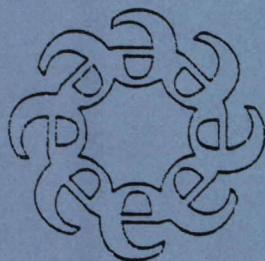


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**Alternatives for a Phasing Out of the  
Postal Subsidy Program:  
An Assessment of the Effects  
on the Periodical Publishing Industry**



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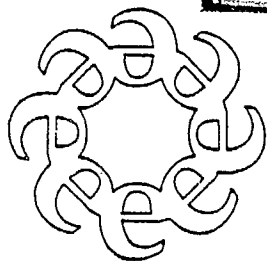
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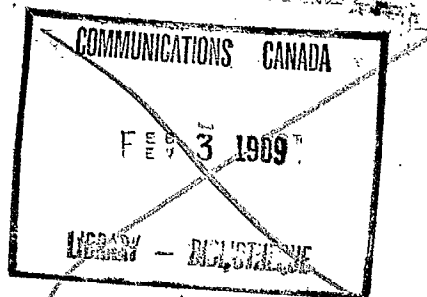
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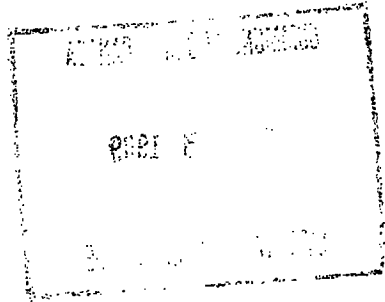
March 31, 1987

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## EXECUTIVE SUMMARY

### Objectives of the Study

In recent months there has been growing pressure from within government to modify or eliminate the Postal Subsidy Program. In fact the last federal budget called for the elimination over two years of the largest part of the \$225 million subsidy; the \$170 million infrastructure costs of Canada Post. Many are now questioning the extent to which the Postal Subsidy Program is a cost effective and efficient method for achieving the implicit economic and cultural goals of the program. Furthermore, the profile of the newspaper and periodical publishing industry has changed dramatically since the last major program changes in 1968 and many of the current beneficiaries do not require the current levels of public support.

There has been a great deal of discussion and negotiation in recent years concerning second class postal rate increases. Because the subsidies have been in existence since before Confederation and have become part of the cost structure of the industry it is very difficult to estimate what the real impacts of subsidy withdrawal would be. Publishers and publishers' associations have made numerous submissions to the federal government arguing a complex case that includes the belief that the subsidy benefits readers and not publishers and that major changes would jeopardize the viability of the Canadian industry. The Department of Communications has conducted several studies on this topic and has been in regular contact with key industry representatives. However, no clear cut policy about industry support has yet emerged.

The Canada Post Corporation has recently completed a major study to identify the actual costs of second class delivery. For years the industry has argued that the real cost of delivery was not known and that the estimates of the total subsidy were exaggerated. However, the degree of differences between current costs and revenues has finally been reliably documented. The magnitude of these differences also indicates the seriousness of the problem, both for government, in trying to reduce program costs, and for industry, in trying to come up with additional revenue to cover the potential increases in distribution costs.

The lack of information about the potential effects of eliminating the subsidy on the industry constitutes a major problem for the Department of Communications in trying to formulate policy for the second class program in particular and for publication support in general. The

current postal rate codes and eligibility criteria differentiate between publication types in a very general way. These categories do not necessarily reflect the realities of the industry or the requirements of the federal government. To come up with some kind of rational plan that will balance the needs of the industry and the means of the federal government, information about the effects of large postal rate increases on the publishing industry over time is essential.

Five main objectives were set for this study. These objectives were to:

1. Define a publication typology that reflects the current industry;
2. Determine the current beneficiaries of the program;
3. Determine the importance of the subsidy to various publication types;
4. Determine distribution cost increases with subsidy elimination; and
5. Determine the minimum length of time required by publishers to absorb rate increases.

### Methodology

The methodology for the study included a review of a large number of studies and data sources including the 1984 Statistics Canada Periodical Survey, the 1985 Canada Post Second Class Mail Study, the 1982 joint DOC/Statistics Canada Second Class data base, and several reports by consultants for the Department of Communications concerning periodical, newspaper and book publishing, readership surveys and the Postal Subsidy Program. A computerized data base was created for further analysis of the pertinent data.

## SUMMARY OF THE FINANCIAL IMPACTS OF ELIMINATING POSTAL SUBSIDIES

### Periodicals

From our analysis we have concluded that most periodicals fall into two broad categories in relation to postal subsidies. Specialized trade, technical and professional publications and some general market periodicals with a specialized readership (e.g., leisure) have the capacity to absorb distribution cost increases within a relatively short period of time. By our estimates, five to seven years would be sufficient for these publications to fully adapt to higher distribution costs. On the other hand, most mass market or general interest publications (including cultural publications) are relatively more vulnerable to large distribution cost increases. The estimates of annual cost increases over 10 years in comparison with what is known about the finances of these publications, lead us to believe that a minimum 10 year period of phased cost increases is appropriate.

Some types of periodicals such as non-commercial cultural and scholarly publications may require ongoing assistance to maintain an appropriate quality of production and leadership. Some other special cases with low density circulation or a high proportion of non-urban mailings may also require some ongoing assistance.

### Newspapers

All high circulation (i.e., over 100,000) and most medium circulation (over 25,000) dailies could adjust to an elimination within a relatively short period of time. Since mail circulation make up only a small proportion of their total distribution, there would be no adverse financial impacts. The only significant cost might be to the non-urban mail subscribers to major dailies (appropriately 40,000 subscribers) who would have to find substitutes for the information or pay a very high cost increase.

Some small circulation (i.e., under 25,000) dailies could lose readers and advertisers if their circulation is not concentrated in specific areas. A dispersed readership would make it difficult to use alternative distribution systems as a substitute for mail delivery. A more cautious approach for these small dailies might be advisable.

Small community weeklies are clearly the most vulnerable group of publications. Their current postal costs are low or none and their dependence on the mail is high. It is likely that a large number of small community weeklies would survive with great difficulty without some form of ongoing assistance. Because of low profitability (many are not designed for profit) and consumer resistance to high prices, many would probably fold or be forced to change their format. Given sustained rate increases, the most likely alternative would be an increase in the number of controlled circulation weeklies. This type of change might improve the capacity to generate advertising revenues (controlled circulation newspapers generally have a higher advertising content than subscriber newspapers) but at the cost of editorial content.

For weeklies published in larger communities, we believe that it is advisable to proceed in the same manner as for general market and specialized periodicals. There is no reliable financial information for this group of publications, so it is possible that the impacts of subsidy elimination will vary a great deal for the newspapers within the group. We advise a careful monitoring of the impacts of postal increases on these publications to ensure that there are no adverse consequences for community or ethnic newspapers.

### Books

Two important distinctions are pertinent to book mailings. The first concerns the differences between volume mailers, which are mainly foreign owned book clubs and direct mailers, and the small shipment mailers. The second concerns the difference between mailing to urban and non-urban destinations. For volume mailers, it appears that the elimination of subsidies would not have a serious negative impact, particularly for shipments to urban areas. Consumers would likely have to pay for the higher distribution costs, although these would not be excessive to urban centres. It should be noted that one half of the postal subsidy for books (approximately \$30 million) applied to shipments by volume mailers to urban areas.

For small shipments by Canadian publishers and bookstores, it is difficult to estimate the impact of eliminating the subsidy. Higher book costs resulting from distribution price increases might discourage the distribution of Canadian books to a truly national readership. We recommend a cautious approach to rate increases for Canadian publishers over a minimum of 10 years. The impacts should then be closely monitored to assess the risks and benefits associated with this plan.



## RÉSUMÉ DE LA DIRECTION

### Objectifs de l'étude

Depuis quelque temps, on fait pression à l'intérieur même du gouvernement en vue de supprimer ou de modifier le Programme des subsides postaux. En fait, le dernier budget fédéral envisageait d'éliminer sur une période de deux ans, la plus grande partie de la subvention de 225 million de dollars, soit les 170 millions relatifs aux frais d'infrastructure de la Société canadienne des Postes. Plusieurs mettent maintenant en cause l'efficacité avec laquelle le Programme des subsides postaux atteint ses objectifs économiques et culturels. De plus, la situation de l'industrie de l'édition de journaux et de périodiques a subi d'importants changements depuis que les dernières grandes modifications ont été apportées au programme en 1968. Aussi, plusieurs des bénéficiaires n'ont pas besoin du niveau d'aide qui leur est actuellement accordé.

Au cours des dernières années, l'augmentation des tarifs postaux de la deuxième classe a fait l'objet de nombreuses discussions et négociations. Puisque les subsides datent d'avant la Confédération et qu'ils sont maintenant intégrés à la structure économique de l'industrie, il est difficile de mesurer l'étendue des répercussions qu'entraînerait leur retrait. Les éditeurs et les associations les représentant ont présenté plusieurs recommandations au gouvernement fédéral, lesquelles constituent un argument compliqué à l'effet que les subventions seraient profitables aux lecteurs plutôt qu'aux éditeurs et que tout changement d'envergure mettrait en jeu la viabilité de l'industrie. Bien que le ministère des Communications ait mené plusieurs études à ce sujet et qu'il soit demeuré en contact assidu avec les principaux représentants de l'industrie, il n'a pas encore établi de politique précise en ce qui a trait à l'aide financière à accorder aux éditeurs.

La Société canadienne des Postes vient de terminer une importante étude visant à déterminer le coût réel des livraisons de la deuxième classe. Pendant des années, l'industrie a prétendu qu'on ne connaissait pas le coût véritable de la distribution et que les estimés de la valeur des subsides étaient exagérés. Or, on dispose maintenant d'informations fiables au sujet des différences entre les recettes et les coûts réels. L'ampleur de ces différences reflète la gravité du problème tant pour le gouvernement, en ce qui a trait à la réduction des coûts du programme, que pour l'industrie, en ce qui concerne la recherche de revenus supplémentaires en vue de faire face à une augmentation éventuelle du coût de distribution.

Le manque d'information portant sur les répercussions qu'entraînerait le retrait des subsides postaux pour l'industrie complique la tâche du ministère des Communications lorsqu'il s'agit d'élaborer une politique visant le programme de la deuxième classe en particulier, et l'aide à l'édition, en général. Les codes tarifaires et les critères d'éligibilité en vigueur actuellement, n'établissent que des distinctions d'ordre très général entre les différentes catégories de publications. Ces catégories ne reflètent pas nécessairement la situation réelle de l'industrie ou les exigences du gouvernement fédéral. On devra disposer de plus d'informations au sujet des effets à long terme d'une augmentation importante des tarifs postaux afin d'être en mesure d'établir un plan tenant compte des besoins de l'industrie et des moyens du gouvernement fédéral.

Les cinq principaux objectifs de cette étude étaient:

1. d'établir une typologie des publications basée sur la situation actuelle de l'industrie;
2. d'identifier les bénéficiaires du programme;
3. de mesurer l'importance des subsides pour les diverses catégories de publications;
4. de déterminer l'augmentation des coûts de distribution qu'entraînerait le retrait des subsides; et
5. d'établir les délais nécessaires aux éditeurs pour amortir l'augmentation des tarifs.

### Méthodologie

La méthodologie de l'étude comportait l'examen et la revue de plusieurs études et sources d'information dont l'enquête de Statistique Canada auprès des éditeurs de périodiques, commencée en 1984, les études portant sur l'évaluation du Programme des subsides postaux réalisées en 1985, la base de données mise sur pied en 1982 par Statistique Canada et le ministère des Communications et contenant des données sur les bénéficiaires du Programme, plusieurs études d'experts-conseils portant sur divers aspects de l'édition de journaux, de périodiques et de livres et enfin les enquêtes sur les habitudes de lecture et le comportement des lecteurs. De cet ensemble, une banque de données a été créée permettant ainsi d'effectuer les analyses requises.

## Résumé des répercussions financières qu'entraînerait le retrait des subsides postaux

### Les périodiques

Notre analyse indique que la plupart des périodiques entrent dans deux grandes catégories en ce qui a trait aux subsides postaux. D'une part, les publications spécialisées entrant dans les catégories affaires/technique/professionnelle ainsi que les publications générales d'intérêts spécialisés (par ex.: loisir) seraient en mesure d'amortir assez rapidement une augmentation des coûts de distribution. Nous estimons que ces publications pourraient s'adapter complètement à des tarifs postaux plus élevés, à l'intérieur d'une période de cinq à sept ans. D'autre part, la majorité des publications de consommation de masse entrant dans les catégories générale/culturelle sont plus vulnérables à une importante augmentation des coûts de distribution. Si l'on compare ce que nous connaissons de la situation financière de ces publications et l'estimé de l'augmentation des coûts annuels sur dix ans, nous concluons que l'augmentation graduelle des coûts devra être répartie sur au moins dix ans.

Certaines catégories de périodiques telles les publications savantes et à caractère culturel auront sans doute besoin d'un appui financier soutenu pour pouvoir maintenir une certaine qualité du produit et s'assurer de la fidélité de leur clientèle. D'autres cas particuliers de publications à faible tirage ou expédiées en grande partie à l'extérieur des régions urbaines auront peut-être également besoin d'une aide continue.

### Journaux

Tous les quotidiens à tirage élevé (c.-à-d. supérieur à 100,000) et la majorité des quotidiens à tirage moyen (supérieur à 25,000) seraient en mesure de s'adapter assez rapidement au retrait des subsides postaux. Puisque la distribution postale ne représente qu'une petite partie de leur tirage total, ces journaux ne seraient pas financièrement affectés de façon significative. Par ailleurs, seuls les abonnés ruraux des grands quotidiens devraient absorber une augmentation considérable des coûts d'abonnement. Ces abonnés, au nombre d'environ 40,000, auraient à trouver d'autres sources d'information ou à payer beaucoup plus cher pour leur journal.

Certains quotidiens à faible tirage (c.-à-d. inférieur à 25,000) perdraient des lecteurs et des

annonceurs si le tirage n'était pas concentré dans certains secteurs précis. L'éparpillement de la clientèle rendrait difficile le recours à un système de distribution autre que la poste. Il serait sans doute souhaitable d'adopter une stratégie plus prudente en ce qui concerne ces petits quotidiens.

Il ressort clairement que les petits hebdomadaires sont parmi les publications les plus touchées par les hausses de tarifs postaux. Ceux-ci dépendent essentiellement de la distribution postale et leurs frais de poste sont présentement très peu élevés, voire nuls. Il est fort probable qu'un bon nombre de petits hebdomadaires éprouveraient de sérieuses difficultés à survivre sans une aide financière continue. Plusieurs de ces publications se verraient peut-être dans l'obligation de fermer boutique ou de changer de formule étant donné leur faible niveau de rentabilité (plusieurs étant sans but lucratif) et la résistance des lecteurs à la majoration des prix d'abonnement. Il semble que la tendance la plus probable, devant des augmentations tarifaires soutenues, irait dans le sens d'une augmentation du nombre d'hebdomadaires à distribution gratuite. Toutefois, cette réaction entraînerait peut-être une augmentation du contenu publicitaire mais ce, au détriment du contenu rédactionnel.

Nous croyons que les hebdomadaires publiés dans des communautés plus importantes devraient être traités comme les périodiques généraux et spécialisés. Puisque nous ne disposons pas d'information financière fiable pour cette catégorie de publications, nous croyons qu'il est fort possible que le retrait des subsides ait des répercussions très différentes d'un journal à l'autre, à l'intérieur de cette catégorie de publications. Nous conseillons de suivre de près l'effet que les augmentations auront sur ces publications, afin de s'assurer qu'elles ne seront pas dommageables aux journaux ethniques ou communautaires.

### Livres

On observe deux phénomènes distincts en ce qui concerne les envois de livres. Premièrement, les expéditeurs se divisent en deux groupes: les expéditeurs d'envois en nombre, lesquels comptent surtout les clubs de livres à propriété étrangère et les services de vente par correspondance, et les expéditeurs de petits envois. Deuxièmement, il existe une différence marquée entre les envois destinés aux régions urbaines et les envois destinés aux régions rurales. Tout indique que le retrait des subsides postaux n'affecterait pas de façon sérieuse les

expéditeurs d'envois en nombre, particulièrement ceux qui postent dans les régions urbaines. Les consommateurs auront à assumer des coûts de distribution plus élevés, bien que ceux-ci ne devraient pas être excessifs dans les centres urbains. Notons que la moitié des subsides postaux alloués aux livres, soit environ 30 millions de dollars, s'applique aux envois en nombre destinés aux régions urbaines.

