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# **A Strategic Study for the Book Publishing Industry in Ontario**

**FINAL REPORT**

CASTLEDALE INC

in association with



Submitted to:

Ontario Media Development  
Corporation Book Industry Advisory  
Committee

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## 1 Executive Summary

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The Ontario book publishing industry has developed over the past 40 years within one of the most competitive English language markets in the world. Canadian borders are open to books from around the globe and especially to books from the United States, a country that produces 300,000 new titles a year. Thus, the 16,000 new titles a year that Canada publishes<sup>1</sup> face a very crowded market. Since print runs are subject to economies of scale, a book aimed primarily at the Canadian market has cost challenges when compared to books published for the larger US market.

Public policy has evolved to help level the playing field for domestic publishers so that they can be more competitive and to ensure that there is an opportunity for domestic content to be produced for Canadians, by Canadians.

However, with the emergence of new technologies, the 'field' has changed dramatically. As the Internet becomes a dominant media, the book publishing industry faces new challenges. Traditional markets and business models continue to generate the majority of sales, but new online and digital technologies are affecting every point in the book publishing value chain. Although forecasts do not portend a collapse of physical books as a product, or of book publishing as an industry, it will become increasingly difficult to be competitive without adopting appropriate digital processes, including digital distribution of content divorced from the physical book.

Ontario publishers, who already struggle for financial resources to sustain and grow their companies, are faced with reinventing themselves and their industry in order to take advantage of these emerging opportunities. The industry needs the resources to acquire new skill sets and knowledge and to explore and experiment with evolving business models while at the same time sustaining their 'old model' businesses.

The book publishing industry of Ontario is facing local pressures, such as retail consolidation, as well as more fundamental shifts in the industry, such as technological transformations in the form of the book itself. The following indicators demonstrate a number of the trends currently affecting the book publishing industry in Ontario:

- Massive consolidation of bookstore retail outlets over the past decade has resulted in less, and less accessible, shelf space for domestic books.

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<sup>1</sup> *The Book Retail Sector in Canada*, study published for the Book Publishing Industry Development Program, July 2007.

- Traditional retail sales are flat<sup>2</sup> and total sales are expected to grow at a CAGR of 3.3% for the next 5 years – in the trade and educational market segments.<sup>3</sup>
- Publishers' margins are being squeezed from all sides. Median profits in the Canadian-owned sector in 2004 were \$9,197 per publisher, compared to \$3.6 million for the foreign-controlled book publishers.<sup>4</sup>
- Although readership of books remains strong in Canada there are alarming indications in the US market that book readership is declining.<sup>5</sup>
- Digital technologies have already had an impact on the book publishing industry, but the trends indicate a growing impact in the future.
- Sales of physical books through online retailers and publishers' own websites continue to grow but still represent only a fraction of most publishers' total sales.
- The distribution and sales of digital books (ebooks) and content are growing but the market is still evolving and it is fragmented. There are not yet standard business models for the sale of ebooks and content, and those that are emerging are often contradictory (e.g. some offer free content while others charge). Pricing ranges from more than the price of the physical book to significantly less. The leaders in the field are large, generally multinational aggregators and distributors like Google, Sony, Amazon, and Canadian-based Harlequin.
- Publishing companies are looking to exploit growth potential both in traditional markets (e.g. export, institutional sales, special sales); and they are exploring new revenues in the growing digital marketplace where return on investment is, as yet, unknown.
- Print on Demand (POD) technology is evolving and may ultimately offer publishers the ability to do 'just in time' manufacturing which could dramatically reduce or even eliminate the wasteful returns regime under which the industry currently labours. In the shorter term, it offers a cost

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<sup>2</sup> Operating revenues for the country's book publishing industry were down 1.2% to \$2.1 billion in 2006... from StatsCan report shows book publishing revenues down in 2006, Q&Q Omni, July 11, 2008.

