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Department of Communications

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ANALYSIS OF THE
ELEMENTARY AND HIGH SCHOOL
TEXTBOOK PUBLISHING INDUSTRY IN CANADA

Background Study

Etude de base

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PROGRAM EVALUATION DIVISION DE L'ÉVALUATION DES PROGRAMMES

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This is one of ten Background Studies on the Canadian book publishing industry that form part of the evaluation of the Book Publishing Development Program (BPDP).

The study was conducted by CPER Management Consulting Inc. for the Program Evaluation Division of the Department of Communications, Canada. The views expressed herein are those of the author and do not necessarily represent the views or policies of the Department of Communications.

Certain passages have been severed under the Access to Information Act to protect third party confidentiality.

ANALYSIS OF THE
ELEMENTARY AND HIGH SCHOOL
TEXTBOOK PUBLISHING INDUSTRY IN CANADA

Submitted to the
Program Evaluation Division of
the Department of Communications
by CPER Management Consulting Inc.

Ottawa,
March, 1984

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ANALYSIS OF THE ELHI TEXTBOOK PUBLISHING INDUSTRY
IN CANADA

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ANNEX INTERVIEW GUIDE

1. INTRODUCTION

1.1 Purpose

This study forms part of an evaluation of the Book Publishing Development Program (BPDP) being conducted by the Program Evaluation Division (PED) of the Department of Communications.

The purpose of this study was to conduct an analysis of five specific questions concerning the textbook publishing industry in Canada.

1.2 The Questions To Be Addressed in The Study

The five questions posed by the Program Evaluation Division were:

- Question #1: "What percentage of the Canadian (ELHI) textbook market is supplied by: a) Canadian-authored textbooks; and, b) Textbooks published by Canadian-owned publishers?"
- Question #2: "What are the costs of producing a textbook in Canada and how are these costs unique to textbook publishing?"
- Question #3: "What are the current policies of provincial Ministries of Education concerning textbook use in schools?"
- Question #4: "What has been the effect on the production of Canadian-authored texts and textbooks published

by Canadian companies from the ending of authorized textbooks by provincial Ministries of Education?"

- Question #5: "What mechanisms could the Federal Government institute to stimulate the production of Canadian textbooks?"

1.3 Format of This Report

The next section, 2, describes the characteristics of the overall approach taken in this study. Section 3, then, presents the results of the analysis for the five questions to be addressed.

2. STUDY APPROACH

The approach taken to this study was characterized by the following features:

- it focussed only on the ELHI textbook market and industry, thus excluding the post-secondary sector of the market and industry;
- it examined both the French and English Language sectors;
- it used the following sources: interviews with ELHI publishers; existing studies; and, data available from the Cultural Statistics Program (CSP) of Statistics Canada (STC); and,
- it analyzed data for the 1981 STC survey year only.

3. RESULTS

3.1 MARKET SHARES

This section contains an analysis of the respective shares of 1981 ELHI textbook sales which were accounted for by Canadian-authored titles and Canadian-controlled firms. The analysis draws on the data collected by the Cultural Statistics Program (CSP) of Statistics Canada (STC).

3.1.1 The Market and The Firms

Statistics Canada's (STC) estimate of the total (i.e., ELHI and post-secondary) textbook market for 1981 was \$222.9 millions, broken down as follows:

- English Language texts: \$202.5 millions (91%)
- French Language texts: \$20.4 millions (9%)
- Publishers' share: \$141 millions (63%)
- Exclusive agents: \$10.6 millions (5%)
- "Imports by Others": \$71.3 millions (32%)

STC calculates its estimates using the following process:

- "- using the 1974 census of publishers as a base, establish a file of publishers having reported in both 1974 and 1981 (known as common publishers).
- the assumption is that the share of total sales accruing to the common publishers in 1981 is the same as it was in 1974.
- the remainder of the sales stems from the unsurveyed and non-responding publishers; by adding the remaining sales to the surveyed sales of 1981, we get the total estimated sales of surveyed plus unsurveyed and non-responding publishers.
- from publication no. 65-007, Imports by

- Commodities, extract the total value of books imported into Canada.
- to establish the value of book imports by "others", subtract the total estimated sales of respondents plus unsurveyed and non-responding population from the total value of imported books reported in Imports by Commodities."

(Source: Cultural Statistics Program, STC)

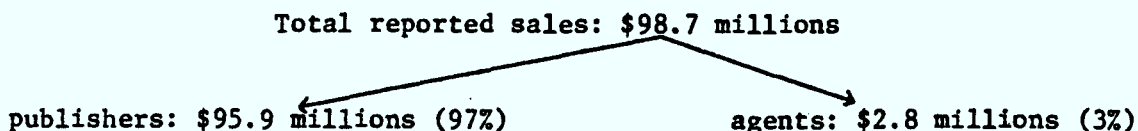
The STC data on reported sales show that ELHI sales represented 61% of all (i.e., ELHI and post-secondary) textbook sales in 1981. The following STC data on the ELHI market are provided on sales of ELHI texts (i.e., the commercial category of the book) and sales to ELHI institutions (i.e., customer category). Note that sales reported of ELHI textbooks are larger than those reported to ELHI institutions. STC officials were unsure of the reason for this discrepancy.