Il est difficile de mesurer les effets qu'entraînerait le retrait des subsides en ce qui concerne les petits envois expédiés par les libraires et les éditeurs canadiens. La hausse des prix des livres découlant de l'augmentation des coûts de distribution constituera peut-être une entrave à la distribution de livres canadiens à une clientèle déjà acquise à la production littéraire canadienne. Nous recommandons donc d'aborder avec circonspection toute augmentation tarifaire imposée aux éditeurs et aux libraires canadiens et de répartir l'élimination des subsides sur une période d'au moins dix ans. Les répercussions de ce plan devront être suivies de près afin d'en mesurer les risques et les bénéfices.

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## 1.0 INTRODUCTION

### 1.1 Statement of the Problem

In recent months there has been growing pressure from within government to modify or eliminate the Postal Subsidy Program. In fact the last federal budget called for the elimination over two years of the largest part of the \$225 million subsidy; the \$170 million infrastructure costs of Canada Post. Many are now questioning the extent to which the Postal Subsidy Program is a cost effective and efficient method for achieving the implicit economic and cultural goals of the program. Furthermore, the profile of the newspaper and periodical publishing industry has changed dramatically since the last major program changes in 1968 and many of the current beneficiaries do not require the current levels of public support. Another irritant to government is the amount of the subsidy which flows to non-Canadians particularly in the area of book distribution.

There has been a great deal of discussion and negotiation in recent years concerning second class postal rate increases. Because the subsidies have been in existence since before Confederation and have become part of the cost structure of the industry it is very difficult to estimate what the real impacts of subsidy withdrawal would be. Publishers and publishers' associations have made numerous submissions to the federal government arguing a complex case that includes the belief that the subsidy benefits readers and not publishers and that major changes would jeopardize the viability of the Canadian industry. The Department of Communications has conducted several studies on this topic and has been in regular contact with key industry representatives. However, no clear cut policy about industry support has yet emerged.

The Canada Post Corporation has recently completed a major study to identify the actual costs of second class



delivery. For years the industry has argued that the real cost of delivery was not known and that the estimates of the total subsidy were exaggerated. However, the degree of differences between current costs and revenues has finally been reliably documented. The magnitude of these difference also indicates the seriousness of the problem, both for government, in trying to reduce program costs, and for industry, in trying to come up with additional revenue to cover increased distribution costs.

The lack of information about the potential effects of eliminating the subsidy on the industry constitutes a major problem for the Department of Communications in trying to formulate policy for the second class program in particular and for publication support in general. The current postal rates codes and eligibility criteria differentiate between publication types in a very general way. These categories do not necessarily reflect the realities of the industry or the requirements of the federal government. To come up with some kind of rational plan that will balance the needs of the industry, the Treasury Board and the Department of Communications, information about the effects of large postal rate increases on the publishing industry over time is essential.

## 1.2 Objectives of the Research

Several specific objectives were set for this study in order to arrive at meaningful and useful findings. These objectives can be summarised as follows:

### 1. Define a publication typology.

An updated publication typology including the various categories of periodicals, newspapers and books was an essential component of the analysis of the impacts of subsidy elimination. The typology had to take into account the characteristics of both content and readership. (A detailed description of the typology is presented in section 2.1.)

2. Determine the current beneficiaries of the program.

In very general terms (i.e. by rate code) the current beneficiaries of the program and the levels of support have been quantitatively determined by Canada Post. A major objective of this study has been to specify the current program users and the absolute levels of support (i.e., in program dollars implicitly received) by the more precise categories of the publication typology.

3. Determine the importance of the subsidy to various publication types.

In addition to determining the absolute levels of support in terms of program dollars, we have also sought to determine the relative importance of the subsidy to the various publication types. This has involved analysing second class mailings and expenditures as percentages of total mailings and expenditures. These proportions provide an estimate of the relative dependence on the Postal Subsidy Program.

4. Determine distribution cost increases with subsidy elimination.

Given the variations in current second class rates and the relative dependence of publications on subsidies, it was essential to determine, for each of the different publication types, the absolute and proportionate increases in distribution expenditures and total expenditures that would result from program elimination.

5. Determine the minimum length of time required by publishers to absorb rate increases.

It was apparent before any analysis that the magnitude of rate increases for second class mailings would be very large if the current program is to be phased out completely. Publishers have always emphasized the need for adequate time to prepare for rate increases, even small

ones. Given these considerations one of our major objectives was to determine the minimum length of time required by publishers to adjust to the potential rate increases.

6. Determine the levels of fundings required fo an alternative funding program.

It was assumed from the outset that not all types of publications would be able to absorb the full cost of postal rate increases without serious disruptions in service to readers and problems of financial viability for important publication categories. After determining the impacts of subsidy elimination, an additional objective was to estimate the funding requirements for an alternative program that would prevent such disruptions and meet the goals of the Department of Communications concerning industry support.

7. Examine the broader impacts of program elimination.

Although most of the analysis was to be concerned with the financial impacts of rate increases, the broader social and cultural impacts of changes to the industry were also taken into account. These factors were considered primarily through a study of the effects of industry changes on readership.

## **2.0            METHODOLOGY**

The information requirements for the analysis to meet these objectives are varied and numerous. For some of the most important research concepts, comprehensive data for the periodical, newspaper and book publishing industries are not available. However, there has been a great deal of information that had been compiled in recent years in this area. Some of the important sources included the 1984 Statistics Canada Periodical Survey, the 1985 Canada Post Second Class Mail Study, the 1982 study of the DOC/Statistics Canada Data Base, and several reports by consultants.

There are two main characteristics of the approach we have taken in designing the research methodology. The first is that we have used, wherever possible, multiple sources of information in order to validate the data to the greatest extent possible. These sources include previous studies for DOC, consultants' reports, information from Canada Post and information from Statistics Canada. The quantitative and qualitative information from these sources has been applied to the analysis of periodicals, newspapers and books. The second is that we have designed and created a computerized data base for periodicals which integrates information from many sources. The data base is restricted to periodicals because they are the most problematic and new information has recently become available to permit the required analysis.

### **2.1            Typology Development**

The impacts of phasing out postal subsidies will vary between different types of publications. Conducting a meaningful analysis involves a differentiation between publication types that is both logically sensible and empirically based. Previous periodical and newspaper

studies have employed publication categories that were useful but which were inadequate for our purposes of analysing the importance of second class mailings. The second class regulations define nine content-based categories of eligible publications including news, general interest, religion, the sciences, agriculture, forestry, literary criticism or the arts, scholarly and public health. Canada Post tabulates useful information on the second class mailings of publications in these categories, but the data are not sufficient for our needs because of the absence of any information about readership.

To develop a periodical typology we analysed data based on special tabulations from the 1984 Statistics Canada Periodicals Survey. This survey of approximately 1150 periodicals included publishers' responses to questions about the main subject and content of their periodicals. A very general classification consisted of three categories including general public periodicals, specialised periodicals (trade, technical and professional) and scholarly periodicals. A more detailed question about content description identified 73 separate subjects. The periodical typology we developed was based on combinations of these two questions. A complete listing of the classification scheme is presented in Appendix A. Seventeen separate content categories are identified along with the number of periodicals in the survey that fall into each category. Appendix A.2 lists examples of periodicals which fall into each of the categories.

Several steps were involved in finalising typology. In addition to content classification, it was also necessary to include the readership dimension. The only practical means of doing this was to use circulation as the key readership dimension to distinguish between mass market periodicals and those with a more specialised readership. Six circulation categories were identified

including less than 1,000, 1,000-5,000, 5,000-10,000, 10,000-50,000, 50,000-100,000, and over 100,000. These six circulation categories, in combination with the 17 content categories, yield 102 possible periodical types. In reality, some of these logical combinations find no correspondance with actual publications (e.g., scholarly publications with a circulation over 100,000). Only about two-thirds of the categories in the typology are represented by existing periodicals.

To test the validity of the typology, we tabulated some basic descriptive statistics for each of the categories including the means and standard deviations for key variables such as circulation, various types of revenues and expenditures, second class mail distribution and prices. Excessive variance for any given variable for any of the periodical types was taken as our indication that the classification was not empirically sound and that generalisations about periodicals within the category would be hazardous. Two iterations of specifying content combinations for the typology and analysing descriptive statistics were made before arriving at the version presented in Appendix A.

The newspaper typology was much simpler to specify. It is based primarily on categories used by Canada Post and includes daily newspapers, weekly newspapers published in communities with a populaiton under 10,000, and other newspapers (mostly weeklies). Dailies have been differentiated into large dailies (circulations over 100,000), medium dailies (circulation between 25,000 and 100,000) and small dailies (circulation under 25,000). All of these are mailed at the same rates but their relative dependance on the mail varies. Small town weeklies published in communities with a populaiton under 10,000 are currently eligible for a very favourable second class rate

(i.e., rate Code 2), including a free zone with a 65 kilometre radius for up to 2,500 copies. Other newspapers, most of which are weeklies, are mailed at the same rates as periodicals.

## 2.2 Quantitative Data Base Creation

A computerized data base was created for the propose of analyzing the impact of rate increases on periodicals. The units of analysis were the periodical types that comprised the typology developed with the Statistics Canada Data. Special tabulations from the 1984 Periodical Survey were generated by the Cultural Statistics Program to provide most of the information for the data base. The principal reason that the data base was created with the periodical type as the level of analysis rather than the individual periodical was because Statistics Canada will not permit release of the information at an unaggregated level.

Statistics on approximately 50 survey variables were included in the periodical data base designed for this study. There were three main types of information including publication characteristics (e.g., frequency of publication, size, price), circulation and distribution (e.g., total circulation, Canada Post mailings, non-postal distribution), and revenues and expenses (e.g., advertising revenues, subscription revenues, distribution expenses). A complete list of the variables from the 1984 Periodical Survey included in the data base is presented in Appendix B. All data base management and analysis tasks were conducted using SPSS software on a PC-based system.

If all the required information were available from the Statistics Canada Survey it would not have been necessary to create a new data base. However two crucial ingredients for our analysis were missing. These were

estimates of the elasticity of subscription prices and advertising prices. To estimate the impacts of rate increases, it was necessary to attempt to forecast the possible increases in revenues so that ratios of new expenses and revenues could be computed. The revenue forecasts are discussed in Section 2.5.

### **2.3 Data Sources**

In addition to the periodical data from the 1984 Statistics Canada Periodicals Survey, several other types of data from various sources were necessary for the analysis. A brief description of these follows.

#### **2.3.1 Canada Post Second Class Mailings Data**

Information supplied by Canada Post was used to calculate the proportionate increases in postal rates for the second class rate codes. The magnitude of these increases were based on the differences between current average per piece expenditures and the piece rates based on fully allocated costs. Canada Post estimates of volume losses based on mailing rates in excess of certain thresholds were also considered.

#### **2.3.2 DOC/Statistics Canada Second Class Mail Data Base**

In 1982 a major study of second class mailings was conducted jointly by the Department of Communications and Canada Post using a data base compiled by the Department of Communications and Statistics Canada. Subsequent analysis of this data by DOC provided valuable estimates of the proportions of total second class mailings sent by various types of publications. These data also permitted the calculation of proportions of the total subsidy received by different publication types.



### 2.3.3 Consultants' Reports

Several previous studies performed by consultants for the Department of Communications were valuable information resources. The list includes the following studies.

- o A Study of Canadian Concessionary Postal Rate Changes and Periodical Publishers by Ekos Research Associates Inc., 1985.

This report explores the impacts of small rate increases over a ten year period on five types of Canadian periodicals.

- o The Effect of U.S. Postal Rate Increases on the American Periodical Industry by Ekos Research Associates Inc., 1985.

This report documents the results of our analysis of the impacts on periodicals fo the gradual phase-out of postal subsidies in the U.S. during the 1970's.

- o Postal Subsidies Program; Impact on Newspapers by the DPA Group, 1985.

This report documents a study of the potential impacts of major postal rate increases on newspapers. In addition to survey findings, the report presents a great deal of information from other sources such as the 1982 DOC/Statistics Canada data base, Statistics Canada and industry associations that was used in our analysis.

- o Magazine Reading in Canada by Ronald L. Cospers, St. Mary's University, 1985.

This report documents the results of a major magazine readership study. We conducted some additional analysis on the data related to the issue of subscription price elasticity for Canadian periodicals.

- o A Study of the Canadian Periodical Publishing Industry by Woods Gordon, 1984.

This major study provides a detailed overview of the periodical publishing industry and the role of second class mail.

- o Reaction of Periodical Subscribers to Subscription Price Increases by Econosult Inc., 1985.

This report documents a survey of periodical subscribers and their reactions to hypothetical price increases.

- o Book Clubs and Direct Mail Publishing and Marketing of Books: A Review of Policy Options by Paul Audley and Associates Ltd, 1984.

This report provides information on the use of the second class publisher's book rate for book distribution.

#### 2.4 Review of Alternate Distribution Systems and Costs

Our analysis of distribution cost increases associated with a phasing out of postal subsidies included an examination of two cost increase scenarios. The first was based on the calculations of Canada Post for rates set to recover fully-allocated costs. We simply calculated the difference between the fully-allocated costs and the current average per piece costs to arrive at a percentage increase for each rate code. The second scenario involved an estimation of what the "market" costs would be for delivery. For many types of second class mail, there is ample evidence to suggest that publishers would shift to alternative distribution systems at lower costs than the Canada Post rates based on fully-allocated costs.

Our analysis of the costs of alternative distribution systems was based on three sources of information. The first was an analysis conducted by Canada

Post of the competitive or crossover costs for delivery available from the private sector. The second was our own discussions with major courier companies and delivery services concerning the costs, areas of coverage and growth potential for private delivery services. Finally we discussed the problem with industry experts and reviewed submissions to DOC about the costs of private delivery.

For our analysis we have calculated separate costs for delivery to major urban centres, smaller urban centres, and non-urban and rural areas. For urban centres we have calculated cost increases based on rates which are discounted from the fully allocated cost-based Canada Post rates. For rural and non-urban areas we have assumed that the private and postal rates would be equal. The result is a mixed cost increase calculation based on blended rates for urban and non-urban delivery. (The details of these calculations are presented in Exhibit 3.7.) Our analysis of the impacts of rate increases focuses on distribution cost increases based on the mixed rates because we have assumed that these are the maximum costs that publishers will have to pay.

## **2.5 Revenue Forecasts**

Our analysis of the impacts of program elimination required that we try to estimate the balance of increased distribution costs with the ability to generate new revenues to compensate. Our effects have been restricted to the most important revenue sources, advertising and subscription sales. Other sources such as single copy sales and grants or donations are both problematic and less important for most types of publications.

### **2.5.1 Subscription Sales Revenue Forecasts**

The forecasts for possible subscription sale revenue increases are based on an analysis of survey data.

Three surveys conducted for the DOC are pertinent to this topic and they are discussed with the presentation of forecasts in the next section. Some clear patterns emerge from an analysis of these data. It is sufficient to say that we have been cautious in the forecasts because of the difficulty of predicting future consumer behaviour on the basis of current expressions of attitudes. The forecasts are stretched out over five years although the survey questions concerned the immediate future.

### **2.5.2 Revenue Forecasts -- Advertising**

In an earlier section we discussed the importance of advertising as a source of revenue for periodical publishers and the variations in importance for different types of periodicals. There are a number of key factors which determine the advertising rates and revenues for periodicals. They include:

1. the type of publication/editorial content
2. the profile of the target audience
3. the presence or absence of alternate advertising vehicles
4. the "success" rate of the publication (i.e., its ability to induce sales of products)
5. the size of the publication
6. the geographic distribution area (i.e., local, regional, or national)
7. the number of years in business
8. the method of distribution (e.g., addressed vs non-addressed controlled circulation publications)

There are a number of difficulties in developing credible forecasts for advertising revenues for specific publication types. First of all, there are the large number of factors listed above that affect the size and direction

of revenue changes. Also the number of marketing strategies publishers could employ (e.g., hold current rates, all similar publications raise price together, share increases between advertisers and subscribers), the number of management strategies that publishers could initiate (e.g., modify production quality, size, editorial content), as well as the extent of reader loyalty are all important considerations related to advertising. Added to this uncertainty are the potential actions of competing advertising media (e.g., predatory, status quo, targetted development).

Two sources of information were considered to solve this complex problem. In addition to available data provided in recent studies by Woods Gordon (1984) and Econosult (1985) we determined that it was necessary to confirm the sensitivity of advertisers and the probable direction of their actions by consulting with media placement experts in advertising agencies. Such experts were best able to explain the causes of their past behaviour and their expected future actions should advertising rates in publications increase.