<sup>3</sup> *Global Entertainment and Media Outlook 2008-2012*, a report by PricewaterhouseCoopers, June 2008.

<sup>4</sup> Statistics Canada, *The Daily*, Friday June 30, 2006.

<sup>5</sup> *Reading and Buying Books for Pleasure: 2005* report by Creatac+ for the Department of Canadian Heritage.

effective option for some niche and short run titles (e.g. academic, course packs).

## 1.1 Recommendations

The recommendations that have emerged from this strategy study are designed to:

1. Help the industry adapt to digital transformation particularly as it affects the marketing and selling of physical books and upon the evolution, distribution, marketing and selling of ebooks and digital content.
2. Facilitate access to private financing and investment.
3. Facilitate access to both the domestic (including the educational market) and export marketplace.
4. Help the industry improve its business, marketing and technological skills particularly at the senior level.
5. Foster collaboration across the industry and across the creative cluster.

Following are the recommendations, in brief, and listed in order of priority focus.

### ***Digitization and Internet Technology***

- We recommend the creation of a substantive, flexible, multi-year Digital Transformation Fund, similar in concept to the federal Supply Chain Fund, to help the book publishing industry bridge the next five years while it adapts to and finds its way in the digital marketplace.

### ***Access to Private Financing/Investment***

- We recommend that resources be allocated to allow Ontario publishers to take advantage of business training opportunities both within and outside the province.
- We recommend that the book publishing industry work with the other creative industries and government, with the OMDC acting as a catalyst/coordinator, to create a dialogue with the financial services sector in order to create awareness of the attractiveness of IP-based businesses.
- We recommend that the OMDC, working with the Ministry of Culture and other government departments, the book publishing industry, and other creative sectors, explore various public/private financing models that

- would help the creative industries access capital for growth and innovation.
- We recommend that the Province engage with the financial services sector to develop, over the long term, an effective loan guarantee program that would enable publishers to undertake a variety of business activities including but not limited to succession plans, acquisition and growth initiatives.
  - We recommend that funding programs should be reviewed to assess their impact on the consolidation of the Canadian book publishing industry, and to regard consolidation as one of the tools to stimulate profitability and growth in the industry as appropriate.

### ***Institutional Market (School & Public Libraries and Classrooms)***

- We recommend that the OMDC support the work begun by the industry in advocating for the purchase of Ontario books published by Canadian-owned publishers for Ontario school and public libraries and classrooms.
- We recommend that the Ontario industry include a request that some Canadian books published by the Canadian-owned sector be used in Ontario classrooms in their discussions with the Ministry of Education and in their advocacy campaign with stakeholders in the educational community
- We recommend that Ontario should establish as the ultimate goal that there be a) a per student dollar commitment for Canadian content in both libraries and classrooms and b) a per user dollar commitment for public libraries.
- We recommend that the OMDC, working with representatives from across the cluster and the Ministry of Education, investigate the possibility of producing and piloting a one-year 'Ontario Showcase' travelling show that visits schools across the province.

### ***Export Markets***

- We recommend that the federal and provincial governments maintain and enhance existing export support programs by making them larger, flexible, multi-year and more responsive to publishers' strategic directions.

***Government Support***

- We recommend that the Tax Credit for the book publishing industry be expanded: a) to include all books by an eligible author rather than be limited to the first three in any genre and b) to increase eligible production costs from 50% to 100%.
- We recommend that existing funding programs be renewed and reviewed/redesigned with the goal of making them more corporately focused (versus project), flexible and multi-year in order to meet changing market circumstances.

***Cross Industry and Cross Sectoral Collaboration***

- We recommend that the industry associations, working with the OMDC, determine areas of industry collaboration (research, professional development, advocacy, promotion, etc.) and devise a multi-year strategy, consistent with the goals of this study (digitization, export, access to domestic educational market, etc.) that could be coordinated by the associations with appropriate resources in place.
- We recommend that the OMDC, working with the Ontario based book publishing associations, take the role of catalyst and coordinator in forming an Entertainment and Creative Cluster Think Tank with the understanding that the industry associations will have to build capacity in order to take on more.

