sector, head-on competition between two papers published at the same time and serving the same geographic market, exists in only a handful of cities in Canada.

The publishing industry is heavily concentrated in Ontario and Quebec, primarily in the Toronto and Montréal metropolitan areas. Book publishing is the most centralized sub-sector, with more than 90 percent of shipments originating from plants located in the metropolitan areas of Toronto and Montréal.



The publishing industry is also characterized by the presence of a large number of small production units. Approximately 60 percent of the establishments have fewer than 10 employees, but they account for less than one-tenth of all revenues. On the other hand, establishments with 100 and more employees, or about four percent of the total, account for nearly 65 percent of industry's revenues. At the company level, concentration of activity has increased substantially in the last decade. In the daily newspaper segment, the two largest chains control over 55 percent of total revenues. The rates of entry and exit of firms in the periodical and book sub-sectors are relatively high. In contrast, the number of newspaper companies has remained relatively stable in the past few years.

There are close to 300 companies in Canada publishing predominantly French-language materials with revenues of \$1 billion. Average company size in the French-language segment is smaller in relation to its English-language counterpart. In the French-language segment, concentration of activity among the largest firms is more pronounced in the newspaper sub-sector. Foreign ownership is negligible in the French-language book sub-sector, unlike the situation in its English-language counterpart. Revenue from subscriptions and single-copy sales account for about 50 percent of total revenues of French-language periodicals, compared to about 30 percent for their English-language counterparts.

Overall, the structural characteristics of the Canadian publishing industry tend to parallel those of its counterparts in most developed countries. For example, the publishing industry in the United States is also characterized by the presence of a large number of small companies. It is concentrated in states with a large population and business activity base. A unique aspect of the Canadian industry is the high level of foreign ownership in the Canadian book sub-sector.

Performance

Market demand for publications is influenced by a complex and inter-related mix of factors, including population, educational attainment, leisure time, discretionary income and general business activity.

Historically, the publishing industry has performed better than the manufacturing sector and the economy. During the 1973-86 period, industry employment expanded at an average annual rate of one percent. Industry shipments, in current dollars, grew at a rate of 12.4 percent annually. The publishing share of all manufacturing shipments increased from 1.6 percent in 1973 to 1.8 percent in 1986. Similar growth patterns occurred in most other developed countries.

During the 1973-86 period, exports of published materials grew faster than domestic shipments, increasing their share of the industry's total output from an estimated 1.4 percent to an estimated three percent. Imports expanded at the same rate as domestic production, with their share of the Canadian market remaining at an estimated 26 percent.

The financial performance of the Canadian publishing industry has usually been better than that for all manufacturing. However, this achievement reflects in large measure the high profitability associated with newspaper publishing and is not representative of the situation faced by many Canadian publishers of periodicals and books. Traditionally, profitability and return on investment for publishers of periodicals and books (notably consumer periodicals and trade books, i.e., fiction and non-fiction books for general readership) have been very volatile. Rapid product obsolescence and constantly changing consumer preferences make these sub-sectors a high-risk undertaking.

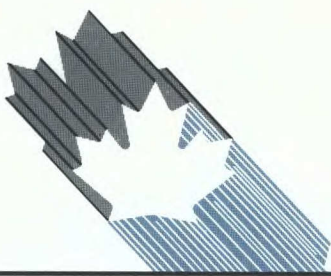
It should be noted that profit maximization is not always the prime motivation for book publishers. Factors such as an opportunity to explain a particular point of view, to pursue a special interest or to disseminate information can be more important. In fact, publishers frequently use the profits from "front list" (i.e., commercially successful books) to offset the potential loss from "mid-list" books (i.e., those that are not necessarily expected to make a profit). This is common to both large and small companies. This hybrid of profitable and not necessarily profitable initiatives is not unique to Canadian publishing.

2. Strengths and Weaknesses

Structural Factors

The newspaper sub-sector is largely locally oriented with little international trade. As a domestic sub-sector it is well-established, profitable and stable. From a technological perspective, most large newspaper publishers employ the latest technologies to enhance quality and cost control.

International competitiveness considerations are relevant for the periodical and book sub-sectors. The most important element in determining the level of international competitiveness in these sub-sectors is the "content" factor, that is the ability to obtain, and to market stories and authors with mass appeal. In the case of periodicals, readership in turn attracts advertisers. There is a significant difference in the ability of the Canadian and U.S. book and periodical publishing sub-sectors to develop and market their respective talent pool successfully on a sustained basis, given the large difference in market size and typical corporate size.