Text Table No. 1: REPORTED DOMESTIC SALES OF ELHI TEXTBOOKS
(including teachers' aids and manuals)

Total reported sales: \$102.6 millions

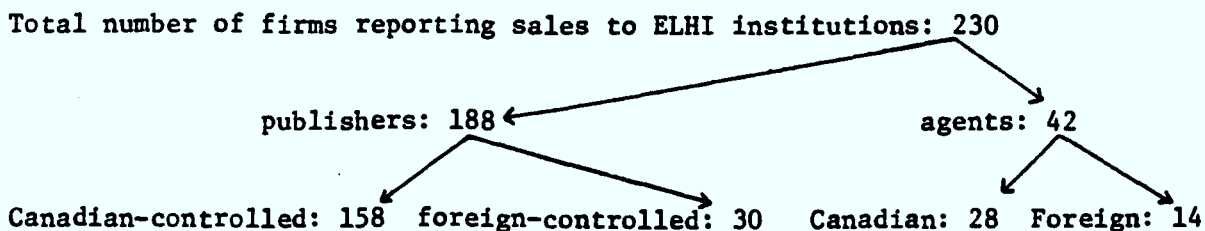
publishers: \$100.5 millions (98%) agents: \$2.1 millions (2%)

Text Table No. 2: REPORTED DOMESTIC SALES TO ELHI INSTITUTIONS
(including libraries)



The following table shows the distribution of firms reporting sales to ELHI institutions.

Text Table No. 3: PUBLISHERS AND AGENTS REPORTING SALES TO ELHI INSTITUTIONS (1981)



Source: STC Survey A, 1981

The following table shows the distribution of firms reporting sales to ELHI institutions.

Text Table No. 4: PUBLISHERS AND AGENTS REPORTING SALES TO ELHI INSTITUTIONS BY COUNTRY OF CONTROL AND LANGUAGE OF THE FIRM (1981)

Publisher/Agent	Canadian	Foreign	Total
Publishers	158	30	188
Agents	28	14	42
Total	186	44	230

Source: Statistics Canada Survey A, 1981

Thirty-eight publishers were classified by STC as being ELHI publishers, that is, they reported more sales in the ELHI category than any other category. No agents were classified as specializing in the ELHI market. The following text tables 5 and 6, show the distribution of these 38 firms by size, region, language and country of control.

Text Table No. 5: ELHI PUBLISHERS AND AGENTS BY COUNTRY OF CONTROL AND LANGUAGE OF THE PUBLISHER (1981)

Type	Canadian-controlled	Foreign-controlled
Publishers/Publisher Agents:		
English	14	12
French	10	2
Agents Only:		
English	0	0
French	0	0
Total	24	14

Source: STC 1981 A Survey

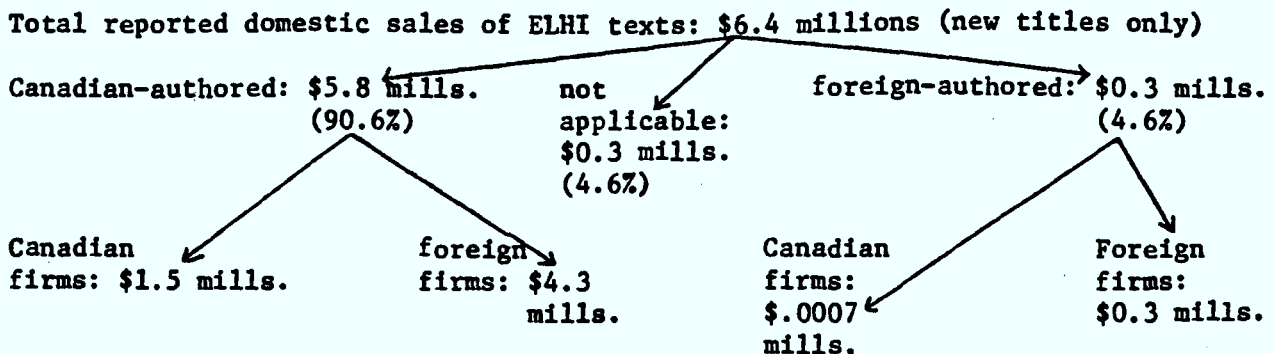
3.1.2 Shares of the ELHI Market Accounted For By Canadian-Authored Titles

There are no data available from STC which directly answer the question of market shares by authorship of the titles. As a result, this analysis draws upon both the STC survey 'A' of companies and the STC survey 'B' of individual titles. The 'B' survey reports only on new titles but addresses directly the question of the authorship of reported titles, whereas the 'A' survey covers all sales but categorizes them by 'own' vs. imported titles. STC officials estimate that the B survey responses account for 75%-80% of all new titles published. Reprinted titles are not surveyed in the STC questionnaires. The data on authorship must be treated with extreme caution. The CPER Profile of the Book Publishing Industry, using 1980 STC data, highlights the differences between the A and B surveys and discusses the limitations of the data concerning authorship.

3.1.2.1 ENGLISH LANGUAGE

The following data on new ELHI titles by authorship, for all English Language publishers, are from the STC B file.

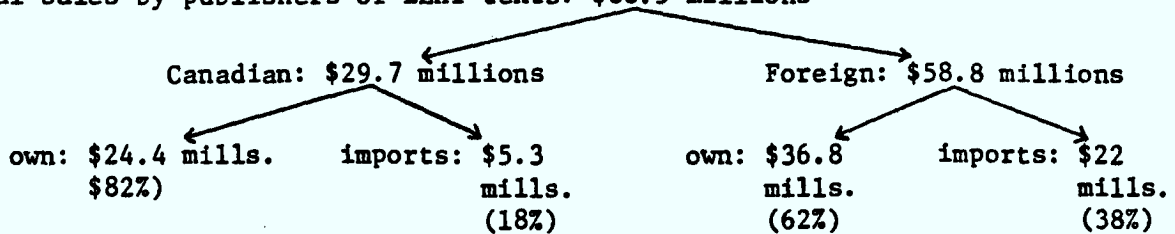
Text Table No. 7: SALES OF NEW ELHI TITLES: Canadian and Foreign-Authored (1981)



The following table presents STC data concerning the distribution of sales of ELHI textbooks by all publishers, according to the classification 'own' vs. imported titles:

Text Table No. 8: SALES OF OWN AND IMPORTED ELHI TITLES BY ENGLISH LANGUAGE PUBLISHERS (1981)