In general, what the experts agreed upon was:

1. Advertisers are much more conscious now of total "corporate communications" budgets;
2. Better market information make trade-offs between various media (i.e., both print and other media) a much more cost-sensitive activity than in the past with variations as small as 2-5% potentially shifting media choices;
3. Much more emphasis is now placed on "success" (selling the end product) than on reach (getting the message to potential buyers) with the results affecting repeat advertising patterns;

4. Whereas in the past, 20 per cent decline in circulation (assuming constant rates) or a 20 per cent increase in rates (assuming constant readership) would be the point at which advertisers would move to other media (Econosult). Current information suggests that these estimates should be lowered to the 12 to 15 per cent range, with the numbers reduced even further in some cases to the 5-7% range (refer to section 3.2.7 for further details);
5. Advertisers are still quite uncertain about the economy in general and many are "sitting on the fence" trying to keep down their overall overhead costs, including marketing;
6. There is a well developed sense of "loyalty" to specific major national publications based on audience profile and overall presentation,
7. Local and regional commercial advertisers are seen as less loyal and more prone to choose alternate advertising media or to reduce or cease advertising altogether if results are not immediate;
8. Special publications such as religious publications or trade and scientific journals attract extremely loyal advertisers for whom price is of little consideration;
9. National and regional arts and cultural publications attract little or no national advertising (except for a limited number of major companies such as Imperial Oil) and again, price of advertising is of little consideration.

The experts could not forecast the effects of such future market factors as:

1. The potential effects of stricter regulation of alcohol or tobacco advertising (currently heavily reliant on magazine advertising);
2. The possible strategic actions of competing media (although a few experts thought that other media would try to increase their market share);
3. The possibility of a coordinated response by the publishers (e.g., all hold prices, all raise prices); and
4. The level of profits (or loss) below which established publishers would drop out of the market or convert assets to other corporate initiatives.

Based on past studies and the current expert viewpoints, we have concluded that there is a small amount of flexibility in the system in which advertisers and/or publishers could absorb new costs without altering their long-run business plans. However, past the point of real increases of five to seven per cent in costs, significant and permanent actions would likely be taken by advertisers that would result in substantial losses to publications. It is unlikely that these losses could be absorbed by additional management tactics or passed on to consumers. As with the subscription revenue forecasts, we have opted to be cautious because of the particularly competitive market at the present time.

As a general note about revenue forecasts and revenue generating capacity, it should be remembered that this study has not been concerned with important factors such as cost cutting techniques, technological innovations or changes in profit margins. Our analysis is restricted to subscription and advertising revenue forecasts.

## 2.6 Quantitative Data Analysis

The major objectives of our analysis have been to determine the impacts of eliminating the subsidy and estimate the minimum number of years required to absorb distribution cost increases. We have proceeded to conduct this analysis by estimating the difference between probable distribution cost increases and forecasts for additional revenue generation for the different periodical types. There were a number of steps in the analysis to arrive at the conclusions. They can be summarized as follows:

- o the level of the subsidy received by different publication types and by different rate code users was determined;
- o the sources of revenue for different publications was determined;
- o current expenditures for second class mail and the proportion of total expenditure that these expenditures represent was determined;
- o the percentage increase in distribution costs with the elimination of subsidy and the percentage increase in total expenditures that this would represent was estimated. (Two cost increase scenarios were analysed. One was based on rate increases designed to fully recover Canada Post costs. The other was based on estimated costs for using non-postal distribution systems and resulted in lower total cost increases -- refer to sections 2.4 and 3.2.5);
- o estimates for possible increases in advertising and subscription revenues, the two most important sources of income, were forecast;
- o conclusions about the impacts of eliminating the Postal Subsidy Program were drawn based on an analysis of the ratios of new revenue and expense estimates.



The quality of the information available to support this analysis varied by publication type. The information for periodicals was very satisfactory, largely because of the data from the 1984 Periodical Survey. Information for newspapers was less satisfactory and the analysis required the use of more varied sources of data and estimation procedures. The available data would not support all the analysis tasks. Information about books was very deficient and would not support most of the types of analysis we wanted to conduct. Fortunately the postal issues concerning books are more clear cut than for periodicals or newspaper and we do not require a detailed analysis at this time to provide some answers.

### 3.0 RESULTS OF THE QUANTITATIVE ANALYSIS

#### 3.1 Summary of Current Program Beneficiaries

A summary of the estimated value of current postal subsidies for different publication types is presented in Exhibit 3.1. Estimates of the current postal expenditures are also shown. The totals for current expenditures and subsidy levels for second class rate codes are derived from estimates provided by Canada Post.

#### EXHIBIT 3.1 Summary of Current Postal Subsidy Program Beneficiaries

<u>Publication Type</u>	<u>Current Postal Expenditures (\$millions)</u>	<u>Value of Current Subsidy* (\$millions)</u>
<b>1. <u>Newspapers</u></b>		
Dailies (Code 1)	4.3	24.8
Small Community Weeklies (Code 2)	1.4	9.3
Other Newspapers (Codes 3 and 4)	16.0	47.5
<b>2. <u>Periodicals</u></b>		
Subscribed (Code 3)	8.4	56.4
Controlled Circulation (Code 4)	5.5	16.2
Foreign - Mailed in Canada (Code 5)	20.7	0.0
Foreign - Printed in Canada (Code 6)	1.7	9.6
<b>3. <u>Books</u></b>		
Book Rate	19.9	60.4
Library Book Rate	0.2	1.7
<b>Totals</b>	<b>78.1</b>	<b>225.9</b>

\* The breakdown of rate codes three and four subsidies for newspapers and periodicals is based on estimates derived from an analysis of a sample of 420 publications in the DOC/Statistics Canada data base.

### 3.2 Periodicals

The following section on the analysis of periodicals includes a series of tables that leads to a presentation of estimates of the ability of publishers to meet the increased distribution costs. The information is presented so as to detail the different circumstances and potential impacts for as many of the 17 periodical types as possible.

This analysis is based on Canadian owned periodicals only (i.e., those eligible for second class rate codes 3 and 4). Foreign periodicals printed in Canada (i.e., rate code 6) are not of direct interest in our study.

#### 3.2.1 Current Subsidy Information

The details of the current subsidy received by the 17 different periodicals types are presented in Exhibit 3.2. The general classification for each type (i.e., general, specialised or scholarly) is indicated as well as the specific content classification. Some specific classifications (e.g., arts and culture, religion, agriculture) are presented in combination with more than one of the broader classifications and appear more than once in the typology.

The exhibit presents some basic descriptive information about the sample, including the number of periodicals of each type and the average total per issue circulation. Breakdowns for rate codes three and four are also presented. The value of the subsidy is a function of the circulation of the periodicals and the proportion of second class mailings that are eligible for code three rates (i.e., the most highly subsidised periodical rate). The total dollar value of the subsidy within each rate, as well as the percentage of the total periodical subsidy for the rate, is also presented. Finally, an overall percentage of the total second class subsidy for periodicals is presented.

Exhibit 3.2 demonstrates that general periodicals receive the largest portion of second class periodical subsidies. In particular, news and information periodicals receive over 23 per cent (approximately \$17 million) of the total periodical subsidy, almost twice the level of any other type. General periodicals in the agriculture, leisure, and special interest consumer categories follow, receiving approximately \$10 million, \$9 million and \$8 million, respectively.

Specialised trade, technical and professional periodicals generally receive lower overall subsidies because the average circulation is lower and much of it is mailed at the less favourable code four rates. Agricultural, business and medical/health periodicals receive the largest proportion of the code four subsidy.

Arts and culture periodicals of all types and scholarly periodicals receive only a very small percentage of the total second class subsidy.

An indication of the relative importance of the small circulation periodical (i.e., under 10,000 circulation per issue) to each of the 17 types is presented in Exhibit 3.3. This exhibit shows the percentage of periodicals (in each of the 17 types) that the small circulation ones represent. Next is shown their aggregate per issue circulation as a percentage of total circulation for the group. Finally, we present the percentage of all second class mailing for the group that the small magazines represent. The amount of the total subsidy received by small circulation periodicals in each category can be calculated by multiplying this percentage by the subsidy figures in Exhibit 3.2.

For most periodicals, in the general content categories, small circulation publications represent only a small proportion of both the total circulation and second

**Exhibit 3.2  
Periodicals: Current Subsidy Information**

	<u>Number of Periodicals in Sample</u>	<u>Average Per Issue Circulation</u>	<u>Average Per Issue Code 3 Circulation</u>	<u>Average Per Issue Code 4 Circulation</u>	<u>Annual Code 3 Subsidy</u>	<u>% Code 3 Subsidy</u>	<u>Annual Code 4 Subsidy</u>	<u>% Code 4 Subsidy</u>	<u>Per Cent of Total 2nd Class Subsidy (Code 3 and Code 4)</u>
<b>General Periodicals:</b>									
News and Information	79	128,064	57,629	0	\$16,976,400	30.1%	\$0	0.0%	23.4%
Recreation	83	79,990	26,397	3,199	7,783,200	13.8%	891,000	5.5%	12.0%
Arts and Culture	47	15,213	2,130	0	620,400	1.1%	0	0.0%	0.9%
Special Interest									
Consumer	63	43,490	26,529	0	7,839,600	13.9%	0	0.0%	10.8%
Religion	201	20,310	14,420	2,234	4,286,400	7.6%	615,600	3.8%	6.8%
Agriculture	7	48,816	25,872	7,811	7,614,000	13.5%	2,154,600	13.3%	13.5%
Subtotal	480	335,883	152,977	13,244	45,120,000	80.0%	3,661,200	22.6%	67.4%
<b>Specialised Periodicals:</b>									
Agriculture	65	25,970	9,349	15,063	2,763,600	4.9%	4,163,400	25.7%	9.5%
Business	133	15,366	1,998	8,758	564,600	1.0%	2,413,800	14.9%	4.1%
Arts and Culture	28	6,907	898	69	282,000	0.5%	16,200	0.1%	0.4%
Lifestyles	48	23,786	5,947	4,993	1,748,400	3.1%	1,377,000	8.5%	4.3%
Trade	144	12,548	3,262	4,517	958,800	1.7%	1,247,400	7.7%	3.0%
Medicine/Health	60	16,645	5,659	8,156	1,692,000	3.0%	2,251,800	13.9%	5.4%
Religion	62	13,920	9,326	2,228	2,763,600	4.9%	615,600	3.8%	4.7%
Subtotal	540	115,142	36,439	43,784	10,773,000	19.1%	12,085,200	74.6%	31.4%
<b>Scholarly Periodicals:</b>									
Arts and Culture	35	863	191	25	56,400	0.1%	0	0.0%	0.1%
Social Science	78	1,195	310	96	112,800	0.2%	32,400	0.2%	0.2%
Pure and Applied Science	12	2,946	825	1,296	225,600	0.4%	356,400	2.2%	0.8%
Religion	6	922	442	157	112,800	0.2%	48,600	0.3%	0.2%
Subtotal	131	5,926	1,768	1,574	507,600	0.7%	437,400	2.7%	1.3%
<b>Total</b>	<b>1,151</b>	<b>456,951</b>	<b>191,184</b>	<b>58,602</b>	<b>56,400,600</b>	<b>100%</b>	<b>16,183,800</b>	<b>100</b>	<b>100</b>

class mailings. For instance, over 34 per cent of news and information periodicals have a circulation of less than 10,000 copies, but these represent less than one per cent of total circulation and just over one per cent of second class mailings. Among the general contents categories, only in the case of arts and culture periodicals do mailings for small circulation periodicals represent a significant

**EXHIBIT 3.3**  
**Statistics for Periodicals with Per Issue Circulation**  
**of Less Than 10,000**

	<u>Per Cent of</u> <u>Periodicals</u> <u>in Category</u>	<u>Per Cent of</u> <u>Total</u> <u>Circulation</u>	<u>Per Cent of</u> <u>Total 2nd Class</u> <u>Circulation in</u> <u>Each Category</u>
<b>General Periodicals:</b>			
News and Information	34.2	0.9	1.3
Leisure	19.3	1.2	0.9
Arts and Culture	80.9	9.0	31.1
Special Interest			
Consumer	41.3	3.8	2.9
Religion	69.7	12.4	10.5
Agriculture	14.2	0.0	0.5
<b>Specialised Periodicals:</b>			
Agriculture	56.9	11.5	24.5
Business	45.9	15.9	13.2
Arts and Culture	85.7	23.6	74.0
Lifestyles	62.5	15.9	18.2
Trade	54.8	19.2	19.4
Medicine/Health	53.3	11.5	11.7
Religion	77.4	21.3	15.5
<b>Scholarly Periodicals:</b>			
Arts and Culture	100.0	100.0	100.0
Social Science	100.0	100.0	100.0
Pure and Applied			
Science	100.0	100.0	100.0
Religion	100.0	100.0	100.0

proportion (i.e., over 30 per cent). Almost all arts and culture publications (over 80 per cent) have a small circulation. Those that are larger, are controlled circulation commercial publications.

Of the specialised arts and culture periodicals 74 per cent have a circulation under 10,000. This is much higher than for any other category. This percentages rises to 100 per cent for scholarly arts and culture periodicals.

For specialised trade, technical and professional publications, the smaller magazines are relatively more important. They represent a high percentage of publications, as well as a significant proportion of the second class mailings. The percentage of second class mailings ranges from 12 per cent (medical and health periodicals) to 25 per cent (agriculture), with arts and culture being unusually higher than the other types with 74 per cent of the total from small publications. Scholarly publications are all small circulation, with very few approaching even 5,000 and the overall average circulation being not far in excess of 1,000.

### 3.2.2 Sources of Current Revenues

The capacity for periodicals to successfully absorb large postal rate increases in the years to come depends on the ability of publishers to generate new revenue. The first step in the process of analysing new revenue generating capacity is to examine the current sources of revenue. Exhibit 3.4 presents the results of our analysis of data from the 1984 Statistics Canada Periodicals Survey. It presents the percentage of revenues derived from advertising, subscription sales and all other sources combined. It should be noted that subscription sale revenues are far more important than single copy sale revenues for all types of Canadian periodicals.

*Handwritten note:*  
This is the  
new  
revenue  
subject to  
P.M.T.

An important difference between this exhibit and Exhibit 3.2 and 3.3 is that the categories of periodicals have been revised. Because of confidentiality restrictions, it was not possible to access financial data for all categories (i.e., general, specialised and scholarly) of arts and culture, religious and agricultural periodicals. Instead of eliminating all information relating to finances for these types of periodicals, however, the data for each type has been aggregated, regardless of which general content category it belonged to. The result is a single "combined" arts and culture category (and combined agriculture and religious categories as well) instead of three different ones. Unfortunately there is much greater variation between periodicals within the combined categories than for the more specific types. General, specialised and scholarly publications are quite different and the process of making generalisations from the combined categories is somewhat hazardous.

Exhibit 3.4 shows that advertising is by far the most important source of revenue for most publications. For general periodicals, advertising generates between 50 per cent and 65 per cent of total revenues. For specialised periodicals, these figures rise to between 72 per cent and 90 per cent. For cultural publications, advertising is significant but accounts for a lower proportion of total revenues (i.e., 39 per cent) because of the importance of grants and donations. Religious periodicals rely very little on advertising and for scholarly periodicals advertising is almost non-existent.

### **3.2.3 Expenditures on Second Class Postage**

The absolute volumes of second class mail and the total value of the subsidy for the different periodical types are very important numbers for planning subsidy reductions. Clearly, the greatest program savings can be



**Exhibit 3.4**  
**Periodicals: Revenue Information**

	<u>Average Per Issue Circulation</u>	<u>Average Total Annual Revenue (\$'s)</u>	<u>Per Cent of Total Revenue Derived From Advertising</u>	<u>Per Cent of Total Revenue Derived From Subscriptions</u>	<u>Per Cent of Total Revenue From Other Sources</u>
<b>General Periodicals:</b>					
News and Information	128,064	1,908,953	63.9	29.3	5.8
Leisure	79,990	1,384,809	50.1	19.4	30.5
Special Interest Consumer	43,490	803,943	65.4	23.2	1.4
<b>Specialised Periodicals:</b>					
Business	15,366	436,400	84.8	7.2	8.0
Lifestyles	23,786	419,795	72.3	18.6	9.1
Trade	12,548	225,928	75.8	14.2	10.0
Medicine/Health	16,645	439,854	89.7	5.3	5.0
<b>Scholarly Periodicals:</b>					
Social Science	1,195	48,481	0.9	40.2	58.9
Pure and Applied Science	2,948	NA	NA	NA	NA
<b>Combined Categories:*</b>					
Arts and Culture	22,983	75,265	38.6	19.7	41.7
Religion	35,152	94,971	8.5	42.5	49.0
Agriculture	74,786	420,546	81.2	14.4	4.4
<b>Totals</b>	<b>456,953</b>	<b>6,258,945</b>	<b>--</b>	<b>--</b>	<b>--</b>

\* We have combined the general, specialised and scholarly categories because financial data were not available in any greater detail. It should be noted that there may be significant variation between periodicals included in each combined type, and the combined figures may provide a distorted summary.

realised by targetting increases for the heavy users. However, volumes of mail and total subsidy levels do not provide any information on the relative importance of the postal program to publishers of different types of periodicals. Some publishers are more financially dependent on the program than others.