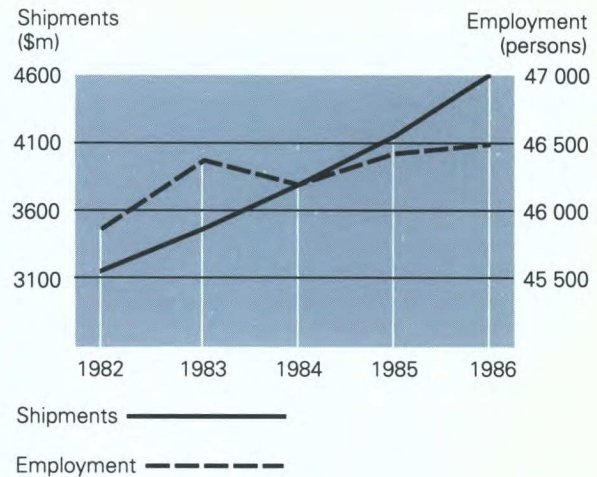
In the book sub-sector, because of their size and inherent economic advantages, which in turn is a reflection of their market base, the large U.S. and British publishers and their subsidiaries in Canada are able to attract the best manuscripts and the best writers. They have the ability to attract Canadian authors who have been discovered and developed by Canadian-owned firms, as soon as they reach national status. In addition, they are able to mount extensive marketing campaigns. With one or two exceptions, the Canadian-owned book publishing sub-sector is subject to the weaknesses usually associated with small-scale enterprises. The majority of Canadian-owned companies are underfinanced. After absorbing creative and printing costs, they lack the resources to undertake adequate promotion at home or abroad. The size of most Canadian-owned companies also restricts the extent to which full-fledged management and technical groups can be employed. The impact of these weaknesses is particularly noticeable in the French-language segment, given the small size of the market base.

In the periodicals sub-sector, the disparity in corporate size between Canada and the United States is not as large, although it is an important factor, particularly in the consumer periodical field. Given their much larger population base and advertising dollar market, the large U.S. publishers are able to offer periodicals with more extensive editorial coverage, a wider range of topics and a more glossy appearance than their Canadian counterparts.

In general, manufacturing cost is a secondary factor in determining the level of international competitiveness in the publishing industry. Purchases of raw materials and supplies represent about 30 percent of the publishing industry's value of shipments, compared to an average of about 60 percent for all manufacturing industries. Paper and ink are the two major raw materials used by the publishing industry. No critical material sourcing difficulties have been experienced in the past few years, although some grades and sizes of Canadian papers at times have been in tight supply. On an exchange rate-adjusted basis, prices for most raw materials used by publishers and commercial printers tend to be somewhat lower in Canada than in the United States.

The publishing industry in Canada and the United States is labour-intensive. Most of its employment is in the skilled category. In the last few years, labour supply has not been a critical problem area for the industry. At present, average hourly earnings in the Canadian publishing and commercial printing industries group are about 10 percent lower than in its U.S. counterpart, after currency adjustments. Labour productivity, on a currency-adjusted basis, is running about 25 percent higher in the United States.

Because of their strong position in the Canadian market, U.S. periodicals and books have become the price-setters which, in turn, constrain the prices that can be charged by comparable Canadian publications.



Total Shipments and Employment*

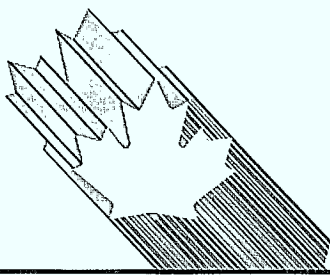
* Data for 1986 are estimated.

Trade-related Factors

Canada, like the United States, the European Community (E.C.) and Japan, provides duty-free entry to newspapers, periodicals and books.

Most developed countries have non-tariff barriers in place to protect their industry. In Canada, the principal measures introduced by the federal government are directed at encouraging Canadian advertisers to use Canadian media to reach Canadian consumers. In addition, several provinces, like many American states and European countries, have domestic-content requirements for educational books.

As one of the cultural industries, the publishing industry has been virtually excluded from the Canada-U.S. Free Trade Agreement (FTA). Under the FTA, Canada has agreed to remove on January 1, 1989 the "print in Canada" requirement. This is one of the criteria used to define Canadian newspapers and periodicals and thus eligibility for the deduction of advertising expenses for income tax purposes. On the foreign investment side in the cultural industries, if there is a divestiture of a business enterprise located in Canada by a U.S. investor, the Canadian government will offer to purchase the business enterprise from that investor at fair market value, as determined by an independent, impartial assessment. Therefore, government measures to assist and protect the Canadian publishing industry will not be affected by the FTA. There were no undertakings made by the United States in the publishing field.



