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A RESEARCH DESIGN FOR A  
STUDY OF THE CANADIAN PERIODICAL INDUSTRY

DEPARTMENT OF COMMUNICATIONS

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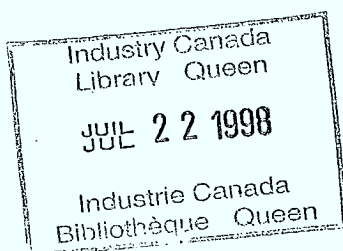
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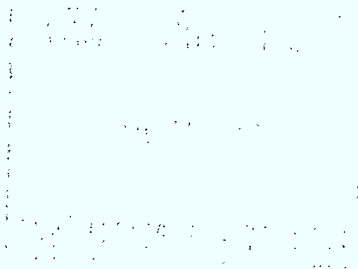
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Dear Dr. Malik:

We take pleasure in attaching the final report containing our research design for a study of the Canadian Periodical Industry.

We enjoyed working on this interesting assignment, and wish to express our gratitude for the support and assistance from you and Messrs. Thera, Hodgson, and Lalonde of the Department. The time and ideas provided by you and your colleagues greatly contributed to the successful outcome of the engagement.

Yours very truly,

PEAT, MARWICK and PARTNERS

*Peat, Marwick and Partners*

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enc.

DEPARTMENT OF COMMUNICATIONS  
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## I - INTRODUCTION

### BACKGROUND AND OBJECTIVES

✓ Currently, there is a multiplicity of government policies and programs affecting the Canadian periodical industry, spread across many government departments and agencies, both federal and provincial. The most important program, in dollar terms, is the postal rate subsidy program, whereby publishers are charged low postal rates, in relation to actual costs, for mailing newspapers, magazines, and books. The justification for the "publisher's rate" categories is that the relatively inexpensive distribution of certain publications across Canada contributes to a variety of social and economic programs such as developing business initiatives and promoting cultural and educational development.

Traditionally, the Post Office had fiscal and policy responsibility for the concessionary rate categories. In 1978, however, this responsibility was transferred to Secretary of State, now part of the Department of Communications. The reasons for the transfer were twofold. One was to free the Post Office from being responsible for a portion of its deficit related to the pursuit of government objectives not falling within its mandate. The other reason was to ensure that postal rate policy would reflect the cultural objectives and policies of the government.

Subsidization for losses incurred by the Post Office on behalf of concessionary publisher's rates is now specifically identified in the Main Estimates as a transfer of funds from the Department of Communications to the Post Office.

Given that the Department of Communications is now responsible for the postal subsidy program, as well as for overall policy regarding development of the Canadian periodical industry, this report presents a program of research that is designed to enable the Department to fulfill these responsibilities.

There are many issues surrounding the Canadian periodical industry, which may be divided into short-term and long-term issues. The major short-term issue relates to assessing the effectiveness of the postal subsidy program and to making the program as efficient and as effective as possible. The primary long-term issue is the need to design and implement coherent policies for the Canadian periodical industry which may or may not include the postal program.

The proposed research program outlined in the following pages is designed to address both these short- and long-term issues. The proposed set of research modules have been designed so that together they will satisfy the following objectives:

- provide complete coverage of the Canadian periodical industry
- assess the importance and effectiveness of the postal program
- estimate the effect of postal rate changes on the:
  - . size of the postal program
  - . commercial viability of publishers and periodicals
- based on the analysis of the effectiveness of the postal program, identify postal rate groups which are prime candidates for rate action
- collect data on the financial status of major industry segments
- identify major industry problems and needs
- identify key factors associated with successful and unsuccessful periodicals
- estimate the impact of various policy options.

As the above research objectives imply, much of the research will require substantial involvement on the part of publishers. For example, as described



in Section V, assessing the impact of the postal program will require access to publishers' financial records and interviews with publishers. Estimating the effect of postal rate changes will also require knowledge of the existing structure of mail volumes by category of periodicals.

Finally, understanding the problems and needs of publishers will necessitate interviews with publishers, industry associations, and industry experts.

The research program, then, will require a considerable amount of data gathering, since this type of information has never been collected before.

#### DEFICIENCIES OF EXISTING DATA

Although several data sources do exist on the periodical industry, each refers to a specific segment of the industry and each has its own problems and deficiencies.

The principal source of data on the periodical industry is provided by Canadian Advertising Rates and Data (CARD), which is published by Maclean-Hunter Ltd. and Standard Rate and Data Service Inc. CARD reports circulation statistics based on Audit Bureau of Circulation (ABC) or Canadian Circulation Audit Board (CCAB) circulation statements or other acceptable audit statements. The CARD information is published for the benefit of advertisers and is therefore product oriented - i.e., it is stratified by type of periodical rather than by firm. Advertisers find this source useful because it allows them to allocate their advertising dollars to those periodicals which reach desired segments of the population. However, the CARD information is not as useful to the Department of Communications, which requires data on publishers as well as on periodicals.

Another deficiency of CARD is that it only contains those newspapers and periodicals which carry advertising. As a result, many government publications, religious magazines, scholarly journals, political reviews, etc., are





not covered. For example, in 1977, CARD listed 28 religious and scholarly publications. In comparison, the Canada Post listing of second class mail publications contained over 300 scholarly and religious publications. Furthermore, a total of only 1,001 periodicals were listed in CARD compared to over 2,200 in the Canada Post file.

Finally, another inadequacy of the CARD system is that it excludes most non-commercial publications, and contains only four categories of periodicals: roto, religious and scholarly, consumer and business press. The Department requires information on a more disaggregated basis, e.g., consumer magazines broken down by: subject matter, type of publisher (commercial or association), level of profitability, market forecasts, region, and so forth.

Although Statistics Canada collects data on periodical publishers through its annual Census of Manufacturers, the information is incorporated into S.I.C. 288 - "Publishing Only" and S.I.C. 289 - "Publishing and Printing". The latter includes books, newspapers, magazines, almanacs, maps, guides, etc., while the former includes establishments primarily engaged in publishing and which do no printing. Statistics Canada unfortunately does not have a four digit code pertaining exclusively to periodicals and therefore no information can be extracted for only the periodical publishing sector.

The major source of information on publishers is provided by a recent study conducted by the Bureau of Management Consulting.\* For 93 periodical publishing establishments, financial information for 1977 was obtained from the file of T2 income tax returns at Statistics Canada. Because financial information on various non-profit associations is not well-monitored by Revenue Canada, this study had to concentrate on incorporated firms. Newspaper publishers were excluded from the study as well.

The financial information that is presented in the report consists of basic financial items such as sales, profits, assets and equity. Since the

---

\* Bureau of Management Consulting. Interim Profile of the Periodical Publishing Industry in Canada for Department of the Secretary of State. Volume I, II and III. Supply and Services Canada, 1980.

information is provided on a company basis, there is no way of knowing to what extent information on products other than periodicals is included.

Although this report provided an overall financial analysis of one segment of the industry, the Department feels that, for the purposes of policy development, there is a need for additional financial and non-financial information pertaining to the following areas:

- differences between commercial and non-commercial enterprises
- the importance of periodical publishing for each firm (e.g., revenue from periodicals compared to total company revenue)
- number of periodicals produced by each firm
- cost information (e.g., cost of postage, paper, and labour, and fixed costs)
- methods of distribution used
- revenue disaggregated by source: advertising, subscription sales, newsstand sales, government grants, etc.
- financial problems and needs.

#### ORGANIZATION OF THE REPORT

The report is organized as follows. Section II discusses in more detail the various short-term and long-term objectives of the Department, and the corresponding objectives of the research program. The point is made that even though the proposed research program is short-term in nature, it can still contribute to the achievement of the long-term objectives of the Department.

Section III describes the various short-term issues relating to the short-term objective of estimating the impact of the postal subsidy program.



In order to arrive at an estimation of the aggregate impact, the effects of the program on various segments of the industry must first be estimated.

Section IV turns to a discussion of the long-term issues associated with the long-term objective of policy formulation. The chapter describes several of the factors which may affect the commercial viability of firms in the industry.

Following the discussion of the various short-term and long-term issues, Section V describes the types of data required to resolve these issues. For example, the specific information requirements are listed that are needed to assess the effectiveness of the postal program.

Finally, the last section of the report presents a set of research options that could be used to obtain the required information.

## II - RESEARCH OBJECTIVES

✓ The objectives of the research program are divided into short-term objectives - issues requiring immediate attention - and long-term objectives - those issues which should be addressed upon completion of the short-term research projects.

### SHORT-TERM OBJECTIVES

The primary short-term objective of the Department is to make the postal subsidy program as efficient and as effective as possible. This objective is based on the assumption, made by the Department, that the program will not be suddenly terminated during the next few years. It is thought that the effects of removing the postal subsidy could be so disruptive that the existence of the periodical industry would be seriously endangered.