Expenditures on second class mail as a percentage of total expenditures are presented in Exhibit 3.5. The exhibit presents the average total expenditures for each periodical type, the average second class (code three and four) expenditures, and second class expenditures as a percentage of total expenditures. On average, publishers of general types of publications spend proportionately less than publishers of specialised trade, technical and professional periodicals. This can be attributed mainly to a lower average cost per piece (most copies are mailed at code three rates) and not a lower use of second class mail. In fact, an analysis of the figures in Exhibit 3.2 shows that most general categories of periodicals have higher proportionate second class mailings than other types.

Some idea of the relative dependance of publishers on second class subsidies can be gained from an analysis of Exhibit 3.5. As shown in Exhibit 3.2 virtually all the second class mailings of the three types of general periodicals (i.e., news and information, leisure and special interest consumer) are sent at the same favourable rate (i.e., code three). However, second class costs are proportionately twice as high for news and information periodicals and three times as high for special interest consumer periodicals as for leisure periodicals. The publishers of the leisure periodicals are clearly the least dependent on second class subsidies.

Although there is more variation in the level of subsidy (i.e., mailings by rate code) within the specialised

**Exhibit 3.5**  
**Periodicals: Expenditures on Second Class Postage.**

	<u>Average Per Issue Circulation</u>	<u>Average Total Annual Expenditures (\$'s)</u>	<u>Average Annual Code 3 Expenditures (\$'s)</u>	<u>Average Annual Code 4 Expenditures (\$'s)</u>	<u>Per Cent of Total Expendi- tures Spent on 2nd Class Postage</u>
<b>General Periodicals:</b>					
News and Information	128,064	1,754,671	\$ 120,440	\$0	1.20
Leisure	79,990	1,346,373	39,338	4,490	0.66
Special Interest Consumer	43,490	643,896	71,083	0	1.93
<b>Specialised Periodicals:</b>					
Business	15,366	403,959	5,653	24,170	3.21
Lifestyles	23,786	402,727	9,798	7,717	1.33
Trade	12,548	226,990	9,960	9,056	2.45
Medicine/Health	16,645	428,248	22,571	29,999	4.32
<b>Scholarly Periodicals:</b>					
Social Science	1,195	48,440	882	254	0.41
Pure and Applied Science	2,948	NA	NA	NA	NA
<b>Combined Categories:*</b>					
Arts and Culture	22,983	75,146	814	14	0.20
Religion	35,152	78,124	22,257	3,977	7.30
Agriculture	74,786	364,352	52,956	32,240	6.70
<b>Totals</b>	<b>436,953</b>	<b>5,772,926</b>	<b>355,752</b>	<b>111,917</b>	

\* We have combined the general, specialised and scholarly categories because financial data were not available in any greater detail. It should be noted that there may be significant variation between periodicals included in each combined type, and the combined figures may provide a distorted summary.

categories, the second class expenditure figures are also useful estimates of the relative dependence on the subsidy within these categories. Second class expenditures are proportionately the highest, and hence dependence on the subsidy is the greatest, for medical/ health periodicals (4.3 per cent). Business periodicals are next (3.2 per cent), followed by trade periodicals (2.5 per cent), with lifestyle magazines spending proportionately the least (1.3 per cent) on second class mail.

A few points about the "combined" categories should be considered. There are several large controlled circulation commercial arts and culture periodicals which do not use the mail, and thus, distort the relative expenditures on second class mail as reported for this type of periodical. Although we do not have the data to make separate estimates of second class costs as a percentage of total expenditures for the non-commercial cultural publications, we know that it is substantially higher than .2 per cent. For religious and agricultural publications the proportions of total expenditures for second class mail are very high at 7.3 per cent and 6.7 per cent respectively. However, on average these types of publications have much lower overall expenditures. For example, on a per copy basis religious periodicals average costs of less than 20 cents per copy, and agriculture periodicals average approximately 40 cents per copy. The comparable figure for general news and information periodicals is well over \$1.00. It is not surprising that the second class mail costs translate into a higher percentage of the total expenditures.

#### **3.2.4 Postal Cost Increases with Program Elimination**

A crucial component of the analysis of dependence on second class subsidies is the estimation of the distribution cost increases that will occur with an

elimination of the Postal Subsidy Program. We have approached this analysis in using two analytical methods. The first, discussed in this section, assumes that use of the mail for distribution would continue at current levels even if Canada Post cost-based rates applied. This approach is very useful for understanding just how large postal increases must be in order for Canada Post to cover its costs and how serious the effects on publishers would be. The second approach assumes a more competitive market in which alternative distribution systems would become viable before the full extent of postal rate increases had been reached. This is discussed in the following section.

The actual percentage increase in postal costs for current second class users depends on the rates which apply to present mailings. If all second mail was sent at Code 3 rates, then the percentage increase with fully-allocated cost based rates would equal 572 per cent. Similarly if all current second class mail was sent at Code 4 rates, the increase would equal 195 per cent. Exhibit 3.6 presents the estimated increase in postal costs with an elimination of subsidies, taking into account the proportions of mailings at the two rate codes for different periodical types. It should be noted that the percentage increase calculations assume standard per piece costs for present and future mailings for all of the periodical types. The calculations are not sensitive to differences in average weights between categories that could affect present or future costs and the magnitude of the increases.

As a percentage of current expenditures, the largest increases would be for the general and scholarly categories of publications which are currently sent at Code 3 rates. Of equal and perhaps greater importance is the magnitude of increase for total current expenditures that second class rate increases would cause. These increases

Exhibit 3.6

Estimated Increase in Distribution Costs With Postal Rates Based on Fully Allocated Costs\*

	Percentage of Second Class Mail Costs Attributable to Code 3 Mailings	Percentage of Second Class Mail Costs Attributable to Code 4 Mailings	Per Cent Increase in 2nd Class Rates When Based on Fully Allocated Costs	Per Cent Increase in Total Current Expenditures
<b>General Periodicals:</b>				
News and Information	100.0	0.0	572	6.9
Leisure	78.8	21.2	492	3.2
Special Interest Consumer	100.0	0.0	572	11.0
<b>Specialised Periodicals:</b>				
Business	9.4	90.6	230	7.4
Lifestyles	35.3	64.7	327	4.3
Trade	24.8	75.2	288	7.1
Medicine/Health	23.9	76.1	284	12.3
<b>Scholarly Periodicals:</b>				
Social Science	100.0	0.0	572	2.3
Pure and Applied Science	100.0	0.0	572	NA
<b>Combined Categories:**</b>				
Arts and Culture	95.0	5.0	553	1.1
Religion	70.0	29.5	460	33.6
Agriculture	41.2	58.8	349	23.4

\* Calculations are based on cost data supplied by Canada Post.

\*\* We have combined the general, specialised and scholarly categories because financial data were not available in any greater detail. It should be noted that there may be significant variation between periodicals included in each combined type, and the combined figures may provide a distorted summary.

would be very high for agricultural (23.4 per cent) and religious (33.6 per cent) periodicals. They would also be quite substantial for medical/health (12.3 per cent) and special interest consumer (11.0 per cent) periodicals. In fact for virtually all types of periodicals, the impacts of higher second class rates would be significant. Only a few types such as general leisure, specialised lifestyle and some scholarly periodicals which distribute a low percentage of copies by second class mail would not be affected a great deal.

### 3.2.5 Alternative Distribution Options and Costs

There is a great deal of evidence to indicate that many publishers would not pay the rates that Canada Post must charge to fully recover costs but would choose an alternative method of delivery. Some publishers of large circulation general interest periodicals have stated that they would change the method of delivery if postal rates exceeded 15 cents per copy. Canada Post officials have estimated that over one-third of second class mailings would be lost in the 10 major urban centres alone with rates in the range of 20 cents to 25 cents per piece. From our own analysis (i.e., based on methods discussed in section 2.4) we have concluded that large and medium circulation periodicals could receive satisfactory service in urban areas from a combination of inter-city and intra-city delivery services in the 15 cents to 20 cents per copy range.

Exhibit 3.7 presents estimates of the cost increases in distribution based on a "mixed" set of rates. We have been cautious in estimating distribution costs for alternative delivery systems from current cost information and have not attempted to calculate any economies of scale that might be achieved after a period of time. For this

**Exhibit 3.7**  
**Estimated Increase in Distributed Costs with Non-Postal Delivery**  
**and Variable Rates for Urban and Non-Urban Areas\***

	Percentage of 2nd Class Costs Attributable to Code 3 Mailings	Percentage of 2nd Class Costs Attributable to Code 4 Mailings	PERCENTAGE INCREASE IN DISTRIBUTION COSTS			Average Total Estimated Increase	Estimated Per Cent In- crease in Total Expenditures
			Large Urban Centres (Over 100,000 Population)	Small Urban Centres (25,000- 100,000 Population)	Other Areas (Less Than 25,000 Population)		
<b>General Periodicals:</b>							
News and Information	100.0	0.0	250	339	572	365	4.4
Leisure	78.8	21.2	210	288	491	310	2.0
Special Interest Consumer	100.0	0.0	250	339	572	365	7.0
<b>Specialised Periodicals:</b>							
Business	9.4	90.6	78	122	230	132	4.2
Lifestyles	35.3	64.7	127	184	327	198	2.6
Trade	24.8	75.2	107	159	288	172	4.2
Medicine/Health	23.9	76.1	105	157	284	164	7.1
<b>Scholarly Periodicals:</b>							
Social Science Pure and Applied Science	100.0	0.0	250	339	572	365	1.5
Science	100.0	0.0	250	339	572	365	NA
<b>Combined Categories:</b>							
Arts and Culture	95.0	5.0	241	327	553	352	0.7
Religion	70.0	29.5	194	272	460	289	21.1
Agriculture	41.2	58.8	138	198	350	214	14.3

\* The "market cost" calculations are based on the assumption that magazine mailings are proportional to the population in large urban, small urban and non-urban areas. Estimates of increases in distribution costs are based on per piece rates of 20¢ for mailings to large urban centres (population over 100,000), per piece rates of 25¢ to small urban centres (population between 25,000 and 100,000), and rates based on fully-allocated Canada Post costs to all other areas.



scenario we have assumed that delivery costs to large urban centres with a population over 100,000 (i.e., Census Metropolitan Areas) would be 20 cents per copy, delivery costs to small urban centres with a population between 25,000 and 100,000 would be 25 cents per copy, and delivery costs to all other areas would be at the Canada Post fully allocated cost-based rates (i.e., 35 to 40 cents). In the absence of any reliable data, we have also had to assume that periodical distribution to large and small urban areas and non-urban areas is proportionate to the population in these areas. This may not be true in all cases (e.g., agriculture periodicals may have a relatively higher distribution in non-urban areas), but we do not suspect the error to be large.

Instead of a single percentage cost increase as in Exhibit 3.6, Exhibit 3.7 presents three separate percentage cost increases for the three types of destinations. Each of these estimated increases takes into account the current proportions of mail at the two second class rates (i.e., Codes 3 and 4). A "blended" estimate of the percentage cost increase has then been calculated to give a new estimate of the average total increase for each periodical type. Similarly, a new estimate of the percentage increase in total current expenditures is provided.

The estimates of distribution cost increases for the mixed cost scenario are somewhat lower than for the Canada Post cost scenario. For the analysis of the financial impacts of eliminating the Postal subsidy Program we have used the lower cost estimates. Our assumption has been that the Canada Post rates based on full costs recovery are artificially high and it is unlikely that there will ever be a situation where all publishers pay these rates. The mixed cost scenario provides a more realistic alternative.

### 3.2.6 Revenue Forecasts for Periodicals

Cost increases from higher postal rates are just one side of the equation for calculating the financial impacts of subsidy elimination. Of equal importance is the ability of publishers to generate additional revenue to cover the increased distribution costs. We have attempted to forecast the potential for increased revenues for the two most important sources of income for periodical publishers, advertising and subscription sales. Advertising revenues and circulation are directly linked and we have tried to be sensitive to the interdependencies in arriving at estimates. We also realise that there are differences for different types of publications (i.e., code 3 subscribed vs. code 4 non-subscribed) but that the basic relationship is the same. We have opted to err on the side of caution in preparing estimates from the evidence available to us. The revenue forecasts have been spread over five years when indications are that the increases could be realised in less time. There are good reasons for caution. The market for advertising has been very tough for the seller for the last six months and little, if any, increases have been possible. It is very difficult to know if this trend will continue and, if so, for how long. Also the estimates presented are for groups of periodicals and some individual publications will be more vulnerable than others.

### 3.2.7 Advertising Revenue Forecasts

As indicated in Exhibit 3.8, it is estimated that real advertising revenue for publications in the next five years could be increased by as much as 7.5 per cent in certain cases and as little as zero in other cases.

The estimate of the potential for real increase in advertising revenue is based on the degree of

substitutability of other advertising media for periodical groupings, the "success" rate for particular publication, types and the loyalty of readers (both for subscriptions and single copy purchases). Of all periodical types, business periodicals and specialised medical/health periodical (which currently pay the less favourable code 4 rates) have the highest potential for increased revenue. Except for newspaper advertising and some highly targetted television campaigns, there are few competitive substitutes for the type and style of advertising in these publications. Inducement to action (i.e., "success" rate) is also quite significant. Finally, some advertisers are less sensitive to price considerations because of the importance they place on the editorial content in periodicals. Over five years, we have estimated that a real increase of 7.5 per cent in advertising revenues, or an average of 1.5 per cent per year, is possible for these publications.

Somewhat less potential exists for revenue increases in general leisure periodicals, special interest consumer publications, specialised lifestyle and trade periodicals, and agricultural periodicals. For these types of periodicals, there is a greater availability of alternative advertising media, they have lower "success" rates (i.e., in selling products), and they are somewhat weaker in terms of reader loyalty. Arts and culture magazines have this same moderate potential for revenue increase, although the total amount of advertising in the publications is significantly lower. Some of the revenue flexibility is derived from the patronage of the consumer; granting bodies and advertisers, rather than from clear commercial motivations.

Religious periodicals have only a limited potential for advertising increases because the total volume of advertising is low, as is the range of potential advertisers attracted to this medium. However, advertisers

are generally quite loyal to religious publications and are already paying rates which are considerably higher than for other types of publications.

Scholarly periodicals show no potential for increase in revenues from advertising because of their low reliance on advertising. However, reader loyalty is extremely strong for this type of periodical because of the nature of the content and the specific profile of the readership. One possible problem concerns the large number of institutional subscribers to scholarly publications. The ability of these institutions to pay substantially higher subscription fees is uncertain and should be examined further.

The estimates of revenue from subscriptions are derived from an analysis of national surveys of periodical readers conducted for the Department of Communications. Two of these studies (i.e., those conducted by Ron Cosper of St. Mary's University and by Econosult Inc.) provide data that clearly suggest a high degree of inelasticity of demand or tolerance of price increases by subscribers. A more recent study by Currie Coopers and Lybrand indicates an elasticity of demand or intolerance of price increases by subscribers. However we have not considered these findings in our analysis because there has been insufficient time to fully analyse the data and there does not appear to be a clear distinction between price and other reasons for non-renewal.

The results of our analysis of the Cosper data are presented in three tables in Appendix C.

### **3.2.8 Financial Impacts of Subsidy Elimination**

A summary of the estimates of the financial impacts of subsidy elimination are presented in Exhibit 3.9. This exhibit shows the ratios of increased distribution

**Exhibit 3.8  
Revenue Forecasts for Periodicals**

	<u>Average Total Annual Revenue</u>	<u>Average Revenue Derived from Advertising</u>	<u>Estimate of Possible Real Increase in Advertising Revenue in Next 5 Years</u>	<u>Estimated Additional Advertising Revenue As A Per Cent of Current Total Revenue</u>	<u>Average Revenue Derived From Subscriptions</u>	<u>Estimate of Possible Real Increase in Subscription Revenue in Next 5 Years</u>	<u>Estimated Additional Subscription Revenue As A Per Cent of Current Total Revenue</u>
<b>General Periodicals:</b>							
News and Information	1,908,953	1,219,821	2.5	1.6	559,323	5.0	1.5
Leisure	1,384,809	693,789	5.0	2.3	268,653	5.0	1.0
Special Interest Consumer	803,943	525,778	5.0	3.3	186,514	10.0	2.3
<b>Specialised Periodicals:</b>							
Business	436,400	370,067	7.5	6.4	31,421	10.0	0.7
Lifestyles	287,700	303,305	5.0	3.6	78,082	10.0	1.8
Trade	225,928	171,253	5.0	3.8	32,082	10.0	1.4
Medicine/Health	439,854	394,549	7.5	4.5	23,312	7.5	0.4
<b>Scholarly Periodicals:</b>							
Social Science Pure and Applied Science	48,481	436	0.0	0.0	2,036	5.0	2.0
	NA	NA	0.0	0.0	NA	5.0	NA
<b>Combined Categories:</b>							
Arts and Culture	75,265	29,052	5.0	1.9	14,827	5.0	1.0
Religion	94,971	8,072	2.5	0.2	40,362	10.0	4.3
Agriculture	420,546	341,483	5.0	4.1	60,559	10.0	1.4
<b>Totals</b>	<b>6,126,850</b>	<b>4,057,605</b>			<b>1,297,171</b>		

\* We have combined the general, specialised and scholarly categories because financial data were not available in any greater detail. It should be noted that there may be significant variation between periodicals included in each combined type, and the combined figures may provide a distorted summary.

costs and projected revenue increases for both the Canada Post cost and mixed cost scenario. (It should be noted that the ratios are not simply the quotient of cost and revenue increases. Adjustments have been made in the calculation of the ratios to account for the differences between revenue and expenditure totals.) Ratios of greater than one indicate that our estimates of increased revenues over the next five years exceed the projected distribution cost increases (over an unspecified time period). Conversely ratios of less than one indicate that the estimates of additional revenue are less than the projected cost increases.