Technological Factors

Publishing, like commercial printing, generally relies on suppliers of machinery and equipment to realize technological developments for its manufacturing processes. Several competing methods exist for both the printing and pre-printing (i.e., typesetting and platemaking) processes; extensive on-going research and development (R&D) programs are conducted by suppliers aiming to capture a larger share of the market. Most of this R&D work is conducted outside Canada. Manufacturing technologies are made available on a worldwide basis.

In the last decade, there has been a trend among those publishing firms which have no printing facilities to acquire pre-printing equipment (notably typesetting and desktop publishing equipment) as a cost-saving measure. In the daily newspaper field, sophisticated telecommunications are used for receiving news from correspondents and wire services and for exchanging information between members of newspaper chains. One Canadian daily newspaper is now printed in four cities with the paper's contents transmitted via satellite between the publisher's headquarters and the printing plants.

Other Factors

Over the years, the federal government has adopted numerous special measures to support the publishing industry, particularly the periodical and book sub-sectors. Its prime objective has been to support the development of a Canadian culture by providing an environment in which Canadian authors could flourish, and in which topics and issues could be aired and discussed from a Canadian point of view. In addition to the measures already described, government assistance takes the forms outlined below:

- Financial support to publishers under the Book Publishing Industry Development Program of the Department of Communications for a variety of activities aimed at improving their viability; and to trade associations for research and development initiatives designed to benefit the sub-sector as a whole.
- Financial assistance from the Canada Council to support the publication of literary and arts periodicals as well as books of cultural value; and support by the Social Sciences and Humanities Research Council (SSHRC) for learned periodicals.
- Subsidized second-class postal rates for various publications (whether Canadian or imported). Periodicals and books are the two major beneficiaries of this measure.
- The exemption of newspapers, periodicals and books (whether Canadian or imported) from the federal sales tax.

In July 1985, the Canadian government adopted a policy to "Canadianize" the book publishing and distribution sector. Establishment or direct acquisition of companies in Canada by foreign investors is permitted only if the investment is made through a joint venture with Canadian control. In the case of an indirect acquisition, the foreign investor would have to undertake to sell control to Canadians within a reasonable period of time, usually two years, at fair market value.

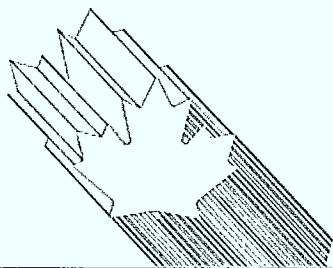
The industry's products are subject to provisions of the *Canadian Copyright Act*. It came into force in 1924. As the act had become obsolete and no longer provided adequate protection to those engaged in a creative process, a first series of major revisions was made in June 1988.

Several provincial governments, notably those of Quebec and Ontario, provide important support, financial as well as regulatory, to the periodical and book sub-sectors.

3. Evolving Environment

Overall, market demand for published materials over the medium term is projected to grow at a somewhat more moderate level, but still at a rate higher than the country's gross national product. Factors such as the amount of leisure time and the level of educational attainment of the population will continue to have a strong positive influence. However other factors, such as the anticipated slower population growth rate and the strong competition between leisure products for a share of the consumer's time and money, will have a negative impact on demand. The aging of the population will have a mixed effect on demand. Finally, the next decade will bring a number of technological developments to the news communications areas, such as videotext and compact disc, which may have adverse effects on some published materials. It is generally believed that market demand for periodicals and books will grow at a faster rate than for newspapers. In terms of circulation, the newspaper market is close to saturation.

On the international front, the United States and western Europe to a lesser extent, should continue to offer relatively good potential for export of Canadian publications over the medium term. At the same time, import pressures are not expected to moderate.



No drastic changes are anticipated in the basic structural characteristics or methods of operation of the Canadian newspaper and periodical sub-sectors over the medium term. In the book sub-sector, government policy should lead to a reduction in the level of foreign ownership. No critical shortages of paper or other raw materials currently used by the industry are expected. Furthermore, no dramatic developments in manufacturing processes are likely to occur during the next five years, so that the major emphasis in the industry will be on refining existing technologies. Publishing firms will continue to increase investment in pre-printing equipment.