Given this objective of the Department, the aim of the research program is to assess the importance and effectiveness of the postal program. In other words, the concern is to profile the periodical industry in terms of its dependence on the postal subsidy, and to examine the viability of the industry in relation to hypothetical changes in the program. For example, certain classes of periodicals receive free postal delivery and other categories receive second class privileges not accorded to other similar categories. The short-term research project would examine the anticipated response of various classes of periodicals to changes in the postal subsidy. As an example, suppose the free postal delivery provision for weekly newspapers were removed and second class postage were required. If our profile indicated that 80% of these newspapers would fall from the viable\* to non-viable\* category, the postal subsidy is clearly of paramount importance for this segment of the periodical industry. On the other hand, if 98% of the weekly newspapers remain viable when charged second class postage, it may be decided that uniform free delivery for these periodicals is too blunt an instrument for

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\* Measurement of these concepts is discussed in Section V.



achieving optimal effectiveness. Thus, the overall objective of the short-term research design is to analyze the sensitivity of firms in the periodical industry to changes in postal rates, and thus explore the optimal manner of applying a postal subsidy program, within the context of an overall policy for periodicals.

One possible outcome of this assessment of the postal program may be that there are certain segments of the industry which are not receiving sufficient assistance. If postal program funds are to be used for other purposes (e.g., capital grants), then the research must determine from which groups, to what extent, and when, funds are to be extracted through increased postal rates. Therefore, in measuring the impacts of postal rate increases, the magnitude of these effects will have to be compared to the estimated benefits produced by using the funds in a different way.

#### \* LONG-TERM OBJECTIVES

Compared to the short-term objectives, the long-term objectives of the Department are broader in scope. Basically, the primary long-term objective is to develop a coherent federal policy towards the Canadian periodical industry, which is compatible with provincial programs and policies.

At present, there are several government policies and programs affecting the Canadian periodical industry. The major program, as described earlier, is the postal subsidy program, which operates as an indirect subsidy to publishers by reducing postal costs for mailing periodicals belonging to certain categories.

\*  
\* Several other policies are designed to protect Canadian periodicals from foreign competition, and include the following:

- Provisions of the Income Tax Act. These make advertising outlays a non-deductible expense for income tax purposes, if placed in a non-Canadian periodical.

- Tariff Regulations. A specific tariff item also discourages Canadian advertisers from using foreign periodicals to reach Canadian readers. If a foreign magazine contains an advertisement directed to persons in Canada and which does not appear in the country of publication, then the next four issues of the magazine can be prohibited entry into Canada.
- Regulations of the Foreign Investment Review Agency. These are designed to prevent the establishment of non-Canadian businesses by non-Canadians unless they meet certain criteria, such as compatibility with national industrial and economic policies.

Other programs and policies that impact on the periodical industry include:

- Recently Revised Excise Tax Legislation. A 9% excise tax now is applied to advertising supplements in newspapers and magazines and newspapers with substantial advertising content. A taxable periodical is defined as one with advertising content of 70%, over the preceding three months, in more than 50% of the issues, or over 90% in a single issue
- Aid to Writing and Publication. The major program of assistance to writing and publication is the responsibility of the Canada Council. Aid is limited to literary and arts periodicals and publications of literary or arts criticism.

The short-term research may make the recommendation that some of the existing government programs should be reviewed and possibly modified, in order to be compatible with the Department's new policies.

Whatever policies are developed in the long-term, the postal program may or may not be included. For example, the Department may, based on the outcome of the short-term research, decide to drastically reduce the size of the program, using the funds that are freed to provide direct assistance to deserving publishers.



Research efforts, both in the short and long-term, can contribute to this long-term objective of policy formulation as follows. Short-term research will be able to determine the importance and proper positioning of the postal program in relation to other policy options. In addition, however, the first research phase can also collect information from publishers on the problems and needs of the periodical industry. Long-term research will attempt to resolve those issues which are identified during the short-term research and which need to be addressed before policy options can be fully articulated.

Given that the long-term objective of the Department is to develop policies to support the periodical industry, the short-term research program is designed so that information is collected to provide input to the policy development process.



### III - SHORT-TERM ISSUES

One of the primary areas of interest for the short-term research relates to estimating the impact of the postal subsidy program. As the following pages describe, in order to arrive at an estimation of the aggregate impact, the effects of the program on various segments of the periodical industry must first be examined.

A related area of interest is the requirement to measure the size of the present differences in the structure of postal rates and classification criteria.

#### CONCESSIONARY RATE CATEGORIES

\*  
✓ The Department is now responsible for developing rate structures and classification criteria for the set of transfer categories, which includes the following components:

- a) Second class publications (statutory and regulatory).
- b) Publisher's book rate matter.
- c) Unaddressed publications.
- d) Records.
- e) Third class addressed publications.
- f) Library book rate matter.
- g) Educational film rate matter.

The following pages briefly describe the categories of particular relevance to this study.





\* SECOND CLASS PUBLICATIONS

Second class publications are the most important, in terms of volume and revenue, of all the concessionary rate categories (other categories are "publisher's" book rate matter, educational film, and library books). The Post Office Act prescribes statutory rates for newspapers and periodicals meeting certain criteria of which the most important are:

- the publication must be published at least four times a year
- the publication must contain news or articles of public interest
- the publication must not be published primarily for the benefit of members of a particular profession or association
- the publication must be addressed to a bona fide subscriber or newsdealer in Canada
- the publication must have a paid circulation of 50% or more of total circulation.

Publications not meeting all the second class statutory criteria are subject to rates set by regulation, the base rate being called the "ordinary" second class rate. Major users of second class regulatory rates include the business press.

J THIRD CLASS UNADDRESSED PUBLICATIONS

The main type of periodicals in this group are the controlled circulation magazines which are delivered unaddressed to specific geographical sectors of major urban areas.

These publications pay the same third class unaddressed rates as ordinary unaddressed advertising matter, although the generally large volumes of their mailings usually qualifies them for the volume discounts.



✓ THIRD CLASS ADDRESSED PUBLICATIONS

This category contains a mixture of periodicals, most of which are published by various types of associations. Such periodicals are not eligible for second class rates usually because of the policy that second class rates should not apply to the distribution of information intended primarily for members of a particular profession.

These publications are obliged to pay standard third class addressed rates or the lesser high volume rate. These rates are higher than the third class unaddressed rates.

✓ THE IMPACT OF THE POSTAL SUBSIDY PROGRAM

The primary short-term issue relating to the postal subsidy program is the need to measure its impact and effects. One way of measuring the impact of this program is to estimate the effect of changes in postal rates to publishers. For example, one type of question to be answered in this regard is what would be the responses of publishers to a rate increase? There are presumably many options available to a publisher, including:

- the cost increase could be absorbed
- the publisher could switch to some extent from postal to newsstand distribution
- an attempt could be made to increase the number of periodicals sold
- a private carrier could be used
- sales price could be raised
- advertising rates could be increased
- direct and/or fixed costs could be reduced
- a multi-periodical publisher could discontinue its "marginal" periodicals
- the publisher could cease operation.



Not only are the economic effects of rate increases of interest. Postal rate increases could also have a social impact, in that if the level of circulation decreased, the public's access to periodicals would also be reduced.

#### EFFECTS ON VARIOUS GROUPS

The periodical industry is complex in structure, involving many different kinds of organizations publishing a variety of publications. The structure of postal rates and classification criteria is complex as well. Consequently, in order to estimate the aggregate impact of postal rate changes, the differential impacts on various groups of publishers and publications needs also to be assessed. For example, because third class mail rates are much higher than second class mail rates, the effect of the same percentage rate increase on a third class association periodical compared to a second class association periodical will likely be different, due to different levels of dependence on the postal system, different levels of dependency on advertising, and so on.

The research phase should, therefore, attempt to determine the effect of postal rate changes on specific groups of periodicals. Our preliminary research indicates that effects on the following groups may be of interest:

- second class association periodicals
- third class association periodicals
- second class academic journals
- third class academic journals
- second class trade journals
- third class trade journals
- second class statutory business periodicals
- second class regulatory business periodicals
- commercial periodicals



- association periodicals
- dailies
- weeklies
- English language periodicals
- French language periodicals.

The within-group differences also need to be assessed. For example, within the daily newspaper group, the reaction to rate changes of dailies that are heavily dependent on postal distribution will presumably be different from the dailies relying on their own delivery systems. Likewise, within the group of magazines, the responses of business magazines may be different from that of artistic magazines.

#### PARITY ISSUES

The previous sections have described the various issues relating to determining the impact of the postal subsidy program. It was noted that the overall impact of the program cannot be assessed without first considering the effects on individual segments of the industry.

As the following pages describe, the proposed research must also attempt to quantify various perceived inequities which exist in the present postal rate structure and classification system. The results of the research will be used as input to the policy decision-making process relating to possible changes in the present subsidy program.

#### SUBSCRIPTION VS NON-SUBSCRIPTION

One of the more contentious issues with respect to the postal classification system has been the exclusion of non-subscription publications from receiving second class statutory rates. There are two primary groups of non-subscription publications:



- Unaddressed controlled mass circulation publications. These are the publications which are free to the recipient and targetted to specific geographical areas within metropolitan centres.
- Addressed controlled circulation publications. These generally are addressed trade, business, technical, and industrial publications which are sent to members of a trade or profession who do not pay a subscription price.

Both of these types of non-subscription publications rely on advertising for revenue and their circulation is usually subject to independent audit to guarantee readership volume to advertisers.