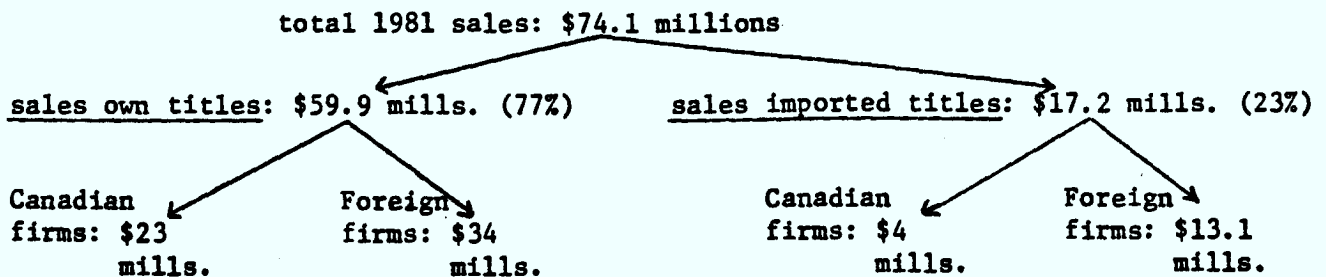
Total sales by publishers of ELHI texts: \$88.5 millions



Source: STC A Survey, 1981

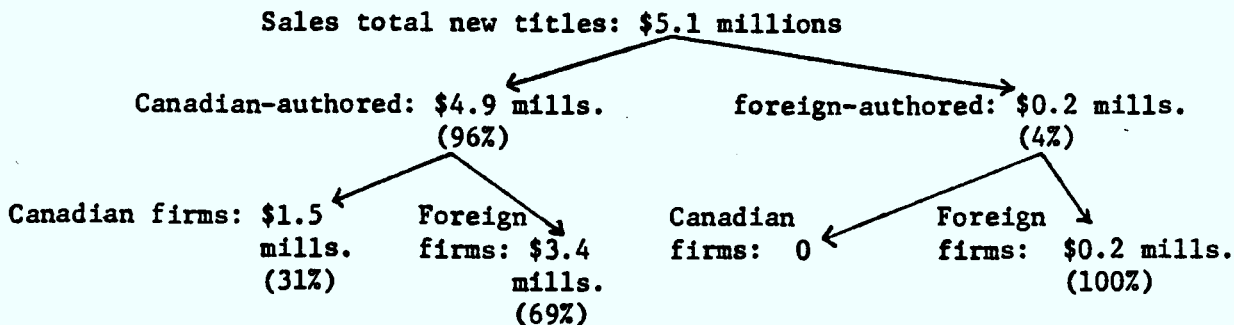
- The following data are for the twenty-six English Language publishers classified by STC as 'ELHI' publishers:

- total domestic and export sales reported by these publishers was \$74.1 millions, distributed as follows:



- On sales of Canadian and foreign-authored titles, the following were the results for the 26 ELHI publishers:

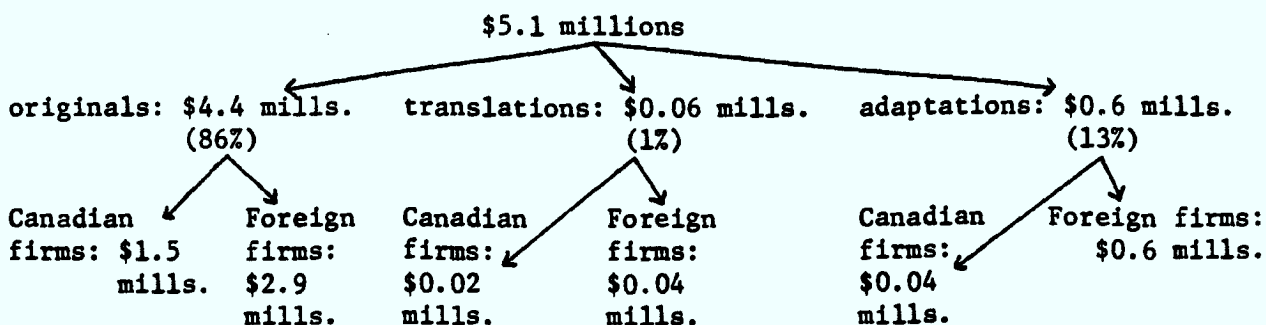
Text Table No. 9: SALES OF NEW TITLES BY ELHI PUBLISHERS: AUTHORSHIP



Source: STC B Survey, 1981

- The twenty-six English Language, ELHI publishers reported 360 new titles in 1981 distributed as follows:
 - 331 (92%) were Canadian-authored;
 - Canadian firms reported 149 of these titles, all of which were Canadian-authored;
 - foreign firms reported 211 titles of which 182 (86%) were classified as Canadian-authored;
 - a total of 678,857 copies were sold of the above 331 titles and 97% of these copies were classified as Canadian-authored;
 - the Canadian firms reported that total domestic sales of their 149 titles were \$1.5 millions;

- the foreign firms reported sales from their 182 Canadian-authored titles of \$3.3 millions;
- the sales reported by foreign firms of their twenty-nine foreign-authored titles were \$17,696;
- \$5.1 millions in sales were classified according to the categories 'original, translation, adaptation'. These sales were distributed as follows:



Source: STC Survey B, 1981

3.1.2.2 FRENCH LANGUAGE

Only two foreign-controlled, French Language firms reported sales in the textbook market, to STC. As a result, data on the foreign-controlled sector cannot be disclosed, due to STC regulations on the confidentiality of survey results. The following data are therefore, restricted to Canadian-controlled, French Language firms:

- \$0.8 millions were reported by authorship of the title

by all French Language, Canadian-controlled firms,
distributed as follows:

\$0.8 millions, Canadian-authored titles

(99.9%)

\$0.0004 millions, foreign-authored titles

(<0.1%)