Using the Canada Post cost scenario, virtually no types of periodicals would generate enough additional revenue over the next five years to cover the full extent of additional postal costs. Only the general leisure, specialised lifestyle and arts and culture groups of periodicals would cover the new costs. It should be noted again that these estimates reflect averages for types of periodicals and would not necessarily present an accurate picture for all individual periodicals in a group. For instance, the ratio for arts and culture periodicals is distorted because a small number of commercial publications have low postal costs and a high revenue generating capacity.

When the ratios of revenues and costs under the more realistic mixed cost scenario are examined, a very different picture emerges. For most groups of periodicals the ratio exceeds one, indicating that our projections for additional revenue would exceed the additional distribution costs. Some notable exceptions are in high circulation categories and include general news and information, special interest consumer and agricultural periodicals. If the shortfall in revenues required to match new distribution

**Exhibit 3.9**  
**Periodicals: Impacts of Subsidy Elimination**

	<u>Estimated Possible Per Cent Increase in Revenue Over 5 Years (Advertising and Subscriptions)</u>	<u>Estimated Per Cent Cost In- crease Based on Full Allo- cated Costs</u>	<u>Ratio of Increases in Revenue and Costs (Based on Fully Allocated Costs)</u>	<u>Estimated Per Cent Increase Based on Non- Postal Delivery Costs</u>	<u>Ratio of Increases in Revenue and Costs (Based on "Mixed" Costs)</u>
<b>General Periodicals:</b>					
News and Information	3.1	6.9	0.44	4.4	0.70
Leisure	3.5	3.2	1.09	2.0	1.75
Special Interest Consumer	5.6	11.0	0.50	7.0	0.80
<b>Specialised Periodicals:</b>					
Business	7.1	7.4	0.96	4.2	1.69
Lifestyles	5.4	4.3	1.26	2.6	2.08
Trade	5.2	7.1	0.73	4.2	1.24
Medicine/Health	4.9	12.3	0.39	7.1	1.45
<b>Scholarly Periodicals:</b>					
Social Science	2.0	2.3	0.87	1.5	1.33
Pure and Applied Science	NA	NA	NA	NA	NA
<b>Combined Categories:*</b>					
Arts and Culture	2.9	1.1	2.64	0.7	4.14
Religion	4.5	33.6	0.13	21.1	0.21
Agriculture	5.5	23.4	0.24	14.3	0.38

\* We have combined the general, specialised and scholarly categories because financial data were not available in any greater detail. It should be noted that there may be significant variation between periodicals included in each combined type, and the combined figures may provide a distorted summary.

costs is translated into dollars for the four relevant periodical categories, approximately \$14 million is required to cover the "mixed" distribution costs.

One of the difficulties we have had in estimating the differential impacts of a short (e.g., 5 years) versus a long (e.g., 10 years) phase out period results from our reluctance to estimate revenues beyond a five year horizon. In order to demonstrate some of the differential impacts of the short versus the long phase out periods, we have recalculated the revenue/cost ratios presented in Exhibit 3.9. Exhibit 3.10 compares two such ratios for the different periodical types. The first figure presented is simply a repeat of the five year revenue/cost ratio as per Exhibit 3.9. The second ratio presented is the five year revenue estimate divided by the new distribution costs after five years, assuming a 10 year phase out period. In other words, we have divided the new revenue figure by one-half of the new cost figure. The ratios in this exhibit suggest that virtually all types of periodicals could adjust to the moderate rates of increase for the 10 year phase out. Whether they could adjust to the increase in the second part of the 10 year phase out period could be determined during the first five year period.

In order to demonstrate how rate increases for the current periodical rate codes would affect different periodical types, we have calculated the annual increases in expenditures that would result from both a five and a 10 year phase out period. Exhibit 3.11 presents the results of these calculations. The annual per cent increase in total expenditures for the 10 year period is simply twice the per cent increase for the shorter period. The important thing about this exhibit is that it clearly shows which types of periodicals are affected by code three and code four rate increases. Code three increases affect mainly general



EXHIBIT 3.10  
Ratio of Increased Costs Assuming Five and Ten Year  
Phase Out Schedules

	<u>Ratio of New Revenue to New Postal Costs With 5 Year Phase Out</u>	<u>Ratio of New Revenues to New Postal Costs After 5 Years Assuming a 10 Year Phase Out</u>
<b>General Periodicals:</b>		
News and Information	0.70	1.40
Leisure	1.75	3.50
Special Interest Consumer	0.80	1.60
<b>Specialised Periodicals:</b>		
Business	1.69	3.38
Lifestyles	2.08	5.60
Trade	1.24	2.48
Medicine/Health	1.45	2.90
<b>Scholarly Periodicals:</b>		
Social Science	1.33	2.66
Pure and Applied Science	0.00	0.00
<b>Combined Categories*</b>		
Arts and Culture	4.14	8.28
Religion	0.21	0.42
Agriculture	0.38	0.76

\* We have combined the general, specialised and scholarly categories because financial data were not available in any greater detail. It should be noted that there may be significant variation between periodicals included in each combined type, and the combined figures may provide a distorted summary.

periodicals while code four increases affect mainly specialised trade, technical and professional periodicals. Detailed calculations for the estimated cost increases (in dollars) for each periodical type are presented in Appendices D.1 (five year plan) and D.2 (10 year plan).

In general, we can conclude from these estimates that many specialised trade, technical and professional periodicals, could successfully adjust to large distribution cost increases. However, the viability of many large circulation mass market periodicals of interest to the general public could be placed at risk if significant rate increases proceed too quickly.

### **3.2.9 Factors Affecting the Impacts of Subsidy Elimination**

The results presented in this report are based on an analysis of periodical types and are intended to represent averages for these types. Individual publications will not always exhibit the same characteristics or be subject to the same impacts from rate increases as other publications of its type. A number of factors will influence the nature and extent of the effects which eliminating second class subsidies will have on individual periodicals and publishers. The most important are summarised as follows.

#### **o Circulation Size.**

Smaller circulation publications are, in general, more vulnerable to changes in advertising and sales markets. They also have fewer options for distribution, at least in the short term.

#### **o Controlled Circulation.**

Some periodicals will be relatively more dependent on second class subsidies than others of the same type if they have little or no controlled (i.e., non-subscribed)

**Exhibit 3.11**

**Average Annual Increases in Total Expenditures as a Result of Increased Costs in Code 3 and Code 4 Mailings**

	<u>5 Year Phase Out</u>		<u>10 Year Phase Out</u>	
	<u>Average Annual Per Cent Increase in Total Expenditures Attributable to Code 3 Cost Increases</u>	<u>Average Annual Per Cent Increase in Total Expenditures Attributable to Code 4 Cost Increases</u>	<u>Average Annual Per Cent Increase in Total Expenditures Attributable to Code 3 Cost Increases</u>	<u>Average Annual Per Cent Increase in Total Expenditures Attributable to Code 4 Cost Increases</u>
<b>General Periodicals:</b>				
News and Information	0.88	0.00	0.44	0.00
Leisure	0.31	0.08	0.16	0.04
Special Interest				
Consumer	1.40	0.00	0.70	0.00
<b>Specialised Periodicals:</b>				
Business	0.08	0.76	0.04	0.38
Lifestyles	0.18	0.34	0.09	0.17
Trade	0.21	0.63	0.11	0.19
Medicine/Health	0.33	1.08	0.17	0.54
<b>Scholarly Periodicals:</b>				
Social Science	0.03	0.00	0.15	0.00
Pure and Applied Science	NA	NA	NA	NA
<b>Combined Categories</b>				
Arts and Culture	0.13	0.00	0.07	0.00
Religion	2.95	0.43	1.48	0.62
Agriculture	1.18	1.68	0.59	0.86

circulation. For instance, a business periodical having all its mail distribution sent at Code 3 rates receives a higher subsidy and would be affected more by rate increases than the "average" business publication.

o Non-Urban Circulation.

Periodicals with a higher than average proportion of circulation in non-urban areas would be more vulnerable to changes because of the limitations on alternative distribution.

o Regional Circulation.

Periodicals with a high proportion of circulation in a single region would be more vulnerable because the demand for advertising is relatively more elastic than for periodicals with a national circulation.

o Sources of Revenue.

The relative dependance on subscriptions, advertising, grants and single copy sales as sources of revenue will influence the extent to which additional postal costs incurred can be covered by revenue increases.

### 3.3 Newspapers

The analysis of newspapers differentiates between five types of publications; high, medium and low circulation dailies, small community weeklies and other newspapers (mostly weeklies). These categories correspond to the Canada Post second class rate structure. Daily newspapers, of whatever size circulation, are eligible for the daily rate (code one). Weekly newspapers published in communities with a population under 10,000 are eligible for a highly concessionary rate (code two) which includes a free zone with a 65 kilometre radius for up to 2,500 copies delivered to postal boxes. Other newspapers, most of which are weeklies but including bi-weeklies, monthlies, etc., are subject to the same rates as periodicals (codes three and four).

### 3.3.1 Postal Distribution

The use of second class mail distribution varies a great deal according to the type of newspaper. Most dailies mail a relatively low percentage of their circulation, varying from an average of 1.6 per cent for high circulation dailies, to an average of 5.9 per cent for low circulation publications. For weeklies, the situation is quite different, with small community weeklies mailing an average of approximately 60 per cent of their circulation and other weeklies mailing over 40 per cent of circulation. This figure is based on estimates for all weeklies, including controlled circulation publications which do not use the mail. Estimates for subscribed weeklies are that over 80 per cent of paid circulation is mailed (Source: 1985 DPA Newspaper Study).

A summary of current postal distribution is presented in Exhibit 3.12. This exhibit lists the number of newspapers in each category, the average per issue circulation, the average per issue mail circulation and the corresponding percentage of total circulation. The source of the information for dailies and small community weeklies is the 1985 DPA report Postal Subsidies Program: Impact on Newspapers which presents 1984 data summarised by the Canadian Daily Newspaper Association from Audit Review of Circulation (ABC) and Canadian Advertising Rates and Data (CARD) reports.

Estimates for the other weekly newspapers are based primarily on our analysis of a sample of publications from the 1982 DOC/Statistics Canada data base, supplemented by additional research into more recent circulation and postal use figures. The estimates of the numbers of other weekly newspapers are based on the following logic. According to 1982 Statistics Canada data reported by DPA,

Exhibit 3.12

Newspapers: Information on Current Postal Distribution

	<u>Estimated Number of Newspapers</u>	<u>Average Per Issue Circulation</u>	<u>Average Per Issue Mail Circulation</u>	<u>Per Cent Mail Distribution</u>
High Circulation Dailies (Over 100,000)	21	265,000	4,356	1.6%
Medium Circulation Dailies (25,000 - 100,000)	29	41,600	996	2.4%
Low Circulation Dailies (Under 25,000)	72	9,967	583	5.9%
Small Community Weeklies (Code 2)	550	5,000	2,500	60.0%
Other Newspapers (Codes 3 and 4)	1,000	8,000	3,500	44.0%

there are approximately 1,200 community and ethnic newspapers in Canada, approximately 550 of which are small community weeklies. From our analysis of the 1982 publication sample, we have estimated that approximately 30 per cent of second class code three and four users are newspapers. This translates into approximately 1,000 newspapers currently mailing at codes three and four rates. We also determined from our analysis that only about 65 per cent or 650 of those 1,000 (estimated) weeklies were community and ethnic newspapers, the rest being mainly religious but including a variety of topics (e.g., sports). This number corresponds to the Statistics Canada total and supports our estimate of 1,000 weeklies in this category. In fact our calculations may underestimate the actual total by not counting some controlled circulation weeklies that do not use Canada Post.

### 3.3.2 Current Subsidy Information

A summary of the postal subsidies received by newspapers is presented in Exhibit 3.13. The value of the total subsidies for dailies and small community weeklies are taken from Canada Post estimates, while the breakdowns by circulation size groups are easily calculated using the circulation estimates already discussed. The subsidy estimates for newspaper mailings at codes three and four rates are calculated in the same manner as for periodicals, the proportions attributed to the different publication types being based on our analysis of the 1982 sample data for postal program users.

For individual newspapers, the major dailies receive the highest average subsidy, even though they mail only a small percentage of their circulation. Small community weeklies receive a relatively high average subsidy in proportion to their total budgets. Some case studies

Exhibit 3.13  
Newspapers: Current Subsidy Information

	<u>Number of Newspapers</u>	<u>Total Annual Second Class Subsidy</u>	<u>Per Cent of Total Second Class Newspaper Subsidy</u>	<u>Average Amount of Subsidy</u>
High Circulation Dailies (Over 100,000)	21	\$12,400,000	15.7%	\$590,500
Medium Circulation Dailies (25,000 - 100,000)	29	\$ 3,900,000	4.9%	\$134,500
Low Circulation Dailies (Under 25,000)	72	\$ 5,700,000	7.2%	\$ 79,200
Small Community Weeklies (Code 2)	550	\$ 9,300,000	11.8%	\$ 16,900
Other Newspapers - Code 3		\$37,200,000	47.2%	\$ 37,200
- Code 4	1,000	\$10,300,000	13.1%	\$ 10,300



conducted for the Department in 1985 have shown that the subsidy is generally in the range of 8 to 12 per cent of operating budgets (ranging from \$200,00 to \$400,000). The ratio of postal subsidy to total operation expenditures is probably higher for these weeklies than for any other group of newspapers and possibly for any group of publications, including periodicals.

Weeklies and other newspapers published in communities with a population over 10,000 that mail at codes three and four rates receive the largest total newspaper subsidy by far. Although the available data do not permit us to differentiate between codes three and four users or to determine the value of the subsidy in relation to current revenues or expenditures, it is clear that the subsidy program is important for a great many of these newspapers.

### 3.3.3 Dependence on Second Class Distribution

As well as knowing the average characteristics of groups of newspapers and their use of second class mail, it is also important to know the number within each group that are relatively more dependent on the mail. Although we have not had the benefit of detailed financial data for newspapers to estimate the relative financial importance of the subsidy, we have been able to determine the proportion of newspapers that are relatively more dependent on postal distribution. For dailies and small community weeklies, these data are taken from the 1985 DPA study and for other newspapers they are based on an analysis of the mailings of a sample of publications.

For each category of newspaper, the percentage of newspapers for which more than 10 per cent, 20 per cent and 40 per cent of circulation is sent by second class mail are presented in Exhibit 3.14. This exhibit clearly indicates the importance of second class mail for small community

**Exhibit 3.14**  
**Newspapers: Dependence on Second Class Distribution**

	<u>Number of Newspapers</u>	<u>Per Cent Mail Distribution</u>	<u>Per Cent With Over 10% Second Class Mail Distribuiton</u>	<u>Per Cent With Over 20% Second Class Mail Distribuiton</u>	<u>Per Cent With Over 40% Second Class Mail Distribuiton</u>
High Circulation Dailies (Over 100,000)	21	1.6%	6%	0%	0%
Medium Circulation Dailies (25,000 - 100,000)	29	2.4%	18%	13%	NA
Low Circulation Dailies (Under 25,000)	72	5.9%	40%	27%	NA
Small Town Weeklies (Code 2)	550	60.0%	92%	87%	71%
Other Newspapers (Codes 3 and 4)	1,000	44.0%	76%	66%	44%

weeklies, as almost 90 per cent of these weeklies mail over 20 per cent of their circulation. Over 70 per cent mail over 40 per cent of their circulation. Considering the highly subsidised rate for these weeklies, the importance of the subsidy is reinforced by these numbers. Other newspapers are relatively less dependent on mail distribution, although still a large number mail a substantial percentage of circulation. Approximately two-thirds mail over 20 per cent of circulation and another two-thirds of these (44 per cent of the total) mail over 40 per cent of circulation.