Publishers of unaddressed controlled circulation publications have been pressuring the Government for inclusion under second class statutory rates. These publishers feel that there would be no advantage for such publications to pay the second class non-subscriber rate, since this is higher than the third class unaddressed rate. The postal classification structure, however, has always favoured subscription periodicals over non-subscription periodicals.

#### Association Publications vs Commercial Publications

Another perceived issue of inequity regarding second class mail is the exclusion of most association publications from receiving the preferred rates. Association publications can be accepted for second class rates if they are not intended primarily for the benefit of the members of a particular profession and pertain to one of the following subject areas:

- agriculture
- fisheries
- forestry
- religion
- the sciences



- social or literary criticism or reviews of literature or the arts
- promotion of public health (when published by a national or provincial non-profit organization).

or that are:

- academic or scholarly journals.

Protest regarding these criteria has centred on three points:

- there seems to be no rationale for the inclusion of only certain subject areas under second class mail
- according to the Post Office Act, publications "published by or under the auspices of a fraternal, trade, professional or other association" are ineligible for second class mail rates, unless they are devoted to the special subject areas listed earlier.\* It is unclear from the wording of the Act whether all association publications (i.e., charitable, consumer, ethnic, religious, educational, etc.) are ineligible for second class rates. The publishers of The Canadian Consumer took the Post Office to court on the issue and won inclusion for this publication under second class mail.
- the rule that association publications are barred from second class mail if they are devoted primarily for the benefit of members of a particular profession has been the object of much protest. For example, some high quality academic journals have been excluded from second class mail because of this criterion. The Canadian Journal of Economics is ineligible because it was judged to be of primary interest to only the economics profession.

\* Sections 11 and 12 of the Post Office Act, 1968.



Determining whether association publications should be eligible for second class mail rates is beyond the scope of the proposed research study.

However, the research can contribute to the information needed to assess the policy in this area. For example, an estimate of the size of the impact of third class association publications being charged higher postal rates than those charged to similar second class association publications will be assessed by determining the effect on second class publications of them being charged third class rates.

This aspect of the research is particularly important given the expected increases in third class mail rates. Should it be determined, for instance, that third class academic journals would be adversely affected by rate increases, then the Department could conceivably transfer these publications to second class mail or introduce a separate protective category.

#### Separate Rates for Advertising Content

Another inequity in the postal rate structure may be the fact that the advertising content in dailies is charged a higher postage rate than is the editorial content. The debate on this issue has focused on two points. One issue is whether the advertising content of publications should receive the subsidized rate, i.e., is the advertising content of publications as important a source of information to the reader as the editorial information? The other point of contention is that, given that dailies are charged separate rates for advertising content, should the advertising content in weeklies and magazines should also be charged a separate rate? Publishers have traditionally stated that advertising revenue is essential to the successful operation of a periodical and should not be charged a separate (higher) rate.

In order to address this issue, the analysis must attempt to determine the effect of introducing a separate postal rate for advertising content in weeklies and magazines. Answers to the following questions are required:



- ✓ - are advertising revenues more important to magazines and weeklies than dailies
- how have dailies reacted to recent increases in the rate charged for advertising content
- how sensitive is each type of periodical to increases in postal rates applied to advertising? How would publishers cope with the increase? Would advertising rates have to be raised?

#### Free Mailing for Weeklies

Up to 2,500 copies of a weekly Canadian newspaper may be sent free of postage if they are published in a centre of less than 10,000 persons and are addressed to bona fide subscribers or newsdealers within a 40 mile radius of their publishing origin.

This rate exception originated in the 1880's when the government desired to encourage the dissemination of news to all parts of Canada.

Several questions have been raised regarding this practice. What does this practice cost the Federal Government in lost revenues? What would be the effect on weekly newspaper publishers if a rate was introduced? That is, would the publishers incur reduced profits if they were charged the normal second class statutory rate? Would any of these newspapers/publishers be forced to go out of business?





#### IV - LONG-TERM ISSUES

As described earlier, in addition to issues requiring examination in the short-term, there are several issues or problems which will take a longer period of time to resolve. Most of these issues relate to the long-term objective of the Department to develop policies to support the commercial viability of periodicals and which are compatible with provincial programs and policies.

##### ISSUES RELATING TO COMMERCIAL VIABILITY OF PERIODICALS

Several issues or hypotheses have been put forward from time-to-time by government and industry relating to the success of Canadian periodicals. During the research phase, these hypotheses will be examined through the collection and analysis of relevant data on the operations of periodicals and publishers.

The following pages describe briefly each of the issues, which include:

- access to newsstand sales
- the importance of subscription vs newsstand sales
- high costs of distribution
- foreign competition and lost advertising revenue
- possibility of more Canadian editions
- use of market research
- quality of editorial content
- lack of capital and equity
- level of advertising content
- lack of promotion budget.



### Access to Newsstand Sales

One factor which has been suggested as restricting the growth and success of the Canadian periodical industry is the inability of publishers to access distribution channels.\* The periodical industry is characterized by large variance in the size of firms, and the access to channels of distribution is different for large firms than for small firms. Most of the large circulation magazines sold in Canada are of U.S. origin, and U.S. publishers employ their U.S.-based national distributors to cover both the U.S. and Canadian markets. The observation has been made that because many U.S. publishers have established close ties with Canadian wholesalers, their periodicals dominate newsstand space in Canada. As a result of this distribution system, many of the smaller Canadian publishers tend to have limited access to the major channels of distribution, and this narrows their scope for realizing the potential benefits from the mass marketing of publications.

The Canadian Periodical Producers' Association recognized this problem of distribution in 1976 when they decided to increase the level of newsstand exposure for Canadian periodicals. A new distribution system was established whereby magazine racks, containing only Canadian periodicals, were placed in locations where they previously had not existed.\*\*

One specific channel of distribution that small Canadian periodicals have been unable to reach is distribution through supermarkets. Sales of periodicals at supermarkets are accounting for an ever-increasing share of the magazine industry's annual single-copy sales, with most of the sales being made at the supermarket check-out lines. According to industry

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\* For a description of distribution channels used by periodicals, see: I.A. Litvak and C.J. Maule, Development in the Distribution Systems for Canadian Periodical and Book Publishers. Secretary of State, 1980.

\*\* For a description of this distribution system, see: D. Mephram, "Canadian Magazine Group Takes Distribution into its own Hands", Financial Post, January 22, 1977. p. 11.



sources, position on the racks at check-out lines is important, and the preferred spots are taken by magazines which have been buying space the longest and have yielded the largest sales.\*

Because of the large number of supermarkets involved and the high costs of renting and servicing the racks, this form of distribution is strictly for the high circulation periodicals.

#### Growth in Subscription vs Newsstand Sales

Magazine sales at newsstands are growing at a significant pace as consumers alter their traditional buying habits. This trend reflects the increase in subscription costs, the perceived decline in the postal service and the preference by consumers to purchase magazines on an issue-by-issue basis at local retail outlets.\*\*

This trend suggests that the previously described difficulties that small Canadian publishers have in accessing mass-market distribution channels may become more critical in the future.

#### The Costs of Distribution

One of the factors that has been suggested as affecting the commercial viability of periodicals relates to the high costs of attracting subscribers and of distributing through newsstands. Newsstand sales in particular are thought to be only marginally profitable, as the publisher has to pay a distributor, wholesaler and retailer and also pay transportation costs.\*\*\* In fact, some publishers view newsstand sales as being subsidized advertising because they increase circulation levels - the key factor attracting advertisers.

\* Harlow Unger, "U.S. Magazines Battle for Supermarket Space" Canadian Grocer, October, 1979, p. 38,40.

\*\* Litvak and Maule, Development in Distribution Systems, p. 56, 57.

\*\*\* Litvak and Maule, Development in Distribution Systems, p. 66.



### Foreign Competition and Advertising Revenue

In spite of Bill C-58 and customs regulations, U.S. magazines are still seen as a serious threat to the Canadian magazine industry. The effect of imported publications is most obvious in terms of circulation, but there are indications that the influx of U.S. magazines costs Canadian publications advertising revenue as well. The opinion has been expressed that spillover advertising from the U.S. has a major effect on the size of ad budgets allocated by Canadian advertisers, especially if they are subsidiaries of multinational corporations.

It is thought that spillover advertising reduces Canadian advertising revenues in two ways.\*

- directly, because Canadian ad budgets are reduced when the subsidiaries pay for the spillover advertising. The cost of the spillover advertising is charged directly to the Canadian company's ad budget by its foreign head office
- indirectly, when a Canadian-based ad budget is cut back because spillover advertising from the U.S. already provides some exposure.

One solution that has been suggested in order to increase the amount of advertising placed in Canadian magazines is to control the amount of advertising space on imported magazines devoted to spillover advertising.

Similarities in the Canadian and U.S. marketplaces, together with foreign ownership of advertising agencies and of advertisers in Canada, facilitates the ease with which spillover advertising and overflow magazine circulation from the U.S. reach the Canadian market. In other words, conditions already exist for many advertisers to advertise in Canada without having access to Canadian editions.

\* For a discussion of this subject, see R. Wilson, "U.S. Magazines Continue to be Serious Threat", Marketing, April 23, 1979, p. 1,21 and I.A. Litvak and C.J. Maule, The Publication of Canadian Editions of Non-Canadian Owned Magazines: Public Policy Alternatives, Secretary of State, 1978.