- total 1981 domestic ELHI textbook sales reported by the Canadian-controlled, French Language sector was \$7.1 millions;
- of these total sales, \$5.9 millions or 83% were from the sale of 'own' titles and \$1.2 millions (17%) were from imported titles:
- for the ten Canadian-controlled, ELHI publishers:
 - \$0.4 millions in sales were reported by the authorship of titles, distributed as follows:
 - \$0.4 millions from Canadian-authored titles;
 - \$0.0002 from foreign-authored titles
 - total domestic and export sales were reported to be \$4.98 millions, distributed as follows according to the 'own/import' classification:
 - sales of 'own' titles \$4.8 millions (96%)
 - sales of imports \$0.1875 millions (4%)
- these publishers reported 58 new titles of which 57 were Canadian-authored;

- \$488,283 in sales were reported by the classification scheme 'originals, translations and adaptations', distributed as follows:
 - \$390,605 for originals (80%)
 - \$40,940 for translations (8%)
 - \$56,738 for adaptations (12%)

3.1.3 Shares of the ELHI Market Accounted For By Canadian-Controlled Firms

- Total sales of ELHI texts was \$102.6 millions:
 - publishers: \$100.5 millions (98%)
 - agents: \$2.1 millions (2%)

- Total reported 1981 domestic sales to ELHI institutions by both English and French Language firms were \$98.7 millions distributed as follows:
 - 158 Canadian-controlled publishers reported sales of \$35.1 millions (35.5%);
 - 28 Canadian exclusive agents reported sales of \$0.3 millions (<1%);
 - 30 foreign publishers reported sales of \$60.8 millions (61.6%); and,
 - 14 foreign exclusive agents reported sales of \$2.4 millions (2.4%).

3.1.3.1 ENGLISH LANGUAGE

- English Language publishers reported a total of \$88.5 millions in domestic sales of ELHI books distributed as follows:
 - Canadian-controlled publishers: \$29.7 millions (34%)
 - foreign-controlled publishers: \$58.8 millions (66%)

- The twenty-six English Language, ELHI publishers reported domestic and export sales of \$74.1 millions distributed as follows:
 - Canadian-controlled \$27 millions (36%);
 - Foreign-controlled \$47.1 millions (64%);

An analysis of the sales of new titles by the twenty-six ELHI publishers by subject matter shows the following:

- First Language instruction represented 32% of sales reported (\$1.8 millions);
and
- Mathematics represented 21.4% of sales reported (\$1.2 millions).
- Sales in all other subject areas drop to representing less than 10% of all sales, each;
- First language instruction sales of \$1.8 millions were distributed as

follows:

- \$0.3 millions, Canadian-controlled (25%)
- \$0.9 millions, foreign-controlled (75%)
- Mathematics' sales (\$1.2 millions) were distributed as follows:
 - \$0.3 millions, Canadian-controlled
 - \$0.9 millions, foreign-controlled

3.1.3.2 FRENCH LANGUAGE

No data on market shares by country of controlling interest are available for release in this study due to STC confidentiality regulations. However, a study conducted by Drouin-Paquin Associés Ltée. in 1980 states that the Quebec-owned sector dominates the ELHI sales in that province. This study suggests that the French Language ELHI market in Canada is \$40 millions, of which \$34 millions are from the province of Quebec. Of this \$34 millions, Quebec publishers were reported to have \$26 millions (75%).⁽¹⁾ This figure is quite different from the STC data which show that the French Language, Canadian-controlled sector reported sales of ELHI books for 1981 of only \$7.1 millions. This report also notes that the Quebec-owned sector tends to concentrate in the core curriculum areas and that, unlike the English Language sector, it is the foreign-controlled firms in Quebec which

(1) Drouin, Paquin, Assoc. Ltée. "Etude Visant A Determiner Une Strategie De Developpement Des Marches De L'Editon En Langue Francaise Au Canada Et En France - Situation Sur Les Marches Canadiens", le 30, décembre 1980

specialize in the small pockets of the Quebec ELHI market. The Canadian-controlled Quebec publishers were said to specialize in texts, whereas the foreign firms were reported to be in small and specialized fields such as the production of workbooks.

3.2 COSTS UNIQUE TO TEXTBOOK PUBLISHING

3.2.1 Approach

STC no longer collects data on the costs incurred by publishers in their publishing activities. The collection of these data was terminated by STC in their 1982 survey year and STC officials were of the view that the 1981 data would be of little value to this analysis due to the request for data on a per unit basis.

As a result, the following information on costs of textbook publishing is taken from the interviews with twenty ELHI publishers. Unique costs are those costs which are not incurred or are incurred to a much lesser degree in trade publishing than they are in textbook or educational publishing.

3.2.2 Results

English and French Language publishers both identified the following costs as those which are unique to educational publishing and which are the major contributors to the relatively high costs of educational publishing.

- Pre-publication product research and development costs were identified by all publishers as the significant distinguishing cost incurred in educational publishing, which is not incurred in trade book publishing. The level of these costs

varies from subject to subject and their orders of magnitude differ between the publishing of basal programs (e.g., mathematics grades k-6) or series of books, and the publishing of single texts. However, in all cases the costs are relatively high compared to the pre-publication investments made by trade publishers. Elements of this product research and development activity are:

- market research (needs identification);
- development of the scope and sequence for new products;
- manuscript development;
- prototype development;
- field testing; and,
- editorial time and salaries of author teams.

The team approach is generally used in the development of national programs, where the product must reflect the needs and priorities of a number of provinces. Since most publishers tend to publish for more than one province, the team approach is common;

- Design, artwork and production costs were reported to be higher overall due to the need for special attention to format and the requirement for exercises, graphs and illustrations. Texts requiring four-colour art work and graphs were identified as

those in which design and production costs are particularly high. Other elements of the production cost are reprint and permission fees, type-setting, assembly, film and print plates;

- Publishing of ancilliary aids was identified as necessary to the achievement of sales in the ELHI market. Ancilliary aids include components such as teachers' aids and manuals, overhead projectules, cassettes (especially for Language Arts) and work-books. Publishers noted that these materials are often not even profitable in themselves.
- The promotion and sales support of educational materials is also much more costly than in trade publishing. The elements of these costs can be divided into pre and post-adoption activities. Even after a text has been adopted, the publisher must still provide services to teachers. Pre-adoption activities include customer visits, provision of literature and workshops, usually with the author(s) and provincial curriculum consultants. Publishers are required in this process to provide for review, large numbers of sample copies of their materials (e.g., 1,000) to various levels in the educational hierarchy and so that they can be pilot-tested in classrooms. One of the major reasons that pre-authorization costs are

high is that publishers must usually produce a final or close-to-final product before being considered for adoption.