For most daily newspapers the situation is entirely different. Only one large circulation daily delivers over 10 per cent of circulation by mail. For medium circulation dailies, only five (17 per cent) distribute more than 10 per cent by mail and only for three (10 per cent) does this figure exceed 20 per cent. Low circulation dailies are significantly more dependent on the mail than larger dailies, although not nearly to the extent of weeklies. Approximately 29 (40 per cent) of small dailies mail over 10 per cent of circulation and 19 (26 per cent) mail over 20 per cent of circulation. The number mailing over 40 per cent is not available.

#### **3.3.4 Distribution Cost Increases with Program Elimination**

The percentage increases in distribution costs for newspapers can be calculated from Canada Post data for current mailing costs and fully-allocated costs. These estimates are presented in Exhibit 3.15. This exhibit also presents estimates of the minimum per cent increase assuming some use of alternate distribution systems. The information used to make these calculations is also provided by Canada Post.

Exhibit 3.15

Newspapers: Distribution Cost Increases with Program Elimination

	<u>Per Cent Increase in Second Class Costs With Rates Based on Fully Allocated Costs</u>	<u>Estimated Minimum Per Cent Increase With Alternate Distribution Systems</u>
High Circulation Dailies (Over 100,000)	573%	573%
Medium Circulation Dailies (25,000 - 100,000)	573%	450%
Low Circulation Dailies (Under 25,000)	573%	450%
Small Town Weeklies (Code 2)	655%	500%
Other Weeklies - Code 3	571%	455%
- Code 4	194%	145%

According to the Canada Post analysis there are no realistic major competitive alternatives for most large daily newspapers because their mail circulation is not concentrated but consists of low density distribution. Also none mail in sufficient quantities to qualify for the third class bulk rate. Regional dailies of moderate volume could take advantage of private delivery services at a significant savings over the full Canada Post rate. Similarly small community weeklies could take advantage of local distribution systems (e.g., local store pickup). Even with such a system, however, the costs would rise significantly from the current favourable rates. In general, it is clear from the figures in Exhibit 3.15 that all types of newspapers face substantial increases in costs for copies currently distributed by mail. The potential impacts of these increases are discussed in the following section.

### 3.3.5 Summary of Impacts of Program Elimination

In the absence of comprehensive financial data for newspapers and newspaper publishers, it has not been possible to forecast the economic impacts of program elimination on these publications with any degree of precision. However our knowledge of current second class mailings and the distribution cost increases for newspapers is sufficient to permit some reasonably accurate estimates of the financial impacts.

High circulation daily newspapers and most medium circulation dailies mail only a small percentage of their circulation. In fact, the proportion of circulation that is mailed has steadily dropped over the last 10 to 15 years and it is probably continuing to drop. Publishers have always indicated that postal rate increases would simply be passed along to the reader. In 1984 there were approximately 160,000 copies of daily newspapers (about 80,000 for major

dailies) being sent by mail in Canada, only 45 per cent of which were being sent to non-urban areas. It is unlikely that many of the subscribers, excluding a small number of libraries, archives and other institutions, would be willing to pay the high additional costs of mailing.

A larger percentage of the smaller dailies rely on second class mail for a substantial portion of their distribution. Most of those that rely on the mail at present would probably have to develop alternate methods of distribution within their immediate region to minimise the cost increases and keep their subscribers and advertisers. As with most of the more vulnerable types of publications, an adequate length of time to adjust to change is essential.

Of all types of publications using second class mail, small community weeklies are probably the most vulnerable to change. Their readership is relatively dispersed, their use of second class mail is very high, the projected rate increases with program elimination are very high (e.g., from an average price of less than three cents including free mailings to over 20 cents per copy) and their profitability is modest. Major postal rate increases, even ones far below the level required to fully recover costs, would eliminate many weeklies and convince others to change to a controlled circulation (i.e., free distribution) format. The potential for political repercussions is also very high with these newspapers. For the foreseeable future, it does not appear likely that small community weeklies could exist without some form of subsidy.

Although newspapers (code 3 and 4) published in larger centres are mailed at the same rate codes as periodicals, there are important differences to be considered. These newspapers generally have a relatively small circulation (i.e., less than 10,000), and in most cases are not highly profitable. Readership is usually

either very localised or specialised or both. Advertising revenues are sensitive to changes because of the variety of alternatives for local advertisers. On the other hand, the local or community character of many of these newspapers makes it feasible to use alternative forms of distribution to a greater extent. It appears that for these weeklies, as for periodicals, that adequate time to adjust to any major increases is very important.

### 3.4 Books

Canada Post offers two second class rates to book mailers; the publishers' book rate and the library book rate. The vast majority of books mailed in Canada are sent by the publishers' book rate. Of the estimated volume of 27 million books mailed in Canada last year, 26.5 million were sent by this rate. On a per piece basis, the value of the subsidy to books is by far the largest of any of the second class rate codes. The average per book subsidy of over \$2.25 is over three times the average per piece subsidy for daily newspapers.

The greatest proportion of book mailings (approximately 70 per cent) originate from bulk mailers such as book clubs, and to a lesser extent, direct mailers. The ownership of these companies is overwhelmingly foreign, and in most cases is American. A 1984 report for DOC prepared by Paul Audley and Associates reports that 100 per cent of book clubs are foreign owned. A precise estimate of ownership of direct mail publishers is not made by the authors but they estimate that the majority of the mailings represent foreign titles. In recent years Canadian publishers have moved away from using Canada Post for their outgoing shipments, opting instead for consolidated shipments by private delivery services. Many of the shipments by Canadian users are small shipments by bookstores returning books to publishers.

The information available for book mailings and the importance of the book to publishers is very limited. Because of the lack of financial data for Canadian publishers, book clubs, direct mailers and other users, the most we can accomplish at this time is to estimate the increases in distribution costs that would occur if the subsidy was eliminated.

At present, users of the publishers book rate pay an average of \$0.75 per book, while the estimated average cost for Canada Post is slightly over \$3.00. This cost would be even higher for book clubs because the average weight of each book tends to be higher. Conversely, it would be somewhat lower for publishers' mailings.

The market for bulk book mailings would be very competitive if postal rates increased significantly. Parcel delivery services and courier services could offer individually addressed delivery with prices in the \$1.50 to \$2.00 per piece range for volume shipments. Canpar is reported to have offered Readers Digest a bulk rate of \$1.25 per piece last year. These prices are significantly less than the \$3.00 per piece average for Canada Post. Even were Canada Post to offer equal prices (i.e., deliver at a loss if there were no subsidy), book mailers would probably tend to switch because of the high incidence of damage and poor service performance in the past.

Even with bulk rates for volume mailers, there is a significant risk that subscribers and recipients of books living in rural and non-urban centres would be faced with substantial increases in costs for receiving books by mail. There is no clear evidence to suggest that book clubs or other mailers would blend their rates to subsidise subscribers in these areas, despite the reported offer of Canpar to Readers Digest. Between 25 and 35 per cent of the Canadian population could be subject to higher than average



costs for books because they do not live in an urban centre where inexpensive delivery is practical. Although 35 per cent of the Canadian population is not urbanised, the lower estimate (i.e., 25 per cent) is probably more accurate because residents of rural and non-urban areas tend to read (and probably buy) fewer books. Exhibit 3.16 summarises our estimates of mailings to urban and non-urban book mailings.

**EXHIBIT 3.16**  
**Estimated Mailings by Publishers Book Rate**

	<u>Estimated Total Shipments</u>	<u>Estimated Shipments From Volume Mailers</u>	<u>Estimated Shipments From Non-Volume Mailers</u>
Urban	19.9 (75%)	13.9 (75%)	6.0 (75%)
Non-Urban	6.6 (25%)	4.6 (25%)	2.0 (25%)
Total	<u>26.5 (100%)</u>	<u>18.5 (100%)</u>	<u>8.0 (100%)</u>

The proportion of mailings by volume mailers to urban areas (approximately 14 million books or just over 50 per cent of the total) are the mailings for which the book rate could be eliminated within five years without serious consequences. These mailings represent approximately \$30 million of the current subsidy. For the non-urban mailings and individual mailings, it would be prudent to proceed more cautiously. A ten year phase-out would give all book mailers time to develop alternatives at the best possible cost and adjust to the larger costs. In our opinion, more study is required in this area to determine the dependence of Canadian publishers, and readers, on the book rate over the long term.

#### 4.0 CONCLUSIONS: SUMMARY OF THE FINANCIAL IMPACTS OF ELIMINATING POSTAL SUBSIDIES

The major objective of this study has been to determine the financial impacts of major postal rate increases for publications currently enjoying subsidised second class rates. The conclusions formulated from the quantitative analysis are presented in this section. However, financial considerations are clearly not the only ones that are relevant to Canadian publication support policy. There are broader social, political and cultural consequences that must also be examined. Although these considerations have not been the focus of our analysis, we have studied most of the relevant data and literature. A summary of some of the most important findings is presented in Appendix E.

We have also attempted to speculate on the funding requirements for alternate support programs should the Postal Subsidy Program be phased out over a ten year period. Such forecasts are difficult given the number of assumptions on which they must be based. Nevertheless, we believe that the results presented are consistent with the entire analysis and can provide a useful guide for planning. This analysis is presented in Appendix F.

#### 4.1 Periodicals

From our analysis we have concluded that most periodicals fall into two broad categories in relation to postal subsidies. Specialised trade, technical and professional publications and some general market periodicals with a specialised readership (e.g., leisure) have the capacity to absorb distribution cost increases within a relatively short period of time. By our estimates, five to seven years would be sufficient for these publica-

tions to fully adapt to higher distribution costs. On the other hand, most mass market, general interest and cultural publications are relatively more vulnerable to large distribution cost increases. Although we have not attempted to forecast revenues over a 10 year period, the estimates of annual cost increases over 10 years in comparison with what is known about the finances of these publications, lead us to believe that a 10 year period of phased cost increases is appropriate.

Some types of periodicals such as non-commercial cultural and scholarly publications may require ongoing assistance to maintain an appropriate quality of production and readership. Some other special cases with low density circulation or a high proportion of non-urban mailings may also require some ongoing assistance.

If required, the current classification structure for second class mail can be used to target periodicals for differential rate increases. The analysis presented in Section 3.2 (Exhibit 3.11) has shown the relative impacts on periodicals of the two periodical rate codes. The code four rate increases would have a relatively greater impact on the types of periodicals best able to sustain cost increases. A more accelerated rate of increases for code four could therefore be used to eliminate most of the subsidy for these publications in five to seven years. The code three rate increases mostly affect the more vulnerable periodicals. Given also that the increases are larger for this category, a longer period of phased increases (e.g., 10 years) would be necessary.

#### 4.2 Newspapers

All high circulation (i.e., over 100,000) and most medium circulation (over 25,000) dailies could adjust to an elimination of subsidies within a relatively short period of

time. Since mail circulation makes up only a small proportion of their total distribution, there would be no adverse financial impacts. The only significant cost might be to the non-urban mail subscribers to major dailies (approximately 40,000 subscribers) who would have to find substitutes for the information or pay a very high cost increase.

Some small circulation (i.e., under 25,000) dailies could lose readers and advertisers if their circulation is not concentrated. A dispersed readership would make it difficult to use alternative distribution systems as a substitute for mail delivery. A more cautious approach for these small dailies might be advisable.

Small community weeklies are clearly the most vulnerable group of publications. Their current postal costs are low and their dependence on the mail is high. It is likely that a large number of small community weeklies would not survive without some form of ongoing assistance beyond the 10 year period. Because of low profitability (many are not designed for profit) and consumer resistance to high prices, many would probably fold or be forced to change their format. The most likely alternative would be an increase in the number of controlled circulation weeklies. This type of change might improve the capacity to generate advertising revenues but at the cost of editorial content and quality.

For other weeklies, we believe that it is advisable to proceed in the same manner as for periodicals. In the absence of reliable financial information for this group of publications, it is possible that the impacts of subsidy elimination will vary a great deal for the newspapers within the group. We advise a careful monitoring of the impacts of postal increases on these publications to ensure that there are not adverse consequences for community or ethnic newspapers.

#### 4.3 Books

Two important distinctions are pertinent to book mailings. The first concerns the differences in volume mailers, which are mainly the foreign owned book clubs and direct mailers, and the small shipment mailers. The second concerns the differences between mailings to urban and non-urban destinations. For volume mailers, it appears that the elimination of subsidies would not have a serious negative impact, particularly for shipments to urban areas. Consumers would likely have to pay for the higher distribution costs, although these would not be excessive to urban centres.

For small shipments by Canadian publishers and bookstores, it is difficult to estimate the impact of eliminating the subsidy. Higher costs might discourage the distribution of Canadian books to a truly national readership. We recommend a cautious approach to rate increases for Canadian publishers and book sellers, planning the phasing out of subsidies over 10 years. The impacts should then be closely monitored to assess the risks and benefits associated with this plan.

## 5.0 RECOMMENDATIONS

The following series of recommendations deal with the main issues of immediate concern to the Department of Communications concerning the Postal Subsidy Program. They are based on conclusions about the financial impacts on publications of changes to the existing rate and classification structures of Canada Post.

1. The Code 3 rate subsidy received by paid, addressed (e.g., subscribed general interest and consumer) periodicals should not be phased out in less than ten years.
2. The Code 4 rate subsidy received by non-paid, addressed (e.g., non-subscribed trade, technical and professional) periodicals should not be phased out in less than five years.
3. There should be some form of ongoing assistance for non-commercial cultural and scholarly publications.
4. The Code 1 rate subsidy received by daily newspapers should not be phased out in less than five years.
5. The Code 2 rate subsidy received by weekly newspapers published in small towns, or some part of this subsidy, should be maintained on a long term basis.
6. There should be further study to determine the needs of publishers of weekly newspapers published in urban centres who currently pay the same rates as periodical publishers. Pending this further study, we advise proceeding in the same manner as for periodicals.
7. The publisher's book rate subsidy received by foreign owned book clubs and book distributors should not be phased out in less than five years.
8. There should be further study of the needs of Canadian owned book publishers and distributors. Pending further study, postal rates should not be increased at a rate

faster than that which would phase out the subsidy in ten years.

9. There should be some study of the special needs of libraries, archives and other institutions that receive a large number of publications by mail to ensure that capabilities to perform an important function is not damaged.
10. There must be some system in place to monitor and evaluate the impacts of postal rate increases. This will be necessary to ensure some flexibility in rate increases as the Postal Subsidy Program is phased out, as well as for allocating funding under any alternative program set up by the Department of Communications.