### Possibility of More Canadian Editions

As described earlier, several government policies are directed toward protecting the Canadian periodical industry from foreign competition. Nonetheless, Time, a non-Canadian owned periodical, continues to thrive in Canada, and many foreign periodicals enjoy high spillover circulation levels in Canada. The success of foreign periodicals in Canada raises the question of whether other non-Canadian periodicals may decide to publish editions in Canada as well.

The probable candidates for the introduction of new Canadian editions are those magazines which already have a substantial overflow circulation in Canada and thus are in a position to gather significant additional advertising revenue.

### Other Factors

In addition to the factors already discussed, there are a multitude of other factors that probably affect the success of periodicals. These include the following:

- Market research. According to a recent article on the profitability of business magazines, many Canadian periodicals do little readership research.\* This is the case even though advertisers need to know the reader profile of a magazine before spending money to advertise in it.
- Quality of editorial content. This factor may be especially critical for those Canadian periodicals which compete against foreign periodicals in the same subject area.
- Lack of capital and equity. Struggling publishers often lack working capital, due to their lack of collateral required to obtain a bank loan and the high interest rates of the loans themselves. The low equity positions of

\* "New Business Publishers are Trying to Save the Ship", Stimulus, Sept./Oct., 1979, pp. 28-38.

publishers is another problem. Publishers have trouble in attracting investors, presumably because of the high-risk involved in investing in the periodical industry.\*

Level of advertising content. The magazines that were successful in the seventies were the ones which made themselves attractive to advertising agencies and advertisers through reliable readership research at just the time when magazines were becoming competitive with television as an advertising medium.

Advertising revenues are expected to become more crucial to the success of periodicals, due to the high costs of attracting subscribers, increasing publishing costs, and rising newsstand distribution costs.

- Lack of promotion budget. One of the factors thought to be preventing Canadian magazines from achieving high levels of success is the lack of funds to spend on promotion. Few Canadian magazines are able to offer cut-rates to subscribers, engage in direct mail promotion, or undertake any image-creating advertising. Such marketing techniques are commonly used by U.S. periodicals.

- Adapting to changes in technology.

Recent developments in electronic communications will probably have a considerable effect on the future of the newspaper and magazine industries. One of the most important development is electronic publishing, whereby images can be transferred electronically to geographically-dispersed publishing centres. The Globe and Mail, for example, recently decided to publish regional editions via satellite.

Another development sure to affect the magazine industry in the near future is the presence of Telidon-type systems in the household. Consumers will be able to view the magazines of their choice, which will probably intensify competition, and magazines will have to invent new images that are dynamic as well as static. Newspaper publishers may be detrimentally

\* Joyce Wayne. "Ontario on Target: Strategy for Support", Quill & Quire, November, 1980, p. 18,19.



affected at first, as the consumer will no longer rely on newspapers for classified ads and advertisements.\* Classified advertising services will likely start up, which will decrease the newspaper publishers' revenues.

The research program should investigate the implications of the communications revolution. Are publishers aware of the new technologies? Are they planning to use them? Which segments of the periodical industry will be most affected?

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\*\* David Godfrey, "How Odds Stack Up on the Great Communication Battlefield." Financial Post, Dec. 8, 1979.



## V - INFORMATION REQUIREMENTS

As discussed earlier, the major short-term objectives of the Department are to determine the effectiveness of the postal program, restructure the program to make it more efficient and effective, and identify possible policy options.

Over the longer term, the goal of the Department is to implement programs - which may or may not include the postal program - to support the Canadian periodical industry.

The present section outlines the types of information required to meet these objectives.

### INFORMATION REQUIREMENTS - SHORT-TERM OBJECTIVES

The primary short-term objective of the Department is to determine the impact of the postal subsidy program.

In order to determine the effect of postal rate changes on each relevant segment of the periodical industry, both objective and subjective assessments will be required. The information should be collected through a survey of publishers. In order to develop and refine a research instrument, a set of interviews will be required with several publishers and industry experts.

One component of the questionnaire will be financial in nature and will have two objectives:

- to determine the importance of postal costs to the periodical(s)
- to determine the contribution margin of the periodical(s).





Contribution margin is defined as sales minus direct costs and is a measure of the commercial viability of a product produced by a firm.

Data for the following items will need to be collected:

- circulation
- cover price
- subscription rates
- sales
- direct or variable costs (with postage costs specified, as well as other categories of direct costs)
- common costs.

An example of how the contribution margin for a periodical is calculated, along with how the effect of an increase in direct costs is estimated, is shown in the following table.

	<u>Now</u>	<u>10% Increase in Direct Costs, Volume Remains Constant</u>
Sales	300	300
Direct Costs	<u>180 (60%)</u>	<u>198 (66%)</u>
Contribution Margin	120 (40%)	102 (34%)
Common Costs	<u>90 (30%)</u>	<u>90 (30%)</u>
Net Income	<u>30 (10%)</u>	<u>12 (4%)</u>

Given the structure of revenue and costs for a periodical, the effect of postal rate increases can then be estimated, as shown in the right-hand column of the above table. In general, the lower the contribution margin of a periodical, the less likely it will be able to survive a substantial



increase in direct costs. For a multi-periodical publisher, this might mean the death of one periodical; for a single-periodical publisher, this might result in the death of a firm.

Of course, the periodicals which would most be affected by an increase in postal rates would be those which are most dependent on the postal system as a means of delivery.

Another component of the questionnaire will be more subjective in nature and will involve asking publishers what their response would be to, for example, a postal rate increase. Several options are available to publishers, including:

- increase sales
- raise price (will there be a corresponding drop in volume sold?)
- raise advertising rates
- switch to a private carrier
- switch, to some extent, from postal to newsstand distribution
- direct and/or fixed costs could be reduced
- obtain government grant
- stop producing the periodical.

Publishers will be asked to select one or more of the above options and to state the degree of change required for each component. They will also be requested to state what the financial profile of each periodical will look after the rate increases. For example, will net income stay the same or be reduced?

Although publishers will be asked to predict their response to changes in postal rates, this information will be used only as a supplement to the more



objective information that will be collected. The analysis of the impact of the postal program will depend primarily on the objective information.

The questionnaire will likely have to be tailored for some of the periodical groups. For example, for some types of periodicals we will be attempting to estimate the magnitude of the impact of differential postal rates. In the case of second class academic journals, publishers will be asked to estimate the effect of being charged third class rates. Or to take the case of weekly newspapers, publishers will be requested to estimate the impact of no longer receiving free postal delivery.

#### USE OF THE COLLECTED INFORMATION

One of the outputs of the survey will be an assessment of the effects of postal rate changes on various types of periodicals. This information will be useful to the decision-making process regarding specific ways to make the postal subsidy program more effective. The analysis will yield information on which types of periodicals would be adversely affected by postal rate increases as well as the ones which would be relatively insensitive to rate increases.

Another output of the research will be a quantification of the size of the perceived inequities in the postal rate structure and classification criteria. For example, an estimate will be produced of the financial advantage to second class academic journals of being charged second class rates instead of the higher third class rates applied to many other academic journals. This information will be useful in a policy context, should the decision be made to remove some of the inequities in the postal system.

#### INFORMATION REQUIREMENTS - LONG-TERM ISSUES

The major long-term objective of the Department is to develop policy options to increase the commercial viability of Canadian periodicals. In this



regard, the overall objective of the short-term research, with regard to this long-term objective, is to provide information on the problems of the industry, so that broad policy options can begin to be developed. The specific objectives of the short-term research are:

- to assess the financial performance of various segments of the periodical industry
- to identify the various factors affecting the commercial viability of periodicals and assess their importance
- to estimate the effects of various policy options
- to suggest further avenues of research.

With regard to the first objective, data will need to be captured on the following items through a survey of publishers:

Company Information

- corporate status
- ownership
- main activities
- number of employees
- total company sales.

Financial Information

- costs of sales
- other operating costs
- profit before tax
- inventory
- other current assets



- fixed assets
- current liabilities
- long-term debt
- deferred taxes
- owners' equity
- gross operating revenue
- operating revenue
- liquid assets
- capital expenditures
- rentals and leased facilities
- accounts receivable
- work-in-process
- working capital
- internally generated funds
- external financing.

Publishing Information

- number of years in operation
- number of periodicals produced and language of publication
- subject area
- frequency of issue
- format
- price
- number of competitors
- level of government support
- sales, broken down by:



- . circulation (less returns)
- . advertising revenue
- . subscription/newsstand
- . geographic distribution
- . export/import
- . customer category:
  - . distributors
  - . newsstands
  - . mail order houses
  - . libraries
  - . schools
  - . universities
  - . direct by mail to public
  - . other
- promotion budget
- advertising content (%)
- number of employees involved in publishing by type:
  - . administration
  - . editorial (full-time and contract)
  - . printing and production
  - . distribution
  - . advertising
- type of market research
- problems.