Once a text or a program has been adopted, the publisher continues to work with the customers by providing user workshops and "in-service" to teachers concerning how to use the program of instruction.

The selling of educational books is most resource-consuming in the early stages of adoption. However, publishers refer to "managing titles" in order to sustain sales over long periods of time compared to trade publications. When this is done successfully, titles can stay in the marketplace for periods of close to ten years. The need to "manage" a title is an important one, given the time and financial investment made in individual products.

In breaking down the elements of ELHI textbook prices, Drouin, Paquin show that the largest single contributing category is "Admin., promotion and marketing" at 25-35%, for a first edition. Printing was reported to account for 20-25% of the price of a text. For a second edition, "admin., promotion and marketing" contributed to 20-25% of the price

but it was still the largest single category. Printing remained at 20%.⁽²⁾

The process involved in bringing a title to the point where it is ready to be adopted or sold is a lengthy one, often covering a span of close to ten years from the initial idea stage. The process involves substantial consumption of both financial and human resources over this time frame.

Publishing of basal programs involves the investment of greater financial and human resources than does the publishing of single texts. However, the investments required in single texts are still high, relative to trade publishing. The potential sales and profitability of successful educational titles is also much greater than in the trade publishing sector. Below is a summary of the results concerning the nature of investment required:

- the time involved from developing an idea to taking it through to the stage at which copies are actually warehoused and available for sale can be as long as five to seven years for a basal program;
- the parallel figure for a single text averages about 2 - 3 years;
- for a program of texts, the product research and development stage can take a period of up to 3 to 5 years;
- actual production time can take anywhere from

(2) IBID, p. 70

- 9 months to 1.5 years;
- editorial and project team costs are not easily broken down but several publishers estimated that costs for R&D on a program of texts (e.g., k - grade 6) could easily rise to \$500,000;
 - costs of publishing translations and adaptations, are much less than those of publishing originals due to the fact that R&D costs are not incurred;
 - the total cost of publishing an original program can go well over \$1 million and the cost of publishing an individual title can go into the hundreds of thousands;
 - payback periods vary from 1 - 5 years depending on how costs are amortized by individual publishers;
 - sales peak in about the third or fourth year after publication and the average life span of a text is about 5 - 7 years, depending on the subject matter. Some texts can in fact, have life spans of up to ten years or more.
 - first printings are not as profitable as subsequent ones due to the costs involved and, to the need to distribute free copies. The Drouin, Paquin report agreed with this assessment.

In summary, educational publishing is one which involves high capital investments with long payback periods

compared to trade book publishing. The front end investment required in research and development introduces a high degree of risk into this very competitive business. However, successful texts can be quite profitable.

The Drouin, Paquin report describes ELHI publishing as one involving calculated risks:

"Le manuel scolaire représente un risque calculé. Sa réussite est fonction d'une bonne évaluation du marché-cible." (3)

3.3 PROVINCIAL POLICIES ON TEXTBOOK USE

There are several dimensions to policies on textbook use,

- the use of Canadian texts;
- per pupil expenditures on texts;
- revision or adoption cycles; and,
- extent of choice available to educators for textbook selection.

3.3.1 Overall Setting

All Canadian provinces have their own teaching objectives from which are developed provincial curriculum guidelines. As a result, the Canadian ELHI textbook market is composed of many small and independent sub-markets.

3.3.2 The Use of Canadian Texts

Results here are from interviews with publishers, a review of the ACP/School Trustees Federation study, "Canadian Learning Materials in Elementary and Secondary Education Project", and the Pepperwood Report.

Only the province of Ontario has a clear and formally-stated policy on the use of Canadian texts. In Ontario, texts used in classrooms are to be selected from the provincial Ministry of Education's authorized list of approved texts, contained in Circular 14. Texts listed in Circular 14 must be Canadian-authored, edited and manufactured. All English Language publishers stated that in

the other Anglophone provinces educational value is the highest criterion used to assess products. Within this context, it was agreed that the approach taken towards the selection or not of indigenous material is "All things being equal" ... an indigenous text would be given preference over a foreign text. Furthermore, some publishers noted that in some instances, preference is given to locally-published and printed materials over those published in other provinces. Recent examples of this approach can be found in both B.C. and Nova Scotia. In Quebec, publishers expressed the opinion that original Quebec-published materials are favoured over Canadian materials published by Canadian firms from outside of Quebec, and foreign materials. Quebec publishers were of the view that the content requirements of the Quebec Bureau d'Approbation du Material Didactique (BAMB) are restrictive, limiting the marketability of their products in other provinces. The Drouin, Paquin report confirms these statements.

3.3.3 Per Pupil Expenditures on Texts

Concern has been expressed by ELHI publishers for several years about per pupil expenditures on textbooks. In particular, this concern has been heavily directed to the expenditures of the Province of Ontario, relative to other provinces. A study commissioned by the Canadian Book Publishers Council and the Ontario Teachers Federation,

The Ryan Report, argued that Ontario's per-pupil expenditures on textbooks was the lowest in the country. Ontario Ministry of Education officials have disputed the results of the study and the CBPC has commissioned a further study to validate the results of the Ryan Report.

Concern has also been expressed by publishers about the decline in educational budgets relative to textbook prices, both in English and French Language markets. The effect on publishers, attributed to decreasing budgets for textbook purchases has been:

- the purchasing of lower cost component products such as workbooks;
- the purchasing of fewer copies of individual core texts in favour of sharing among students and photocopying of textbook contents; and,
- photocopying of materials.