**APPENDIX A.1**  
**Periodical Classification**



## Periodical Classification

### I General Public and Consumer Periodicals (Box 020; Value = 1)

	Statistics Canada Main Subject Number (Box 025)	Number of Periodicals
<b>1. <u>News and Information</u></b>		
General Interest	30	59
News	52	23
<b>2. <u>Leisure, Recreation and Hobbies</u></b>		
Architecture	08	2
Communications	16	17
Cooking	18	3
Crafts	19	1
Decorating	22	6
Fashion	27	7
Gardening	29	2
Hobbies	35	4
Home Renovations	36	2
Humour	37	1
Outdoor Life	55	8
Travel	71	11
Sports	66	15
Photography	57	3
<b>3. <u>Arts and Culture</u></b>		
Art	09	10
Cinema	15	6
Literary Criticism	43	2
Music	50	8
Theatre Arts	69	1
Literature	44	19
<b>4. <u>Special Interest Consumer</u></b>		
Advertising	02	1
Business	12	6
Child Care	14	2
Computers	17	2
Economics	24	4
Education	25	6
Geography	31	2
Health	33	6
History	34	2
Nutrition	53	1
Psychology	62	1
Transportation	70	1
Youth	72	5
Technology	68	1
Law	40	2
Science	64	3
Social Science	65	18
*Military (circulation = 564,000)	49	1

	<u>Statistics Canada Main Subject Number</u>	<u>Number of Periodicals</u>
5. <u>Religion</u>	63	197
6. <u>Agriculture</u>	03	7
<b>II Trade, Technical and Professional (Box 020; Value = 2)</b>		
7. <u>Agricultural</u>	03	65
8. <u>Business</u>		
Accounting	01	4
Advertising	02	6
Business	12	106
Economics	24	2
Management	45	15
9. <u>Arts and Culture</u>		
Art	09	7
Cinema	15	1
Crafts	19	1
Dance	21	4
Literary Criticism	43	2
Literature	44	5
Music	50	4
Theatre Arts	69	2
Poetry (include General Categories 1 and 2)	60	2
10. <u>Lifestyles</u>		
Decorating	22	1
Fashion (include General Categories 2 and 3)	27	10
Home Renovations	36	6
Outdoor Life	55	3
Photography	57	2
Sports	66	14
Travel	71	11
11. <u>Specialised Trade, Technical and Professional</u>		
Animals	04	8
Architecture	08	8
Chemistry	13	2
Communications	16	11
Computers	17	6
Criminology	20	1
Ecology (include General Categories 2 and 3)	23	2
Engineering and Technology	74	1

	<u>Statistics Canada Main Subject Number</u>	<u>Number of Periodicals</u>
11. Continued		
Education	25	21
Energy	26	6
News	52	3
General Interest	30	3
Gardening	29	2
Journalism	38	3
Law	40	6
Library Science	41	4
Linguistics	42	1
Military	49	2
Physics	59	1
Science	64	10
Social Science	65	4
Technology	68	15
Transportation	70	19
Youth	72	4
12. <u>Medicine and Health</u>		
Child Care	14	1
Health	33	16
Medicine	48	37
Nutrition	53	4
Psychiatry	61	1
Psychology	62	1
13. <u>Religion</u>	63	62
III Scholarly (Box 020; Value = 3)		
14. <u>Arts and Culture</u>		
Art	09	3
Literary Criticism	43	9
Literature	44	18
Music	50	1
Poetry	60	3
Theatre Arts	69	1
15. <u>Social Science and Humanities</u>		
Anthropology	05	7
Archeology	07	1
Business	12	1
Communications	16	1
Criminology	20	2
Economics	24	3
Education	25	6
General Interest	30	2
Architecture	08	2

	<u>Statistics Canada Main Subject Number</u>	<u>Number of Periodicals</u>
15. Continued		
Geography	31	4
History	34	14
Law	40	4
Linguistics	42	1
News	52	1
Philosophy	56	7
Social Science	65	21
Psychology	62	1
16. <u>Pure and Applied Science</u>		
Chemistry	13	2
Medicine	48	6
Psychiatry	61	1
Science	64	3
17. <u>Religion</u>	63	6

**APPENDIX A.2**  
**Selected Examples of Periodicals in Each Category**

Selected Examples of Periodicals in Each Category

GENERAL PERIODICALS

News and Information

Canadian Dimension  
Canadian Forum  
Chatelaine  
Maclean's

Leisure

A la Carte  
Leisure Ways  
B.C. Outdoors  
Ski Canada Magazine

Arts and Culture

Arts Atlantic  
Books in Canada  
Vie Des Arts

Special Interest Consumer

Alberta Motorist  
Canadian Geographic  
Electronics Today  
Youth Profile

Religion

The Catholic Register  
Western Canada Lutheran  
United Church Observer

Agriculture

Farming Today  
The Manitoba Co-operator  
The Rural Voice

## SPECIALISED PERIODICALS

### Agriculture

Butter Fat  
Canadian Aberdeen Angus News  
Canadian Tobacco Grower

### Business

The Business Quarterly  
Cost and Management  
Calgary Commerce  
Toronto Business Magazine

### Arts and Culture

Canadian Poetry  
Canadian Theatre Review  
Music Magazine  
Poetry Toronto

### Lifestyles

Agent West Magazine  
Canadian Pool and Spa Marketing  
Recreation Canada

### Trades

Architects Forum  
The Canadian Architect  
Canadian Consulting Engineer  
Canadian Apparel Manufacturer  
Canadian Secretary

### Medicine/Health

Canadian Doctor  
The Canadian Nurse  
L'Actualité Médicale  
Canadian Anaesthetists' Society  
Journal  
The Journal

### Religion

Canadian Churchman  
Pastor's Bulletin

**SCHOLARLY**

Arts and Culture

Etudes Littéraires  
Journal of Canadian Art History  
Studies in Canadian Literature

Social Science

Anthropologie et Societies  
The Canadian Historical Review  
The Canadian Journal of Economics  
Canadian Review of Sociology and Anthropology

Pure and Applied Science

Clinical Biochemistry  
Revue Canadienne Biologie

Religion

Etudes des Sciences Religieuses  
Laval Theologique et Philosophique



**APPENDIX B**  
**List of Variables from the 1984 Periodical**  
**Survey Included in the Data Base**

**List of Variables from the 1984 Periodical Survey Included  
in the Data Base**

**1. Publication Characteristics**

<u>Variables</u>	<u>Periodical B File Box Number</u>
Count (number of periodicals in group)	-
Total Number of Issues During Reporting Period	(017 + 018)
Number of Periodicals Published 55 or More Times Per Year	(017 + 018)
Number of Periodicals Published Between 14 and 54 Times Per Year	(017 + 018)
Number of Periodicals Published Between 7 and 13 Times Per Year	(017 + 018)
Number of Periodicals Published Less Frequently Than 7 Times Per Year	(017 + 018)
Average Single Copy Price	031
Lowest One Year Subscription Price	034
Average Minimum Number of Pages	070
Average Maximum Number of Pages	071
Average Minimum Weight	072
Average Maximum Weight	073
Average Black and White Ad Rate	095
Average Colour Ad Rate	096

## 2. Circulation and Distribution

<u>Variables</u>	<u>Periodical B File Box Number</u>
Count (number of periodicals in group)	-
Average Single Copy Sales	200
Average Subscription Circulation	201
Average Controlled Circulation	(202 + 203)
Average Net Circulation	210
Average Canada Post Paid Addressed Circulation	300
Average Canada Post Controlled Circulation	(310 + 320)
Average Canada Post Quantity Rate Circulation	330
Total Postal Circulation	340
Private Delivery Circulation (inside organisation)	341
Private Delivery Circulation (outside organisation)	342
Total Circulation	345
First Class Delivery	350
Second Class Delivery	351
Third Class Delivery	(352 + 353 + 354)
Book Rate	355
Other Delivery (number of copies)	(356 + 357)

3. Revenues and Expenses

<u>Variables</u>	<u>Periodical B File Box Number</u>
Ad Revenues	400
Single Copy Sales Revenues	401
Subscription Revenues	402
Total Revenues	410
Total Grants	430
Total Donations	450
Total Revenue	480
Total Editorial Expenses	610
Total Production and Printing Expenses	620
Total Subscription Promotion Costs	624
Renewal and Invoicing Costs	626
Total Circulation and Fulfillment Expenses	630
Total Ad and Sales Expenses	640
Total Distribution Expenses	650
Total Administration and Other Expenses	660
Total Expenses	670

**APPENDIX C**  
**Analysis of Cosper Survey Data for**  
**Subscription Price Elasticity**

**APPENDIX C.1**  
**Conditions for Renewal by Periodical Type**

**APPENDIX C.2**  
**Amount Extra Willing to Pay Per Year**  
**for Subscription by magazine Type**

**APPENDIX C.3**  
**Conditions for Renewal for 'News and**  
**Information' and 'Leisure' Periodicals**  
**by Circulation**

APPENDIX C.1

Analysis of Cosper Survey Data for Subscription Price Elasticity  
Conditions for Renewal by Periodial Type

	Would Renew Subscription No Matter What		Would Renew If \$10 Annual Increase		Would Renew If \$5 Annual Increase		Would Not Renew		<u>Totals</u>
	%	#	%	#	%	#	%	#	
CONSUMER PERIODICALS									
1. News and Information	36	(138)	22	( 83)	25	( 97)	16	( 63)	(382)
2. Leisure, Recreation, Hobbies	35	( 43)	21	( 26)	31	( 38)	12	( 15)	(122)
3. Arts and Culture	33	( 1)	33	( 1)	0	( 0)	33	( 1)	( 3)
4. Special Interest Consumer	33	( 43)	34	( 44)	27	( 36)	7	( 9)	(131)
5. Religious	71	( 5)	29	( 2)	0	( 0)	0	( 0)	( 7)
AGRICULTURE (Consumer and Business)	28	( 6)	32	( 7)	38	( 8)	3	( 1)	( 22)
TRADE TECHNICAL, PROFESSIONAL									
8. Business	40	( 4)	60	( 6)	0	( 0)	0	( 0)	( 10)
11. Specialised Trade, Technical, Professional	67	( 2)	33	( 1)	0	( 0)	0	( 0)	( 3)
12. Medicine and Health	100	( 1)	0	( 0)	0	( 0)	0	( 0)	( 1)

APPENDIX C.2  
 Amount Extra Willing to Pay Per Year for Subscription  
 by Magazine Type

	<u>Willing to Pay \$10 Or Would Renew No Matter What</u>	<u>Willing to Pay \$5 Increase</u>	<u>Would Not Renew</u>
News, General Interest/Leisure	58	27	16
Special Interest Consumer	66	27	7
Business, Profes- sional, Health	100	0	0

$\chi^2 = 13.27$

p .05

APPENDIX C.3  
 Conditions For Renewal For 'News and Information' and  
 'Leisure' Periodicals by Circulation

Under 100,000

	<u>Willing to Pay \$10 Or Would Renew No Matter What</u>	<u>Willing to Pay \$5 Increase</u>	<u>Would Not Renew</u>	<u>Total</u>
News and Information	86%	9%	5%	22
Leisure	47%	50%	3%	30
Total	33	17	2	52

$x^2 = 9.2$

p .01

Over 100,000

	<u>Willing to Pay \$10 Or Would Renew No Matter What</u>	<u>Willing to Pay \$5 Increase</u>	<u>Would Not Renew</u>	<u>Total</u>
News and Information	60%	26%	18%	327
Leisure	72%	12%	16%	25
Total	201	89	62	352

$x^2 = 2.29$

p .20



APPENDIX D.1

Detailed Calculations of Distribution  
Cost and Revenue Increases with a Five  
Year Program Phase Out

APPENDIX D.2

Detailed Calculations of Distribution  
Cost and Revenue Increases with a Ten  
Year Program Phase Out

APPENDIX D.1

Detailed Calculations of Distribution Cost and Revenue Increases with a Five Year Program Phase Out\*

<u>Periodical Type</u>		<u>Present Costs and Revenues</u>	<u>Cumulative Increases up to 1987</u>	<u>Cumulative Increases up to 1988</u>	<u>Cumulative Increases up to 1989</u>	<u>Cumulative Increases up to 1990</u>	<u>Cumulative Increases up to 1991</u>	<u>1991 Costs and Revenues</u>
<b>General Periodicals</b>								
News and Information	Average Revenue	1,908,953	11,829	23,659	35,488	47,318	59,147	1,968,100
	Average Costs							
	Total 2nd Class	21,056	15,371	30,743	46,115	61,487	76,858	97,914
	Average Code 3 Costs	21,056	15,371	30,743	46,115	61,487	76,858	97,914
	Average Code 4 Costs	0	0	0	0	0	0	0
Leisure	Average Revenue	1,384,809	9,694	19,387	29,081	38,774	48,468	1,433,277
	Average Costs							
	Total 2nd Class	8,886	5,518	11,036	16,553	22,071	27,590	36,475
	Average Code 3 Costs	7,001	5,111	10,222	15,332	20,443	25,554	32,555
	Average Code 4 Costs	1,885	407	814	1,221	1,628	2,036	3,920
Special Interest Consumer	Average Revenue	803,943	9,004	18,008	27,013	36,017	45,021	848,964
	Average Costs							
	Total 2nd Class	12,427	9,071	18,144	27,215	36,287	45,359	57,786
	Average Code 3 Costs	12,427	9,071	18,144	27,215	36,287	45,359	57,786
	Average Code 4 Costs	0	0	0	0	0	0	0

\* Distribution cost calculations are based on "mixed" costs. All numbers are based on current dollars.

<u>Periodical Type</u>		<u>Present Costs and Revenues</u>	<u>Cumulative Increases up to 1987</u>	<u>Cumulative Increases up to 1988</u>	<u>Cumulative Increases up to 1989</u>	<u>Cumulative Increases up to 1990</u>	<u>Cumulative Increases up to 1991</u>	<u>1991 Costs and Revenues</u>
<b>Specialised Periodicals</b>								
Business	Average Revenue	436,400	6,197	12,394	18,590	24,787	30,984	467,384
	Average Costs							
	Total 2nd Class	12,927	3,415	6,831	10,245	13,661	17,106	30,033
	Average Code 3 Costs	1,212	885	1,770	2,654	3,539	4,424	5,636
	Average Code 4 Costs	11,715	2,530	5,061	7,591	10,122	12,652	24,367
Lifestyles	Average Revenue	287,700	4,534	9,067	13,601	18,134	22,668	310,368
	Average Costs							
	Total 2nd Class	5,357	2,128	4,260	6,390	8,520	10,650	16,007
	Average Code 3 Costs	1,893	1,382	2,764	4,145	5,527	6,909	8,802
	Average Code 4 Costs	3,464	746	1,496	2,245	2,993	3,741	7,205
Trade	Average Revenue	225,928	2,350	4,699	7,049	9,398	11,748	237,676
	Average Costs							
	Total 2nd Class	5,584	1,918	3,836	5,754	7,672	9,590	15,174
	Average Code 3 Costs	1,385	1,011	2,022	3,033	4,044	5,055	6,440
	Average Code 4 Costs	4,199	907	1,814	2,721	3,628	4,535	8,734
Medicine/ Health	Average Revenue	439,854	4,311	8,621	12,932	17,242	21,553	461,407
	Average Costs							
	Total 2nd Class	18,458	6,254	12,508	18,763	25,017	30,271	48,729
	Average Code 3 Costs	4,411	3,220	6,440	9,660	12,880	16,100	20,511
	Average Code 4 Costs	14,047	3,034	6,068	9,103	12,137	15,171	29,218

<u>Periodical Type</u>		<u>Present Costs and Revenues</u>	<u>Cumulative Increases up to 1987</u>	<u>Cumulative Increases up to 1988</u>	<u>Cumulative Increases up to 1989</u>	<u>Cumulative Increases up to 1990</u>	<u>Cumulative Increases up to 1991</u>	<u>1991 Costs and Revenues</u>
<b>Scholarly Periodicals</b>								
Social Science	Average Revenue	48,481	194	388	581	775	969	49,450
	Average Costs							
	Total 2nd Class	199	144	288	431	575	719	918
	Average Code 3 Costs	199	144	228	431	575	719	918
	Average Code 4 Costs	0	0	0	0	0	0	0
<b>Combined Categories</b>								
Art and Culture	Average Revenue	75,265	437	873	1,310	1,746	2,183	77,448
	Average Costs							
	Total 2nd Class	151	106	210	318	424	530	681
	Average Code 3 Costs	143	104	208	313	417	521	664
	Average Code 4 Costs	8	2	4	5	7	9	17
Religion	Average Revenue	94,971	855	1,710	2,564	3,419	4,274	99,245
	Average Costs							
	Total 2nd Class	5,710	3,301	6,603	9,903	13,205	16,506	22,216
	Average Code 3 Costs	4,023	2,937	5,874	8,810	11,747	14,684	18,707
	Average Code 4 Costs	1,687	364	729	1,093	1,458	1,822	3,509
Agriculture	Average Revenue	420,546	4,626	9,252	13,878	18,504	23,130	443,676
	Average Costs							
	Total 2nd Class	24,229	10,364	20,729	31,094	41,459	51,823	76,052
	Average Code 3 Costs	9,983	7,287	14,575	21,862	29,150	36,437	46,420
	Average Code 4 Costs	14,246	3,077	6,154	9,232	12,309	15,386	29,632

APPENDIX D.2  
Detailed Calculations of Distribution Cost and Revenue Increases with a Ten Year Progress Phase Out\*

Periodical Type	Present Costs and Revenues	Cumulative Increases up to 1987	Cumulative Increases up to 1988	Cumulative Increases up to 1989	Cumulative Increases up to 1990	Cumulative Increases up to 1991	Cumulative Increases up to 1992	Cumulative Increases up to 1993	Cumulative Increases up to 1994	Cumulative Increases up to 1995	Cumulative Increases up to 1996	1996 Cost & Revenue	
<b>General Periodicals</b>													
News & Information	Average Revenue	1,908,953	5,915	11,829	17,744	23,659	29,574	35,488	41,403	47,318	53,232	59,147	1,968,100
	Average Costs												
	Total 2nd Class	21,056	7,686	15,372	23,057	30,743	38,429	46,115	53,801	61,487	69,172	76,858	97,910
	Average Code 3 Costs	21,056	7,686	15,372	23,057	30,743	38,429	46,115	53,801	61,487	69,172	76,858	97,910
	Average Code 4 Costs	0	0	0	0	0	0	0	0	0	0	0	0
Leisure	Average Revenue	1,384,809	4,847	9,694	14,540	19,387	24,234	29,081	33,928	38,774	43,621	48,468	1,433,270
	Average Costs												
	Total 2nd Class	8,886	2,759	5,518	8,277	11,036	13,795	16,554	19,313	22,072	24,831	27,590	36,470
	Average Code 3 Costs	7,001	2,555	5,111	7,666	10,222	12,777	15,332	17,888	20,443	22,999	25,554	32,550
	Average Code 4 Costs	1,885	204	407	611	814	1,018	1,222	1,425	1,629	1,832	2,036	3,920
Special Interest Consumer	Average Revenue	803,943	4,502	9,004	13,506	18,008	22,510	27,012	31,514	36,017	40,519	45,021	848,960
	Average Costs												
	Total 2nd Class	12,427	4,536	9,072	13,608	18,145	22,680	27,215	31,751	36,287	40,823	45,359	57,780
	Average Code 3 Costs	12,427	4,536	9,072	13,608	18,145	22,680	27,215	31,751	36,287	40,823	45,359	57,780
	Average Code 4 Costs	0	0	0	0	0	0	0	0	0	0	0	0

\* Distribution cost calculations are based on "mixed costs". All numbers are based on current dollars. The revenue forecasts assume the same total real increase as with the five year forecasts. The annual increases are therefore only half as large.