Based on this information, the financial situation of the industry will be analyzed using select financial ratios. Typical ratios include:

- Profitability
  - gross operating margin
  - $\frac{\text{net operating profit}}{\text{operating revenue}}$
  - $\frac{\text{net operating profit}}{\text{equity}}$
  - $\frac{\text{net operating profit}}{\text{assets}}$



- Solvency
  - $\frac{\text{current assets}}{\text{current liabilities}}$
  - $\frac{\text{liquid assets}}{\text{current liabilities}}$
  - $\frac{\text{debt}}{\text{equity}}$
- Investment
  - $\frac{\text{capital expenditures}}{\text{assets}}$
  - $\frac{\text{rentals and leased facilities}}{\text{assets}}$
- Productivity
  - $\frac{\text{operating revenue}}{\text{accounts receivable}}$
  - $\frac{\text{operating revenue}}{\text{work-in-process}}$
  - $\frac{\text{operating revenue}}{\text{working capital}}$
- Cash Flow
  - internally generated funds and external financing less:
    - capital expenditures
    - changes in working capital
    - debt service
- Debt Service Coverage
  - $\frac{\text{internally generated funds}}{\text{debt service}}$



The ratios described above will be used as part of an elaborate analysis of the industry's operational and financial performance. In particular, this would involve an examination of the level of business necessary to cover fixed costs and debt service. The sources of firm financing would also be analyzed - are the sources stable, and are terms and conditions appropriate. The potential for economies of scale would also be assessed - what scale of operation maximizes profits? Finally, the analysis would also determine how the financial performance varies within the industry. For example, what types of periodicals are more profitable than others? How does performance change throughout a periodical's life cycle?

With regard to the second objective of determining the importance of various factors in affecting the commercial viability of periodicals, Section IV outlined several potential factors, which are:

- access to newsstand sales
- the importance of subscription and newsstand sales
- distribution costs
- foreign competition
- use of market research
- quality of editorial content
- lack of capital and equity
- level of advertising content
- level of promotion
- adaptation to changes in technology.

In order to determine what other factors may be relevant, extensive discussions will be required with publishers, representatives from governments, and industry experts. Quantitative information could be





captured on most of these factors through a survey of publishers, but in varying degrees. For example, a survey of publishers could not be used to assess editorial quality. Likewise, the effect of foreign competition on advertising revenues for Canadian periodicals could not be well-measured. On the other hand, a survey of publishers should generate considerable information on problems and trends in distribution of periodicals.

Consequently, a variety of research instruments will be required to assess the importance of each factor in affecting the commercial viability of periodicals.

For those factors which could be quantitatively examined through a survey of publishers, assessing the importance of each will require the development of suitable measurement indicators. Possible indicators for each factor are described as follows. Some of the variables listed are also contained in the previous list of financial variables.

#### Access to Newsstand Sales

- average and total newsstand circulation and revenue (present and forecast)
- number of newsstands used
- distribution channels used (national distributors, wholesalers, retailers (by type))
- problems in achieving newsstand distribution.

#### Importance of Subscription vs Newsstand Sales

- average and total subscription circulation and revenue (present and forecast)
- reasons for using each type of distribution.



### Distribution Costs

- costs of attracting subscribers
- postage costs
- does periodical receive postal subsidy?
- percentage of cover price accounted for by:
  - . distributor
  - . wholesaler
  - . retailer
  - . freight
  - . publisher.

### Foreign Competition

- is this a problem?
- titles of foreign periodicals in direct competition
- the periodical's major advertisers.

### Market Research

- expenditures on market research
- type of market research conducted
- in-house or externally conducted?

### Lack of Capital and Equity

- current assets and liabilities
- liquid assets



- fixed assets
- long-term debt
- owners' equity
- capital expenditures
- rentals and leased facilities.

#### Level of Advertising Content

- average advertising content (number of pages, % of total pages, variance throughout year)
- advertising rate (\$) for:
  - . full page black and white advertisement
  - . full page four-colour advertisement
- forecast dependence on advertising.

#### Lack of Promotion Budget

- costs of promotion
- type of promotion (e.g., advertising, use of subscription discounts, etc.).

#### Analysis

Once the data are collected, multivariate statistical analysis will be conducted in order to:

- identify the correlates of commercial success
- measure the importance of each independent variable
- estimate the impact of potential policy options.



DIFFERENCES IN INFORMATION REQUIREMENTS  
BETWEEN GROUPS

The heterogeneous nature of the periodical industry and the corresponding complexity of the postal rate structures and classification system pose a special problem for the research program. It is essential that the research be cognizant of the unique issues facing each segment of the industry. For example, when studying weekly newspapers, it will be important to assess the impact of introducing a postal rate for newspapers now delivered in the "free zone" areas. Likewise, when surveying third class association journals, the research must attempt to determine what the effect has been of these publications being charged higher postal rates than second class academic journals. Or, to take another example, since daily newspapers make relatively little use of the postal system, the research should estimate the impact on daily newspapers if they were no longer charged a subsidized rate.

EXHIBIT 1 - SUMMARY OF SHORT-TERM RESEARCH PROGRAM (Cont'd)

<u>Module</u>	<u>Outputs</u>	<u>Cost</u>	<u>Timeframe</u>
Survey of Publishers and Data Analysis (Cont'd)	<ul style="list-style-type: none"><li>- estimate of impact of perceived inequities in present postal rate structures and classi- fication criteria</li><li>- identification of rate categories that would be candidates for rate action</li><li>- identification of key factors affecting commercial viability of periodicals</li><li>- estimate of potential effects of policy options</li></ul>		

EXHIBIT 1 - SUMMARY OF SHORT-TERM RESEARCH PROGRAM

<u>Module</u>	<u>Outputs</u>	<u>Cost</u>	<u>Timeframe</u>
Profile of the Postal Subsidy Program	<ul style="list-style-type: none"><li>- summary and analysis of postal subsidy program</li><li>- data to be captured in a "program monitoring system"</li></ul>	\$20,000 + expenses	10 weeks
Case Studies	<ul style="list-style-type: none"><li>- an estimate of the feasibility of collecting financial and other information from publishers</li><li>- revised questionnaire</li><li>- hypotheses relating dependent variables (measures of success) to independent variables</li></ul>	\$50-70,000 (depending on number of case studies + expenses)	24 weeks
Survey of Experts	<ul style="list-style-type: none"><li>- final version of survey questionnaire</li><li>- set of hypotheses to be tested</li><li>- industry segments to be surveyed</li><li>- potential policy options</li></ul>	\$15,000 + expenses	10 weeks
Establishment of Universe	<ul style="list-style-type: none"><li>- list of periodicals and publishers to be surveyed</li></ul>	\$30,000 + expenses	16 weeks
Survey of Publishers and Data Analysis	<ul style="list-style-type: none"><li>- database on industry</li><li>- financial analysis of industry</li><li>- estimate of effectiveness of postal subsidy program</li><li>- estimate of impact of postal rate changes on size of postal subsidy program</li></ul>	\$75,000, (including computer processing charges) + other expenses	26 weeks



## VI - RESEARCH DESIGN

Previous sections have described in detail the major requirements of the research design. These are to:

- provide information regarding:
  - . industry problems and needs
  - . the financial status of the industry
- All major industry sectors must be investigated.
- assess the importance and effectiveness of the postal subsidy program
- estimate the potential impacts of changes in the postal program on publishers, periodicals and postal revenues.

The previous section described the information that will be required in order to achieve these objectives. The present section outlines a set of research options or modules which are designed to gather the required information. Each option is described in terms of its objectives, content, anticipated outputs, cost and timeframe. Exhibit 1, opposite, contains a summary of the short-term research program.

### PROFILE OF THE POSTAL SUBSIDY PROGRAM

#### Objectives

Producing a profile of the current postal subsidy program will involve determining the volumes, revenues and costs for each transfer category (i.e., second class statutory, second class regulatory, third class addressed, third class unaddressed, dailies, weeklies) for recent fiscal years.



As will be described in the module relating to the analysis of survey data, this information is required so that the effects of potential postal rate changes on the size of the subsidy program may be estimated.

#### Data Sources

Of the seven transfer categories, revenue and volume data are regularly collected only for second class mail. For the other categories, only estimates of revenues and volume are available.

For second class mail, the major source of information will be the "Revenue and Expense Apportionment Report" (REA) published annually by the Post Office. This report is based on the publishers' statements of mailing which accompany each second class mail deposit. The following data items are available from the national summary of statements of mailings, by type of publication:

- volumes
- pounds
- revenues
- destination of copies (subscribers, non-subscribers, free zone areas, U.S., other foreign countries).

For cost information relating to second class mail, and for volume, revenue and cost data for other mail categories, the source of information will be estimates regularly produced by the Post Office. This information will need to be assessed as to its suitability and reliability.

#### Establishment of a Performance Monitoring System

Some concern has been expressed about the poor quality of financial information available from the Post Office. Accurate data on volumes, revenues and





costs for the various transfer categories are not available. Consequently, another objective of this module will be to develop a management information system, which will provide volume, revenue and cost data by type of publication. A logical approach would be to apply a system similar to the one currently used for second class mail.

Collecting the information on a regular basis will greatly assist the Department in monitoring the performance of programs it implements for the periodical industry.

The types of information that might be collected on periodicals through a registration system include the following:

- title
- language
- type of publication
- format
- subject area
- advertising rates
- subscription costs
- cost of single copy
- name, ownership and type of publisher
- circulation data:
  - . total
  - . subscription
  - . newsstand
  - . free
  - . paid
  - . geographical distribution
  - . postal
  - . private courier.