Quebec publishers were of the view that while per pupil textbook expenditures are higher there than in Ontario, budget restraints were in place. The Drouin, Paquin report notes that in Quebec, schools are also developing their own support materials due to budget restraints, e.g., workbooks.

The Pepperwood Report on the ELHI market to 1989 suggested that one effect of decreasing budgets in all provinces has been the move towards the purchasing of fewer supplementary materials. This is an important issue for

DOC, given that many Canadian-controlled, English Language publishers specialize in the publishing of supplementary as opposed to core course materials.

3.3.4 Adoption Cycles

Provincial adoption or revision cycles are an important aspect of the provincial textbook markets. The main feature here is that all provinces, with the exception of Ontario, have strict adoption cycles which must be adhered to. In Ontario, titles can be authorized for inclusion on Circular 14 at anytime. Given that most publishers do not publish titles for one provincial market in planning a new product, the differing cycles are important.

The need to publish for one province's adoption cycle may mean that books must remain in warehouse inventory until the appropriate time in the cycle of another province.

3.3.5 Extent of Choice Available To Educators For Textbook Selection

In Ontario a choice of about seven titles per course is not unusual, whereas in other Anglophone provinces the choice is generally limited to two or three titles. In Quebec, publishers indicated that the situation was much closer to that of Ontario, with about seven or so titles being authorized per course. In some provinces, for example,

British Columbia and Newfoundland there are cases of single adoptions. Publishers see benefits and costs to both extremes, i.e., the Ontario situation in which authorization on Circular 14 is considered really just a licence to compete for the market, and cases of single adoptions. The 'open' nature of the Ontario market means that authorization provides no guarantees of sales and that, therefore, extensive efforts must be put into the marketing and selling of authorized titles to officials of school Boards and individual schools. In the case of single adoptions, publishers can invest large amounts of capital in the preparation of proposals for what is described as a 'win-lose' situation. Winning a single adoption assures a guaranteed market but losing such a competition constitutes a significant financial loss.

In summary, the elements described above of provincial policies on book use, result in an extremely competitive ELHI textbook market.

3.4 EFFECTS OF DECENTRALIZATION OF DECISION-MAKING CONCERNING MATERIALS FOR CLASSROOM USE, ON THE PRODUCTION OF CANADIAN TEXTS AND TEXTS OF CANADIAN PUBLISHERS

Provincial Ministries of Education authorize those texts which can be used in the classrooms of their elementary and high schools. However, most provinces authorize more than one title per course from which educators may select. In some cases single titles are adopted by the province. As we described in the previous section, 3.3.5, the extent of choice provided to educators differs between each provincial market. The province of Ontario provides the greatest degree of discretion to educators, although Quebec publishers informed us that while BAMB authorizes texts, in fact, principals and frequently teachers, select from a choice of about seven or eight titles per course, similar to the extent of choice provided in Ontario. The Drouin, Paquin report confirms that selection is very decentralized in Quebec.

Publishers and their associations give the greatest degree of credit to the policies of Ontario for the development of an industry which is based on the publishing and sale of indigenous, Canadian-authored materials. However, this credit is given to the criteria for authorization on Circular 14 which state that to be authorized, titles must be Canadian-authored, edited and manufactured. Publishers were of the view that decentralization of textbook selection to School Boards and school officials (principals and sometimes teachers) was having no effect on the use of Canadian-authored titles. An analysis conducted by the

ACP and the Canadian Federation of School Trustees, in fact, concludes that it is the existence or not of provincial policies on the use of Canadian-authored texts which largely determine the priority given to them by those officials doing the actual selection. However, as discussed in the previous section, it is generally agreed that even in provinces outside of Ontario, where such policies are unclear or not formally stated, preference is given to Canadian materials when all things are considered to be equal.

As for the effects of decentralization on Canadian firms, the story is somewhat different. All publishers informed us that over the last decade or so the business to be in, is that of publishing original Canadian works, that the market for imported and even adapted titles has all but dried up. Certainly the STC data support this assertion.⁴ Publishers noted that the cycle which has taken place in the educational publishing industry was characterized by an initial stage in which the market was served predominately by imported titles, followed by adaptations, to the current stage in which the ELHI market is served, for the most part, by original Canadian-authored material. However, an analysis by the ACP and the Canadian School Trustees Association states that prior to the changes in ELHI curricula, and in particular, the wide range of choice offered to educators in Circular 14, the text publishing industry was, in fact, almost exclusively dominated by Canadian-

⁴ Note, however, that STC's estimate of "imports by others" is not further sub-divided into the ELHI and post-secondary markets. Thus we have no clear picture on the sales value of ELHI imports.

owned firms. The opening-up of the Ontario market was identified as an opportunity for foreign-controlled publishers, which made the market a highly competitive one in which Canadian firms were competing with the very sophisticated products and marketing and promotion strengths of foreign firms. This change was seen to be one which led to the increasing domination of the ELHI market by foreign-controlled firms.

The results of this change in the structure of the educational publishing industry in Canada led to the creation of what is now a highly competitive situation requiring extensive marketing and promotion activities, in which large and consequently, primarily foreign firms are seen to have a competitive advantage.

3.5 WHAT MECHANISMS COULD THE FEDERAL GOVERNMENT INSTITUTE TO STIMULATE THE PRODUCTION OF CANADIAN TEXTBOOKS?

This section contains the results of our interviews with publishers on potential mechanisms which the Federal government could consider for stimulating the production of Canadian texts. Comments were not restricted to book production per se, since some individuals expressed the view that a market-oriented approach would be most beneficial to the industry.

Industry representatives interviewed provided both strategic-level suggestions and suggestions on modifications to the support provided by the BPDP. There were no strong cleavages in opinion between different groups of publishers, i.e., foreign or Canadian-controlled, or small vs. large firms.