The FTA should have virtually no direct effects on the industry. The elimination of the "print in Canada" requirement as one of the criteria to define Canadian newspapers and periodicals will enable Canadian publishers to investigate the possibility of sub-contracting their printing needs to the United States, as opposed to being restricted to using Canadian printers. However, factors such as freight costs and the need for some Canadian publishers to maintain a distinctively Canadian image, would suggest that only a limited number of Canadian newspapers and periodicals will be able to take advantage of this measure.

4. Competitiveness Assessment

The newspaper sub-sector is domestically oriented and is basically healthy. International competition is not a significant issue in this sub-sector because of the nature of the product.

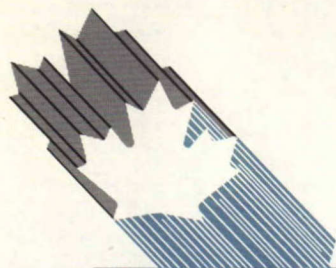
The periodical and book sub-sectors, on the other hand, are subject to strong import competition. The majority of Canadian-owned book publishers are not currently internationally competitive and are not likely to become so in the near future. They suffer significant size-related economic disadvantages vis-à-vis the large U.S., British and French book publishers and their branch plants in Canada. While less pervasive, these disadvantages are also found in the Canadian periodical sub-sector, notably in the consumer periodical field.

As discussed above, the FTA is expected to have virtually no impact on the Canadian publishing industry. Government measures in place to support the industry are not affected by the agreement.

For further information concerning the subject matter contained in this profile, contact:

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PRINCIPAL STATISTICS

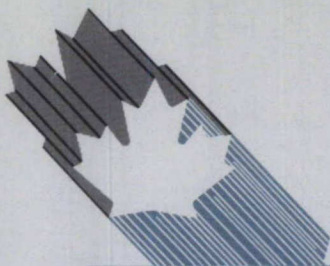
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	1973	1982	1983	1984	1985	1986
Establishments	1 164	1 359	1 480	1 467	1 458	1 450 ^e
Employment	41 178	45 832	46 365	46 200	46 433	46 500 ^e
Shipments/revenue (\$ millions)*	1 055	3 121	3 427	3 793	4 151	4 600 ^e
Gross domestic product (constant 1981 \$ millions)	N/A	1 514	1 609	1 672	1 701	1 846 ^e
Investment (\$ millions)	35	90	89	115	100	83
Profits after taxes (\$ millions)	92	205	282	279	291	N/A
(% of income)	8.7	5.3	6.9	6.1	5.7	N/A

TRADE STATISTICS

	1973	1982	1983	1984	1985	1986
Exports (\$ millions)	15 ^e	N/A	N/A	N/A	N/A	140 ^e
Domestic shipments (\$ millions)*	1 040 ^e	N/A	N/A	N/A	N/A	4 460 ^e
Imports (\$ millions)	370 ^e	N/A	N/A	N/A	N/A	1 580 ^e
Canadian market (\$ millions)*	1 410 ^e	N/A	N/A	N/A	N/A	6 040 ^e
Exports as % of shipments	1.4 ^e	N/A	N/A	N/A	N/A	3.0 ^e
Imports as % of domestic market	26.2 ^e	N/A	N/A	N/A	N/A	26.2 ^e
Source of imports (% of total value)			U.S.	E.C.	Asia	Others
		1986 ^e	86.7	11.2	1.2	0.9
Destination of exports (% of total value)			U.S.	E.C.	Asia	Others
		1986 ^e	95.6	3.0	0.2	1.2

(continued)

**REGIONAL DISTRIBUTION — Average over the last 3 years**

	Atlantic	Quebec	Ontario	Prairies	B.C
Establishments — % of total	5	23	41	18	13
Employment — % of total	5	19	48	17	11
Shipments/revenue — % of total	3	26	47	14	10

MAJOR FIRMS

Name	Ownership	Location of Major Plants
Thomson Newspapers	Canadian	Across Canada and abroad
Torstar	Canadian	Ontario and abroad
Southam (publishing group only)	Canadian	Quebec, Ontario, Alberta, British Columbia and abroad
Maclean Hunter (publishing group only)	Canadian	Quebec, Ontario, Alberta and abroad

e These statistics are only rough estimates since Statistics Canada trade data do not differentiate between publishers and commercial printers. In addition, small shipments through the mail system are not included in existing data.

* Canadian-produced goods only. Excludes revenues from agency business.

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