### Approach

The conduct of this module will require:

- interviews with DOC and Canada Post personnel (such as in the Office of the Controller) in order to identify data sources
- review of Canada Post and DOC files on volumes, revenues, and costs for the various transfer categories
- further interviews with Canada Post personnel and officials at DOC in order to identify essential elements that should be captured by a "performance information system".

### Cost and Timeframe

This module would require about ten weeks of work at a cost of \$20,000.

### Outputs

In summary, the outputs of the module will be:

- a detailed profile of the postal subsidy program
- a design for a performance monitoring system.

### CASE STUDIES

#### Objectives

The objectives of the case study module are to:

- determine the feasibility of collecting information, as described in Section V, on:



- . financial status of companies
- . circulation levels of periodicals
- . postal costs
- . contribution margin of periodicals
- assess the suitability of the draft questionnaire and make modifications, as required
- identify factors affecting the commercial viability of periodicals
- based on the data collected from each case study firm, begin to develop hypotheses relating dependent variables (e.g., profitability, percentage growth in circulation) to various independent variables (e.g., capital investment, equity levels, level of advertising content, etc.)
- identify potential policy options to support the commercial viability of periodicals.

#### Sectors of Industry to be Investigated

Since the primary objective of the short-term research program is to assess the effectiveness of the postal program, the case study firms should be selected from those sectors of the industry defined by the transfer rate categories (second class statutory, second class regulatory, third class addressed, third class unaddressed). Furthermore, within each of these categories, it is also necessary that specific sub-groups also be investigated (e.g., second class statutory association periodicals, third class addressed academic journals, etc.).

The analysis contained in Section III, suggests that the following segments of the industry should be investigated:

- dailies
- weeklies
- other second class statutory

EXHIBIT 2 - INDUSTRY SECTORS FOR CASE STUDIES

	French	English	Academic	Association	Business	Religion	General News	Defunct Periodicals
Dailies	X	X						
Weeklies	X	X						
Other Second Class Statutory	X	X	X	X	X	X	X	X
Other Second Class Regulatory	X	X	X	X	X	X	X	X
Third Class Addressed	X	X	X	X	X	X	X	X
Third Class Unaddressed	X	X		X	X	X	X	X



- other second class regulatory
- third class addressed
- third class unaddressed
- French/English
- association
- academic and scholarly
- defunct periodicals
- certain subject areas: business, consumer, religion.

The three subject areas listed above have been selected as together they account for most of the postal subsidy.\*

If the relevant two-way combinations of the above segments are considered, then the minimum number of case studies to be selected, assuming one per cell, would be about 35, as shown in Exhibit 2, opposite. Optionally, it may be worthwhile to concentrate more heavily on the association and academic journals, since less is known about the financial operations and problems of these groups. If this option is considered desirable, then the number of case studies would increase to about 45.

#### Selection of Case Studies

In order to select the set of case studies, several sources will need to be used, including the following:

- Canada Post file of second class publications.
- Canada Post partial listing of third class addressed publications

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\* Other subject areas accounting for a smaller share of the total postal subsidy are: science, agriculture, forestry, fisheries, literature and arts, public health.

EXHIBIT 3 - DATA ITEMS TO BE CAPTURED BY CASE STUDY QUESTIONNAIRE (Cont'd)

- total circulation via private courier (for previous three years)
- total circulation via newsstands (for previous three years)

E - EFFECT OF CHANGES IN POSTAL COSTS

Note: Publishers would be asked to predict their responses to both an increase and decrease in postage costs. The exact form this question will take, for the purpose of the industry survey, should be decided on during the "survey of experts" phase. An example is shown below of one form this question could take for an increase in postage costs. The form of the question will vary depending upon the type of periodical.

a) What would your response be to an X% increase in postage costs?:

- ☐ Raise cover or subscription price
- ☐ Raise advertising rates
- ☐ Switch, to some extent, from postal to newsstand distribution
- ☐ Switch to private carrier
- ☐ Reduce costs in other areas
- ☐ Stop producing periodical

b) What would the net effect on your operations be of this increase in postage costs?:

(i) Change in net income:  %

(ii) Change in circulation levels:  %

F - OTHER INFORMATION

- major competing journals:
  - . names
  - . country of publication
- annual promotion budget

EXHIBIT 3 - DATA ITEMS TO BE CAPTURED BY CASE STUDY QUESTIONNAIRE (Cont'd)

- average free circulation
- average paid circulation
- total circulation exported
- average circulation by region
- average circulation by customer category:
  - . distributors
  - . via Canada Post
  - . mail-order houses newsstands
  - . libraries
  - . schools
  - . universities
  - . other (please specify)

For Daily Newspapers Only

- average daily circulation
- average weekly circulation
- average paid circulation
- average urban circulation (daily)
- average rural circulation (daily)

For Weekly Newspapers Only

- average weekly circulation
- average paid circulation
- average free circulation
- average urban circulation
- average rural circulation

D - POSTAL INFORMATION

- total circulation via Canada Post (for previous three years)
- total cost of circulation via Canada Post (for previous three years)

EXHIBIT 3 - DATA ITEMS TO BE CAPTURED BY CASE STUDY QUESTIONNAIRE (Cont'd)

magazine:

- . general news
- . business
- . agricultural
- . religious
- . academic or scholarly
- frequency of issue
- format:
  - . size
  - . method of printing
  - . average number of pages
- advertising information
  - . advertising revenue
  - . advertising rate for:
    - full page black and white advertisement
    - full page four-colour advertisement
  - . average number of pages of advertising carried per issue
- price information:
  - . price of single copy
  - . price of one year subscription
- financial information (for most recent fiscal year and forecast for present year)
  - . sales
  - . cost of sales (by category, e.g., postage, labour, paper, ink, etc.)
  - . other operating costs
  - . net income

C - CIRCULATION INFORMATION

For Magazines Only

- total circulation
- average circulation
- average subscription circulation
- average newsstand circulation



EXHIBIT 3 - DATA ITEMS TO BE CAPTURED BY CASE STUDY QUESTIONNAIRE

A - COMPANY INFORMATION

a) General

- company name and address
- ownership
- total company sales
- total number of employees (for previous two years)
- principal activities

b) Financial Statement Information (for previous two years)

- |                         |                                 |
|-------------------------|---------------------------------|
| - cost of sales         | - gross operating revenue       |
| - other operating costs | - operating revenue             |
| - profit before tax     | - liquid assets                 |
| - inventory             | - capital expenditures          |
| - other current assets  | - rentals and leased facilities |
| - fixed assets          | - accounts receivable           |
| - current liabilities   | - work-in-process               |
| - long-term debt        | - working capital               |
| - deferred taxes        | - internally generated funds    |
| - owners' equity        | - external financing            |

B - INFORMATION ON PERIODICAL

- title
- year founded
- language
- name and address of publisher
- type of publisher:
  - . commercial
  - . university
  - . school
  - . association
  - . other (please specify)
- type of publication:
  - newspaper:
    - . daily
    - . weekly or community



- lists of members of various associations, including:
  - . Canadian Periodical Publishers Association
  - . Canadian Business Press
  - . Magazines Canada
  - . Canadian Daily Newspapers Publishing Association
  - . Canadian University Press
  - . Association des Editeurs de Périodiques Culturels Québécois
  - . Société de Développement de Livres et de Périodiques
  - . Les Hebdomadaires Régionaux.

These various associations could also be contacted in order to determine which publishers may be especially agreeable to participate as case studies.

#### Research Instrument

Each case study firm would be visited and several representatives would be interviewed (e.g., president, controller, persons responsible for: promotion, advertising, market research, etc). Financial statements for the previous three years would be requested.

The type of questionnaire to be used for recording information is shown as Exhibit 3, opposite.

The questionnaire is divided into several sections, including: company information, information on the periodical, circulation data, postal information, and miscellaneous. Because of the heterogeneous structure of the industry, and the different issues associated with each sector, each publisher will not answer all the sections. For example, for associations only, the questionnaire may capture information on: size of membership, membership fees, whether the general public can subscribe to the periodical, etc. Likewise, as is shown in the draft questionnaire, questions on the topic of circulation will differ depending on whether they are directed to daily newspapers, weekly newspapers, magazines, and so on.



Finally, as shown in Section E of the questionnaire, questions relating to the effect of postal rate increases will vary depending on the category of periodical.

As mentioned earlier, one objective of the case studies module is to identify the possible factors affecting commercial viability. As described in Section V, these factors might include:

- access to newsstand sales
- importance of subscription vs. newsstand sales
- costs of distribution
- foreign domination of the industry
- lack of market research
- lack of capital and equity
- level of advertising content
- lack of promotion.

Publishers will be asked to describe the importance of these factors, as well as others, in determining the commercial success of their periodicals. The interviewers should attempt to develop measurement indicators for these issues, so that the importance of these issues can be quantitatively estimated from the survey of publishers module, to be described later.

Finally, publishers will be asked to specify the kinds of the policies they would like to see implemented by the Federal Government.



### Outputs

The outputs of the case studies module will include the following:

- an estimate of the feasibility of capturing the quantitative data
- revised questionnaire
- hypotheses relating commercial success to potential determinants of success.