<u>Periodical Type</u>		<u>Present</u>	<u>Cumulative</u>	<u>Cumulative</u>	<u>Cumulative</u>	<u>Cumulative</u>	<u>Cumulative</u>	<u>Cumulative</u>	<u>Cumulative</u>	<u>Cumulative</u>	<u>Cumulative</u>	<u>Cumulative</u>	<u>1996 Costs</u>
		<u>Costs and</u>	<u>Increases</u>	<u>Increases</u>	<u>Increases</u>	<u>Increases</u>	<u>Increases</u>	<u>Increases</u>	<u>Increases</u>	<u>Increases</u>	<u>Increases</u>	<u>Increases</u>	<u>&amp; Revenues</u>
		<u>Revenues</u>	<u>up to 1987</u>	<u>up to 1988</u>	<u>up to 1989</u>	<u>up to 1990</u>	<u>up to 1991</u>	<u>up to 1992</u>	<u>up to 1993</u>	<u>up to 1994</u>	<u>up to 1995</u>	<u>up to 1996</u>	
Business	Average Revenue	436,400	3,098	6,197	9,295	12,394	15,492	18,590	21,689	24,787	27,886	30,984	467,384
	Average Costs												
	Total 2nd Class	12,927	1,711	3,421	5,132	6,842	8,553	10,264	11,974	13,685	15,396	17,106	30,033
	Average Code 3												
	Costs	1,212	442	885	1,327	1,770	2,212	2,654	3,097	3,539	3,982	4,424	5,636
	Average Code 4												
	Costs	11,715	1,266	2,530	3,796	5,061	6,326	7,591	8,856	10,122	11,387	12,652	24,367
Lifestyles	Average Revenue	287,700	2,267	4,534	6,800	9,067	11,334	13,601	15,868	18,134	20,401	22,668	310,368
	Average Costs												
	Total 2nd Class	5,357	1,065	2,130	3,195	4,260	5,325	6,390	7,455	8,520	9,585	10,650	16,007
	Average Code 3												
	Costs	1,893	691	1,380	2,070	2,760	3,451	4,141	4,831	5,521	6,211	6,909	8,802
	Average Code 4												
	Costs	3,464	374	748	1,122	1,496	1,871	2,245	2,619	2,993	3,367	3,741	7,205
Trade	Average Revenue	225,928	1,175	2,350	3,524	4,699	5,874	7,049	8,224	9,398	10,573	11,748	237,676
	Average Costs												
	Total 2nd Class	5,584	959	1,918	2,877	3,836	4,795	5,754	6,713	7,672	8,631	9,590	15,174
	Average Code 3												
	Costs	1,385	506	1,011	1,517	2,022	2,528	3,033	3,539	4,044	4,550	5,055	6,440
	Average Code 4												
	Costs	4,199	454	907	1,361	1,814	2,268	2,721	3,175	3,628	4,082	4,535	8,734
Medicine/ Health	Average Revenue	439,854	2,155	4,311	6,466	8,621	10,777	12,932	15,087	17,242	19,398	21,553	461,407
	Average Costs												
	Total 2nd Class	18,458	3,027	6,054	9,081	12,108	15,136	18,163	21,190	24,217	27,244	30,271	48,729
	Average Code 3												
	Costs	4,411	1,610	3,220	4,830	6,440	8,050	9,660	11,270	12,880	14,490	16,100	20,511
	Average Code 4												
	Costs	14,047	1,517	3,034	4,551	6,068	7,586	9,103	10,620	12,137	13,654	15,171	29,218

Periodical Type		Present Costs and Revenues	Cumulative Increases up to 1987	Cumulative Increases up to 1988	Cumulative Increases up to 1989	Cumulative Increases up to 1990	Cumulative Increases up to 1991	Cumulative Increases up to 1992	Cumulative Increases up to 1993	Cumulative Increases up to 1994	Cumulative Increases up to 1995	Cumulative Increases up to 1996	1996 Costs & Revenues
<b>Scholarly Periodicals</b>													
Social Science	Average Revenue	48,481	97	194	291	388	485	581	678	775	872	969	49,450
	Average Costs												
	Total 2nd Class	199	72	144	216	288	360	431	503	575	647	719	918
	Average Code 3 Costs	199	72	144	216	288	360	431	503	575	647	719	918
	Average Code 4 Costs	0	0	0	0	0	0	0	0	0	0	0	0
<b>Combined Categories</b>													
Arts and Culture	Average Revenue	75,265	218	437	655	873	1,092	1,310	1,528	1,746	1,965	2,183	77,448
	Average Costs												
	Total 2nd Class	151	53	106	159	212	265	318	371	424	477	530	681
	Average Code 3 Costs	143	52	104	156	208	261	313	365	417	469	521	664
	Average Code 4 Costs	8	1	2	3	4	5	5	6	7	8	9	17
Religion	Average Revenue	94,971	427	855	1,282	1,710	2,137	2,564	2,992	3,419	3,847	4,274	99,245
	Average Costs												
	Total 2nd Class	5,710	1,651	3,301	4,952	6,602	8,253	9,904	11,554	13,205	14,855	16,506	22,216
	Average Code 3 Costs	4,023	1,468	2,937	4,045	5,874	7,342	8,810	10,279	11,747	13,216	14,684	18,707
	Average Code 4 Costs	1,687	182	364	547	729	911	1,093	1,275	1,458	1,640	1,822	3,509
Agri- culture	Average Revenue	420,546	2,313	4,626	6,939	9,252	11,565	13,878	16,191	18,504	20,817	23,130	443,676
	Average Costs												
	Total 2nd Class	24,229	5,182	10,365	15,547	20,729	25,912	31,094	36,276	41,458	46,641	51,823	76,052
	Average Code 3 Costs	9,983	3,644	7,287	10,931	14,575	18,219	21,862	25,506	29,150	32,793	36,437	46,420
	Average Code 4 Costs	14,246	1,539	3,077	4,616	6,154	7,693	9,232	10,770	12,309	13,847	15,386	29,632

**APPENDIX E**

**Broader Impacts of Program Elimination**



## BROADER IMPACTS OF PROGRAM ELIMINATION

It would be inappropriate to consider the Postal Subsidy Program solely as an instrument of financial support for the Canadian publishing industry. From the beginning, postal subsidies have also been conceived of as a means of promoting the flow of information to all parts of the country. In support of this notion, publishers today are unequivocal in their belief that subsidies benefit the reader and consumer, not the publisher. Although the economic and financial consequences of eliminating postal subsidies may be the most immediate concern, the analysis of impacts of future policies should not be limited to this aspect of the problem. The broader social, political and cultural consequences must also be considered.

The analysis conducted as part of this study has necessarily focused on the economic side of the program. However, throughout the course of our study we have become aware of a number of readership patterns that relate to broad issues such as the equality of access to information and social and cultural development. These issues and the associated evidence about readership in Canada may not have a direct bearing on how the Postal Subsidy Program should be phased out, but they are clearly related to the development of long term policies for supporting the publishing industry. In this appendix, a few of the most important findings from the recent literature are presented. The discussion is by no means comprehensive and should only be considered as a series of highlights of some of the most important considerations for policy development.

One of the most consistent findings in recent studies concerns the differences reading patterns between residents of major urban centres, small urban centres and non-urban areas. In a detailed analysis of data from the 1978 Canadian Readership Survey (DOC sponsored), Graves and Kinsley (1983)<sup>1</sup> have shown that readership for books, magazines and newspapers are all highest in major urban centres and lowest in rural areas. This finding is confirmed by Cospers (1985). Graves and Kinsley also find that the number of illiterates, both functional (i.e., can not read) and elective (can read but do not) are highest per capita in rural areas and lowest in major urban centres. These findings may appear to lessen the importance of the non-urban centres to the financial viability of the industry. However, policies which result in a restriction in the access to printed material in rural areas would not be consistent with broad social objectives concerning education and literacy.

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<sup>1</sup> Graves, Frank L. and Kinsley, Brian, "Functional and Elective Illiteracy in Canada," Canadian Journal of Education, Vol. 8, No.4.

One very important finding from the Cosper study of magazine reading concerns the relationship between people for whom the most frequently read magazine is Canadian and the size of the community in which they live. This survey shows that readership of Canadian magazines increases as the population of the community becomes smaller. For example, in communities with a population over 500,000 only 11 per cent of readers report that they most frequently read a Canadian magazine. For communities with populations between 100,000 and 500,000, 10,000 and 100,000 and 1,000 and 10,000, the percentages of readers reading a Canadian magazine most frequently are 33 per cent, 40 per cent and 45 per cent, respectively. For rural areas the corresponding figure is 32 per cent.

Not surprisingly, book readership is highly correlated with educational attainment. While over 85 per cent of those with university degrees report regularly reading books for leisure, less than 50 per cent of those with 10 years or less of formal education report that they do so. However, a very large number of people who do not read books do read magazines or newspapers. Furthermore, the phenomenon of reading magazines or newspapers but not books, is negatively correlated with education. For example, approximately 40 per cent of those with 10 years or less of education read only newspapers or periodicals, while for those with university degrees the corresponding figure is only 14 per cent. Educational attainment is also highly correlated with income, so it is important to realize that periodicals and newspapers are important sources of information to a very large segment of the population.

Readership of all types of printed material is generally lower in Quebec (Cosper) and for French language readers (Graves and Kinsley) than the national average. These findings may be associated with a lower percentage of urbanised population in Quebec than the country as a whole. They could also result from problems with accessibility (e.g., fewer titles, higher costs) for French language print media. For whatever reasons, the lower levels of readership in French speaking parts of Canada should be considered when developing future policy. Significantly higher prices for newspapers may have an important negative effect.

**APPENDIX F**

**Funding Requirements for Alternative Support Programs**

## FUNDING REQUIREMENTS FOR ALTERNATIVE SUPPORT PROGRAMS

One of the consequences of our analysis of how postal rate increases will affect different types of publications is that we can derive estimates of the funding requirements for alternative support programs. These estimates are based solely on forecasts of the difference (i.e., shortfall) between what publishers will have to pay and what they will be able to pay. We have not made any assumptions about the type of alternative support mechanisms that the Department of Communications might want to use in years to come.

It should be obvious that there is a high degree of speculation in attempting to forecast the state of the publishing industry in five or ten years, let alone specific segments of it. Economic conditions and consumer trends are difficult to predict with any degree of accuracy. Some other important factors such as technological advancements have not been part of our analysis. Also, although distribution cost increases can be controlled to some extent, revenue generating capacity cannot. What we have tried to do is to clearly specify the process for arriving at our conclusions so that different estimates or predictions can be switched with our own and new estimates derived. This flexibility should prove useful when a plan for phased subsidy reductions is finalised.

Although there are several problems associated with forecasts of the impacts of subsidy eliminations, there are sufficient data to provide "order of magnitude" estimates of the level of funding that will be required by certain sectors of the industry to remain financially viable. These estimates, which have been calculated cautiously to avoid overestimating the capacity for publishers to adapt, are presented in this section. They are based on several assumptions including:

- o the subsidies will be phased out over a ten year period, and
- o with a ten year phase out period, most publications will not require any alternative support mechanisms for the first five years. (Scholarly and cultural periodicals, and community weekly newspapers are exceptions).

### **Periodicals**

Two of the three types of general, mass market periodicals have been shown in our analysis to be unable to meet the full cost of subsidy elimination within a five year period. However they have been shown to be able to adapt to the first five years of a ten year phasing out of subsidies.

If we assume no capacity to generate additional revenues in the second five year period, the aggregate shortfall for the general types of periodicals would be approximately \$13 million. Note that this estimate assumes an overall capacity for these periodicals to cover only 50 per cent of the required additional costs, whereas our estimates show a higher percentage (e.g., news and information = 70%). This again reflects a cautious approach whereby the estimates compensate for individual periodicals which have weaker revenue generating capabilities than the average for the group.

Scholarly and cultural publications represent a very low proportion of the total periodical subsidy. Assuming that DOC is highly committed to ongoing support for these publications and would offset all distribution cost increases with some other support mechanism, the total value of such support would not exceed \$1 million. (This estimate is based on survey estimates of volumes and Canada Post estimates of costs.) This would include full support for all scholarly publications, all general and specialised artistic and cultural publications, excluding only commercial publications.

Specialised trade, technical and professional periodicals should not require any additional support. A ten year phase out period, rather than a five year one, should also be sufficient to compensate for those publications that are weaker financially than the group of periodicals as a whole.

There is reason for some concern about the situation of religious and agricultural periodicals, particularly since they receive approximately \$8 million and \$16.5 million, respectively, of the current subsidy. Although the technical calculations show these periodicals as being vulnerable, we have already stated that these calculations can be misleading because of the low average production costs for these publications. In fact, previous analysis has shown that many religious periodicals are low budget "church basement" efforts that are not part of the mainstream industry and which would be excluded from subsidies with some of the classification changes being considered. Agricultural periodicals are relatively fewer in number and have a higher average circulation. Most are specialised trade, technical or professional publications for which we do not have adequate information to accurately estimate financial viability. An important consideration for agricultural periodicals concerns the viability of alternate distribution systems. Agricultural publications probably have a high proportion of non-urban readers, making non-postal distribution more difficult. For this reason we estimate that 50 per cent of the current subsidy, or \$8 million may be required after the first five years of a ten

year phase out. For religious publications we do not have sufficient information to speculate and have not included a corresponding estimate.

### **Newspapers**

Major daily newspapers will not require financial support for distribution without postal subsidies. Small circulation dailies may continue to require some funding support however, because of a significant number that currently rely on the mail for distribution. Perhaps 40 per cent of small dailies (the percentage currently distributing over 10 per cent by mail) will require ongoing assistance after five years. Fifty per cent of the current subsidy for these dailies is approximately \$2.5 million.

Small community weeklies can tolerate only small increases. We estimate that a large proportion of the current subsidy (e.g., 75 per cent) will be required for many years to come. Our estimate is \$7 million. The requirements for other newspapers are more difficult to estimate but we recommend proceeding cautiously, as with general periodicals. With a ten year phase out period, however, we cannot identify any particularly vulnerable publications at this time and cannot suggest a level of supplementary funding that may be required. However, the effects of rate increases on community and ethnic newspapers should be monitored closely for negative impacts.

### **Books**

For books mailed at the publishers' book rate we estimate that additional support may be required only for non-urban mailings, to protect the reader in non-urban areas, and for non-volume shippers, to protect the Canadian publisher and book seller. Allowing for some rate increases for these books (to no more than 50 per cent of current cost), the subsidy required would be approximately \$14 million, assuming current mail volumes.

### **Summary**

The alternative program funding requirements estimated in this section apply to publications which will have difficulty adapting to the costs associated with ending the Postal Subsidy Program. We have concluded that some publications can successfully adjust to increases phased in over a ten year period. For others we have suggested minimum subsidy levels that would be required after the first five year of increases. These are summarised in Exhibit 1.

EXHIBIT 1  
Subsidy Requirements After Five Years With A  
Ten Year Plan To End The Subsidy

Publication Type	Minimum Annual Subsidy (in millions)	Additional Funding Required Per Year After Five Years (in millions)
General Periodicals	\$ 13	\$ 2.6
Scholarly/Cultural Periodicals	1	1.0
Agricultural Periodicals	8	1.6
Small Daily Newspapers	3	0.6
Weekly Newspapers	7	1.0
Publishers Books	<u>14</u>	<u>2.8</u>
	\$ 46	\$ 9.6*

\*Note: This figure increases after the sixth year as postal subsidies diminish (e.g., year six = \$ 9.6, year seven = \$ 19.2, etc.).

Again, these estimates are speculative. A detailed calculation of the actual needs of the industry and the specification of where support will be needed most cannot be known with precision in advance. Furthermore, this analysis has dealt with groups of publications and the needs will vary for individual publications. Ongoing monitoring and evaluation of the impacts of eliminating postal subsidies must be built into the design of any policy to end the current program.