Suggestions on strategy, included those from publishers who considered that no federal initiatives were required. They were of the view that market forces, including provincial regulations, have led to the development of an industry which relies on the sales of world-class, indigenous Canadian materials and that federal support to publishers only maintains mediocre-quality products. Some Canadian publishers considered that the Federal government should focus its attention on restructuring the industry, with the objective of placing the Canadian-controlled sector in a dominant position. Still other publishers suggested modifications to the BPDP as follows:

- Redistribution of BPDP Grants: The concern here was that the current distribution of grants is concen-

trated among a small number of firms. The suggestion was made that the formula be amended to redistribute some of the program funds to smaller publishers.

- Promotional Assistance: The ELHI market in Canada requires extensive efforts in promotion of products. The large firms are at an advantage over some smaller firms, especially those in provinces such as Newfoundland, where physical access to other provinces is costly. Promotional assistance in Canada was suggested for smaller, regional publishers, as a result of the above situation. As well, it was suggested that assistance for more sustained promotion and marketing efforts in export markets would be more effective than book fairs. DOC officials have pointed out that there are funds available for developing marketing strategies, under the BPDP 'company analysis' component, but that publishers rarely apply for assistance under this component. Funds available under the export marketing assistance component are limited and thus generally used for supporting relatively low-cost promotional tools such as the production and distribution of trade book catalogues. In ELHI publishing the production of these catalogues is not low cost. DOC officials, however, stated that publishers have not understood the flexibility of the Program and suggested that larger scale and more costly export endeavours might be con-

sidered for funding under the company analysis or feasibility project components.

- Support to Physical Distribution: Both French Language and some English Language publishers located outside of central Canada suggested that the Federal government should consider assisting publishers with the costs of physical distribution. French Language publishers have pointed out that it is more costly for them to export their books to France than it is for publishers located in France to export to Canada. GATT considerations would be important in reviewing the possibilities of the Federal government providing support to physical distribution.

- Translation Grants and Support to the Sale of Quebec Texts in French Language Markets Outside of Quebec: Such assistance was suggested by Quebec publishers who describe their provincial market as one which is small and heavily populated by ELHI publishers, given the market size. Quebec publishers see the other provinces as ones which have been largely untapped by them. This is confirmed in the Drouin, Paquin report. Quebec publishers were concerned that the Foreign-controlled, English Language Sector is getting ahead of them in French Language markets outside of Quebec and suggested such assistance to help them in expanding their market base.

- Market Development: Many publishers considered that the federal government should be involved in developing national curricula for certain subject areas due to the fragmented nature of the ELHI market. Quebec publishers considered that the French Language market outside of Quebec was even more fragmented than the Quebec market itself, where selection is decentralized. While this suggestion regarding national curricula was made, publishers viewed it as an unlikely prospect for them. It was also suggested that the Federal Government provide financial assistance to provinces for the purchase of ELHI texts.

- Software Development Assistance: The sale of computer software was identified as a product area into which Canadian firms should move. Federal assistance was suggested for the development of new product lines in this area.

An idea related to this point is that DOC might capitalize on its experience in the field of telecommunications to support the Canadian sector of the industry, both in developing new products and for increasing efficiency of operations.

- Product Development Assistance: It was suggested that the Federal Government may wish to consider providing grants for the development of specific new products.

Such assistance would help to alleviate the financial burden imposed by research and development on new products, which often excludes Canadian publishers from competing in certain areas. In fact, BPDP assistance have been used by some ELHI publishers for this purpose.

- Tax Measures: Both English and French Language publishers complained about the taxing of grants and suggested this practice be stopped. As well, Canadian and Foreign-controlled publishers suggested that the federal government should provide tax incentives for the production of Canadian-authored titles.

A N N E X

ANNEX

Analysis of the Textbook Industry in Canada: Interview Guide

BACKGROUND AND PURPOSE

- o My name is _____, from CPER Management Consulting Inc.
(In Ottawa)
- o DOC is currently conducting an evaluation of its Book Publishing Development Program (BPDP). The evaluation is the responsibility of the DOC Program Evaluation Division
- o The evaluation has been sub-divided into ten small and focused studies which will then be integrated by officers from the Program Evaluation Division of DOC.
- o The results of the evaluation and its ten supporting studies are to be used in the preparation of a Cabinet Memorandum on the BPDP. This memorandum is to be submitted by March, 1984.
- o We are conducting a study which is to address five questions concerning the elementary and high school textbook publishing industries, both the English and French Language sectors. The draft results of our study are to be presented to DOC in mid January '84.
- o The five questions are concerned with:
 - shares of the ELHI textbook market accounted for by Canadian-authored titles
 - shares of the market accounted for by Canadian and foreign-controlled firms
 - costs of textbook publishing in Canada
 - provincial textbook policies and their impacts on Canadian publishers and Canadian texts

- potential federal level initiatives to assist the
production of Canadian texts

- o We are conducting a limited number of interviews with publishers on these questions and would like to arrange a telephone discussion with you or your designate as part of this small survey. It would take about 45 minutes. The results of these discussions will be treated as confidential.

Time and Date

Person

THE INTERVIEW QUESTIONS

Your Company's Activity in ELHI Textbook Publishing

- age
- proportion of revenues from textbook publishing? ELHI textbook publishing? trade book publishing?
- any particular subject matter specialties? Has this changed and if so, why?
- concentrate on certain provincial markets or all of them? Has this changed, if so, why?

MARKET SHARES: CANADIAN-AUTHORED TEXTBOOKS AND CANADIAN OWNED COMPANIES

1. The first question we are to answer is the share of ELHI

textbook sales accounted for by i) Canadian-authored titles and ii) Canadian-controlled companies. We plan to use Statistics Canada database for this but would like to know if you know of any other sources which might be useful, especially for the market shares accounted for by Canadian-authored texts.