### SURVEY OF EXPERTS

This research option would involve a survey of industry experts and would take the form of a group session or a series of separate interviews.

### Objectives

The objectives of this module are to:

- refine methodology for determining the impact of the postal program
- establish hypotheses relating commercial success to potential determinants of success
- identify perceived inequities in present postal rate structure/classification criteria
- refine questionnaire design
- discuss industry problems and forecasts for industry, e.g., growth of newsstand vs. subscription sales, use of Canada Post vs. use of private carriers, etc.
- identify policy options relating to the postal program and other assistance programs.



### Individuals to be Interviewed

Representatives from the following groups:

- DOC
- Ministry of State for Social Development
- representatives from publishing companies (e.g., from sales, distribution, advertising, and editorial departments)
- distributors, wholesalers, and retailers
- other federal and provincial government departments
- outside experts (consultants, academics)
- industry associations.

With respect to the industry associations to be surveyed, a potential list would include:

- Canadian Periodical Publishers Association (CPPA). This organization represents about 180 special interest magazine publishers, and is oriented more to the smaller firms, many of which are associations
- Magazines Canada (MC). The membership of this group is concentrated in about seventeen larger firms and foreign subsidiaries which publish mass circulation magazines
- Book and Periodical Development Council (BPDC). This is an umbrella organization representing the English language publishers of books and periodicals. It was formed in order to present to governments the industry's views on issues of concern
- Canadian Business Press (CBP). This is an association of 136 specialized newspapers and business magazines



- Canadian Daily Newspapers Publishing Association (CDNPA). This association represents 82 out of the 117 daily newspaper publishers in Canada. As well as representing the industry to government, the CDNPA also carries out research on the industry
- Canadian Community Newspapers Association. This is a group of community or weekly newspaper publishers, which originated in 1919. There are about 540 member papers, with most members, 293, having per issue circulation levels of under 3,500.

The parallel associations representing French language periodicals would include:

- Association des Editeurs de Périodiques Culturels Québécois
- Société de Développement de Livres et de Périodiques
- Les Hebdomadaires Régionaux.

This module would require that the following steps be followed:

- identify experts to be contacted
- contact each individual and ascertain willingness to participate in survey
- develop format for sessions (i.e., issues to be discussed, ordering of sessions, etc.)
- prepare research instrument (if series of individual interviews are planned). Otherwise, prepare agenda for group meeting
- conduct interviews or group session
- summarize results.

#### Cost and Timeframe

This module would have a cost of about \$15,000, plus expenses, and take about 12 weeks to complete.



### Outputs

The expected outputs of the survey of experts include the following:

- final version of survey instrument, ready to be pre-tested
- set of hypotheses to be tested
- industry segments to be surveyed
- policy options identified.

### ESTABLISHMENT OF THE UNIVERSE

A survey of publishers is considered to be central to the proposed research design. Before the survey can be conducted, the universe of publishers/periodicals will have to be established.

Undertaking the establishment of the universe of periodicals is a formidable task, due to the large size and heterogeneous nature of the periodical industry. For example, out of the 3,105 publications eligible for second class mail rates, only a relatively small proportion of them are published by commercial publishers. The other publishers encompass one-person operations in house basements, professional associations, university presses, charitable organizations, etc.

Fortunately, due to the existence of the Canada Post listing of second class mail publications and the recent BMC study,\* establishing the list of second class periodicals will be quite straightforward.

Outside of second class mail, however, there are, in addition, many thousands of periodicals published by various types of associations. Such periodicals would pay third class instead of second class mail rates because the Post Office excludes from second class mail most periodicals published by associations.

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\* BMC, Interim Profile.



The group of association periodicals will be more difficult to define, although the Post Office does have a partial list of these periodicals. We recommend that the task of establishing a list of this group await the completion of the early phases of the research. After conducting case studies in many segments of the industry and interviewing industry experts, those segments of the industry requiring examination will become more clearly specified. For example, the experts we interview may feel that daily newspapers would not be surveyed, in the light of the data already collected under the auspices of the Royal Commission on Newspapers.

At the stage when the list of association publications is to be compiled, one important source of information will likely be associations of publishers. Some of these associations represent publishers that produce periodicals in a specific category, such as art, music, education, and academic journals. Some of these associations are:

- Agricultural Press Association of Canada
- Association of Canadian Publishers
- Association of Canadian University Presses
- Book and Periodical Development Council
- Canadian Educational Publisher Group
- Canadian Music Publishers' Association
- Canadian Periodical Publishers Association
- Composers, Authors and Publishers Association of Canada Limited (CAPAC)
- International Association of Scholarly Publishers
- Society for Art Publications
- Canadian Business Press
- Canadian University Press
- Periodical Press Association.





It is probable, however, that not all associations which publish a periodical belong to these publishing associations. For these other associations a telephone survey could be conducted, the objective being to determine:

- whether the association publishes a periodical
- the type of periodical published
- the periodical's postal rate category.

Depending on the number of associations to be contacted, either the population or a sample of associations could be surveyed.

At present, the categories of periodicals that are of potential interest in the research phase are large in number. The list includes:

- dailies
- weeklies
- second class commercial publications
- second class non-commercial publications (which must, according to second class mail criteria, be devoted to the following areas: agriculture, fisheries, forestry, religion, sciences, promotion of public health, social or literary criticism or reviews of literature, or the arts, or academic or scholarly journals)
- third class addressed association publications, in similar subject areas to second class association publications, as well as others (e.g., ethnic, consumer, educational, etc.)
- third class unaddressed periodicals.

The types of periodicals which are of less interest to the Department would include those association periodicals published primarily for the benefit of the association's members and those publications intended to advance or be auxiliary to a business which is not primarily involved in publishing. These would comprise:



- church congregational bulletins
- house organs
- trade union, fraternal, veterans and alumni associations, political party, co-operative and credit union publications.

#### Cost and Timeframe

This module would require about 16 weeks of work at a cost of \$30,000.

#### SURVEY OF PUBLISHERS

##### Objectives

The objectives of the survey of publishers are to:

- establish a database on the periodical industry
- collect data required to estimate the effectiveness of the postal subsidy program
- obtain information on potential factors affecting the commercial success of periodicals
- obtain views of publishers on the problems and needs of the industry.

##### Design of the Survey

The survey of publishers would resemble the case studies module in that the questionnaire would address the same issues but likely in less detail.

The survey would be national in coverage, using a mail-out/mail-back questionnaire, with telephone follow-up. The potential list of data items to be captured and the types of publishers to be surveyed were discussed in the section describing the case studies module.



Because little data are available on the periodical industry, the population of periodical publishers will be surveyed. Should Statistics Canada decide in the future to institute a regular survey for industry monitoring purposes, then the survey could be taken on a sample basis.

#### Analysis of Survey Data

Using the data collected through the survey of publishers, the analysis module would have as its objectives the following:

- produce a detailed financial analysis of each industry segment
- produce an estimate of the effectiveness of the postal subsidy program. Also estimate the magnitude of various perceived inequities in the present postal rate structure and classification system
- estimate the impact on the present size of the postal program of changes in postal rates
- identify rate categories that are prime candidates for rate action
- identify key factors affecting the commercial viability of periodicals and estimate the potential effects of policy options.

A brief description follows of the ways the analyses phase will approach each of these objectives.

#### Financial Analysis

The financial situation of the various industry segments will be assessed, as described in Section V, using select financial ratios.

EXHIBIT 4 - SUMMARY OF EFFECTS OF POSTAL RATE INCREASES

	Revenue (Before Rate Increase) \$,000	Rate Increase ¢ (%)	Change in Revenue (with rate Increase) \$,000	Change in Subsidy \$,000
Daily Newspapers				
Weekly Newspapers				
Other Statutory Publications				
Regulatory Publications				
Third Class Addressed				
Third Class Unaddressed				

### Estimate of Program Effectiveness

The estimate of the postal subsidy program's effectiveness will be measured by:

- the elasticity of changes in postal volumes to changes in postal rates
- the effect of postal rate changes on the commercial viability of periodicals.

Those segments of the industry which are particularly sensitive and those which are insensitive to changes in rates will be identified.

An estimate will also be produced of the magnitude of the various perceived inequities in the postal rate structure and classification criteria system.

### Effect on Present Size of Postal Subsidy Program

When combined with the data assembled by the postal program profile module, it will be possible to estimate the effect of postal rate changes on postal volumes, costs and revenues, by category of periodical. An example of the type of summary table that will be produced is shown in Exhibit 4, opposite.

### Identifying Categories Susceptible to Rate Changes

By then taking into consideration the effect of postal rate changes on the financial health of each segment of the industry, it will be possible to identify those postal rate categories which are prime candidates for rate increases - i.e., those groups where aggressive rate action can take place so as to maximize the amount of funds that can be extracted for other programs and minimize the adverse consequences on the industry.



### Identify Key Factors Affecting Commercial Viability

As described earlier, one objective of both the case studies module and survey of experts is to develop hypotheses relating commercial success to various independent variables, such as circulation levels, advertising content, capital investment, etc. The analysis module will use multivariate statistical techniques, such as multiple regression analysis, to test these hypotheses, using data gathered from the survey of publishers. The potential impacts of various policy options can then be estimated.

### Involvement of Statistics Canada

There are two rationales for obtaining Statistics Canada involvement in the research program. One rationale is that a regular survey of the periodical industry is required for policy development purposes, similar to the survey conducted regularly by Statistics Canada for book publishing. This survey should provide complete coverage of the industry, i.e., all segments of the industry should be sampled, and be designed so that data are collected on the key factors influencing the financial health of publishers/periodicals, such as the following:

- financial status of firms (sales, equity, capital investment, etc)
- circulation levels
- advertising revenues
- use of various distribution channels (Canada Post, private courier, newsstands, etc.).

The other rationale for Statistics Canada involvement is that the response rate for the survey of publishers would be maximized, since publishers would be forced to complete the questionnaire.



### Cost and Timeframe

The survey of publishers would take about 24 weeks to complete at a cost of between \$50,000 and \$70,000, including computing costs, depending on the size of the sample.

### Outputs

In summary, the major outputs of the survey of publishers will be:

- an in-depth financial analysis of each industry segment
- an estimate of the effectiveness of the postal subsidy program
- an estimate of the size of the perceived inequities in the postal rate structure
- an estimate of the impact of postal rate changes on the present size of the postal subsidy program
- the identification of the key factors affecting the commercial viability of periodicals
- an estimate of the potential effects of policy options.

### EVALUATION OF RESEARCH MODULES

The research program outlined in this chapter was designed so that, when implemented, it would fulfill the major research objectives of the Department, which are: to estimate the effectiveness of the postal subsidy program and to identify industry problems/needs so that policy options can be developed to support the industry. In the course of developing the research design, it also became evident that several ancillary objectives had to be taken into account, which are:



- identify the universe of periodicals
- establish a database on major industry segments
- assess the financial health of the industry.

A set of five interrelated modules was proposed, the first being a profile of the postal subsidy program. This module is required since the present structure of volumes, revenues and costs must be determined before the impact of postal rate changes can be fully determined.

The major rationale for the inclusion of the next module, the set of case studies, is that this module will provide an estimate of the feasibility of carrying out the complete research program. In-person interviews are required with publishers so that the following outputs can be produced:

- a preliminary assessment of the industry's financial status
- an indicator of the potential determinants of commercial viability
- a list of industry problems and needs.

The case studies module is to be followed by the survey of experts. This module will be beneficial as it will improve the effectiveness of the research by:

- improving the survey instrument
- identifying industry segments requiring more intensive analysis
- providing a set of useful measurement indicators
- permitting industry to provide input to the research process, thereby increasing the probability of successful research.





Moreover, this module will provide an opportunity for governments to demonstrate their concern for the future of the periodical industry.

The next module, "establishment of universe", is an essential phase so that the survey of publishers can be undertaken. It will also provide an estimate of the total breadth of the industry.

The proposed research program culminates with the survey of publishers. Because of the large size of the industry, a mail-out/mail-back questionnaire is recommended. The survey will provide complete coverage of the industry, including sectors like association periodicals, about which little information is presently available.

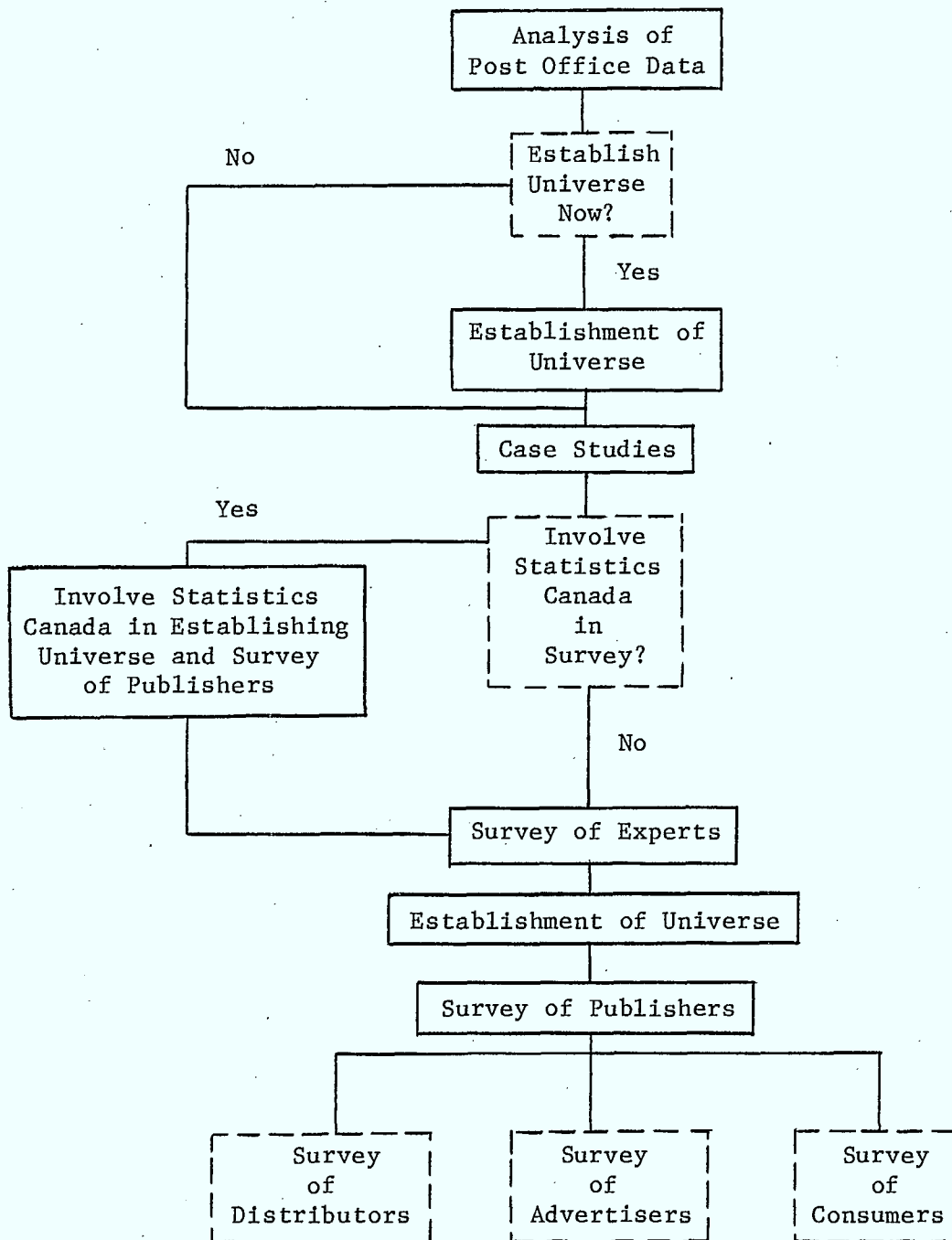
#### OTHER MODULES

In the longer term, there are several other research options to be considered. One would be a survey of consumers. The objective of this survey would be to determine what motivates a consumer to purchase a particular magazine, and to determine for what reasons a foreign magazine is favoured over a Canadian magazine, and vice versa. Possible factors would include:

- technical quality
- artistic quality
- popularity of writers
- subject matter
- promotion
- availability
- level of competition.

Another research option would be a survey of advertisers. This survey would be particularly relevant if the short-term research indicates that attracting advertising revenue is a key determinant of success.

EXHIBIT 5 - PROPOSED RESEARCH DESIGN



Decision  
Point



Another survey tht might be warranted, depending on the outcomes of the short-term research, is a survey of distributors. This survey would be particularly useful should it be determined that access to newsstands is a major problem facing the industry.

#### RECOMMENDED SEQUENCING OF RESEARCH OPTIONS

The preceding pages described several research modules which could be used to address the various short- and long-term issues.

Exhibit 5, opposite, shows one possible research design, along with the key decision points. The first phase of the research program would consist of an analysis and review of the Canada Post data. As described in Section V, the objective of this module would be to profile the present postal subsidy program.

One of the first decisions that has to be made is when to establish the universe of periodicals for sampling purposes. As the exhibit shows, there are two times when this module could logically be conducted: either following the analysis of Canada Post data or after the survey of experts. By reviewing the Post Office data first, the knowledge that would be gained about the periodicals eligible for the various rate categories would be useful for the "establishment of universe" module. On the other hand, if the survey of experts was to be conducted first, more information would then be available on which segments of the industry require more intensive analysis and also on which segments do not require analysis at all.

At this stage, we expect that thirty-five to forty-five case studies will be required, with each taking about three days to complete. As described in Section V, the case studies would require in-person interviews with various representatives of each company and analysis of company financial records.



Upon completion of the case studies, a decision point is reached with respect to whether to request Statistics Canada to participate in the "survey of publishers" phase. This decision would partly depend on the amount of difficulty experienced in obtaining financial data from the case study firms.

The next phase of the research is the survey of experts. The number of participants would need to be quite large, given the large number of issues that need to be discussed.

The survey of publishers, including the analysis phase, would be undertaken next. This module would be the most expensive and time-consuming of all the modules.

The sequencing of modules constitutes the short-term research phase. At this point, further research could be conducted, such as a survey of advertisers, depending on the outcomes of the short-term research phase.

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