Could you identify any sources on market shares accounted for by i) Canadian-Authored texts

ii) Canadian owned companies

- Quebec (French Language publishers)

- Canada as a whole

COSTS

2. What specific categories of costs are either unique to textbook publishing or are substantially higher in textbook publishing as compared to tradebook publishers? Please provide separate answers for "program" texts and single texts. Probe if necessary using the following cost categories:

- (i) upfront expenditures on market research, product research and development;
- (ii) interest charges on product development funds;
- (iii) direct editorial and design costs (perhaps have to use subject-matter experts?);
- (iv) direct manufacturing and production costs (printing, binding);

(v) expenditures on promotion, distribution and sales
support staff

- salaries
- freight charges
- displays or other advertising and promotion.

3. How long does it usually take to bring a textbook ("program" and "single text") to the point at which it is available to be sold? Does this vary with subject matter? With original vs. adaptation vs. translation? How do these times compare with tradebooks? (Any specific examples of the above using their own titles?)
4. How are the above categories of costs spread over this time? Does this differ from the situation with tradebooks?
5. Are there any particular textbook subject matters in which these costs are particularly high? Core texts (specify), Other (specify)? What are the reasons for this, e.g., competition for a fragmented market and with well-established companies? Are certain subject matter texts more profitable than others?
6. What is the average life span of a text
 - core?
 - supplementary?What factors contribute to this length of life span?
How many new products (texts and programs) have you introduced over the past three years?

7. What are the relative costs of publishing original texts vs. translations vs. adaptations? (examples of costs: purchase of rights, market research, product research and development, adaptation costs, translation costs, royalty payments)
8. What are the relative profitabilities of your text and tradebook lines? (ROI if possible %) Has this changed over time? How do your most profitable tradebooks compare with your most profitable textbooks?
9. What is the average pay-back period for investments in texts? in tradebooks? (i.e., years to recover costs, not profits)
10. It is often argued that foreign-controlled textbook firms have certain cost advantages over Canadian-owned textbook firms. Do you agree with this? Please give the specific areas in which they have advantages and your view on the reasons for these advantages and the relative importance of them. (Probe, if necessary, e.g., sources of financing from parent company, advantages with respect to development costs, ability of foreign firms to offer lower prices). Does this differ from province to province? Does it differ by subject matter?
11. Do you manufacture (e.g., print, bind) some of your texts outside of Canada? If so, to what degree and in what countries?

11.1 Why? Why not?

(Specific categories of costs that would be lower and reasons for it)

11.2 What is the magnitude of the advantages?

11.3 Does manufacturing of texts outside of Canada affect the marketability of these texts in the provinces?

If so, how?

12. What are the relative advantages related to the size of the publisher? Can these be offset by faster reaction time in the smaller houses (lower interest) and possibly also lower overhead?

12.1 Have you ever had a cost analysis done of your firm or have you ever heard of it being done, e.g., your auditors?

13. What is the relative profitability of imported as compared to Canadian original texts?

14. What is the relative profitability of exports compared to domestic book sales?

EFFECTS OF PROVINCIAL TEXTBOOKS POLICIES

While textbook/learning materials policies vary from province to province, we are concerned here with the effects of the following aspects of these policies on the publication of Canadian texts and on Canadian companies.

o 'authorized' curriculum policies (content, definition

- of Canadian)
- o selection procedures (i.e., who)
- o per pupil textbook expenditures

1) Effects of these policies on the publishing and sales of Canadian-authored texts?

English Language

15. In general, do you find that most provincial authorization criteria look for Canadian-authorship or do other factors weigh more heavily in their decisions? How has this affected your publishing programs?
16. Are particular provincial markets more attractive than others? If yes, which ones? How have the above factors resulted in this situation? What other factors have contributed to it?
17. What have been the effects on the publishing programs of text publishers of the policies of Ontario? (publish more Canadian-authored texts?) Are other provinces' authorization policies regarding Canadian books similar to Ontario?
18. Does the Ontario policy affect the material you develop for other provinces?

French Language

19. What is the Quebec policy on the use of Canadian books?

20. Does the Quebec policy affect your company's ability to sell your books in other provinces?

21) What are the effects of these policies on the use of Canadian learning materials on proportion of originals vs. adaptations and translations?

ii) Effects of policies on the respective market shares of Canadian and foreign-controlled firms

22) In your view have provincial text policies concerning the use of Canadian books affected the respective abilities of Canadian and foreign-owned firms to compete in the Canadian market? Are Canadian firms at an advantage? If not, why not?

iii) Effects of policies on the costs of bringing a title/program to the market and of sales achieved

23. We understand that the responsibility for selection of individual texts/learning materials to be used is quite decentralized. Has this been your experience? If yes, how has this affected your company? Text publishers in general? Canadian vs. foreign-controlled firms
e.g., fragmented market requiring increased marketing and sales expenditures, wide range of authorized texts means being authorized does not guarantee sales?

24. Does the level of funds available for textbooks influence the choice of classroom materials to be used? Do foreign-owned firms have any advantages here, e.g., ability to

offer texts at lower prices.

25. Which, if any, provinces make funds available to publishers for material development? Please describe assistance. Have you received any of such assistance?

POTENTIAL FEDERAL MECHANISMS TO STIMULATE THE PRODUCTION OF TEXTBOOKS

Currently Federal assistance to textbook publishers comes from the Book Publishing Development Program of the DOC. This assistance is untied and thus seems to steer clear of Federal-Provincial jurisdictional issues. Given the mandate of the provinces for education and the issues we have just discussed, what suggestions would you make for federal initiatives aimed at stimulating the publishing and use of Canadian textbooks?

- publishing and use of Canadian-authored texts?
- market shares of Canadian-controlled publishing houses?

26. Please describe the specific problems which would be addressed and benefits you would expect to flow from these initiatives? e.g., research and development, production, marketing and sales assistance through, e.g., tax incentives, direct grants, loan guarantees or subsidized interest rates?

27. Do you see any potential conflicts caused by the Federal and Provincial roles in education associated with your suggestions?