## **2 Backgrounds and Introduction**

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In this section we outline the purpose and mandate of the strategic study and describe the research methodology that was used to develop options and recommendations.

### **2.1 Purpose of the Study and Mandate**

The Ontario Media Development Corporation (“OMDC”), on behalf of its Book Industry Advisory Committee, commissioned Castledale Inc. (in association with Nordicity Group Ltd.) to undertake a strategic study of the Ontario book publishing industry. Funding and project management support for the study were provided by OMDC. This study, therefore, provides a strategic analysis aimed at contributing to a comprehensive, five-year sectoral strategy for the book publishing industry in Ontario. The study has been undertaken with the guidance of the OMDC’s Book Industry Advisory Committee. A sub-committee of the Advisory Committee has acted as the Steering Committee.

### **2.2 Methodology and Approach**

The consulting team’s overall methodological approach was to conduct primary and secondary research (interviews and web/literature search) followed by analysis and a facilitated workshop with the Book Industry Advisory Committee. The purpose of the workshop was to drive a consensus on priorities for the industry. The following is a brief outline of this approach:

- Outline the state of the industry: opportunities and challenges in Ontario and abroad.
- Identify key success factors (KSFs) contributing to vibrant book publishing industries and gauge Ontario’s performance relative to these factors;
- Examine different programs and initiatives developed both in Canada and abroad to support book publication; analyze their feasibility for Ontario.
- Facilitate a workshop to review the initial assumptions and discuss different strategic directions that could be undertaken by the Ontario book publishing industry.
- Identify opportunities for synergies between government programs and offices and new industry initiatives;
- Prepare a report outlining key areas of strategic focus for the next five years, to be reviewed first by the study’s Steering Committee and then by the full Advisory Committee before meeting with approval;

This report contains the results of the strategy development process.

### 3 The Context of the Study

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In this section, we place the study in wide strategic focus, looking at the place of the book publishing sector within the context of the economy and the culture of Ontario. We show also how the book publishing sector must be an integral part of Ontario's overall strategic vision as outlined in the Ontario Innovation Agenda. Further, we show that the book publishing industry is an integral component of a world-class cluster of creative industries.

#### 3.1 The Creative Industries as Part of Ontario's Aggressive Innovation Agenda

Ontario faces a difficult economic environment in the medium term as its traditional manufacturing sector continues to decline. As articulated in the Ontario Innovation Agenda,<sup>6</sup> the Province has actively sought to foster a shift towards growth in the creative industries of media and the arts in order to foster innovation, create good jobs, and address the persistent challenge of lagging productivity through an economic cluster strategy. The creative industries have thus become an area of strategic focus in part to offset the decline in manufacturing employment caused by the high value of the Canadian dollar and extensive competition from lower-wage countries.

**“Ontario's entertainment and creative cluster is a cornerstone of Ontario's new innovative economy.”**

– Ontario Budget 2008, page 24.

The book publishing industry forms an essential component of a vibrant and knowledge-intensive creative cluster. All of the other media and entertainment forms are in part reproducible in book form, rendering books a central and durable store of culture from multiple media. Further, the authority of books and the rigour of book publishing provide essential components of the infrastructure necessary to foster innovation and the production of knowledge. As the book publishing industry is a fundamental part of the entertainment and media industries, its health is vital to the strength of a creative cluster strategy. A robust and innovative book publishing industry is a keystone sector in the architecture of a vibrant creative cluster.

Ontario's 2008 budget noted that Ontario's entertainment and creative cluster created some 80,000 net new jobs between 1999 and 2007 - an increase of 38.3%, compared with a job growth of 17% in the overall Ontario economy.<sup>7</sup> In 2007 total employment in the Ontario cluster was about 292,000 or 43% of the total Canadian workforce in this

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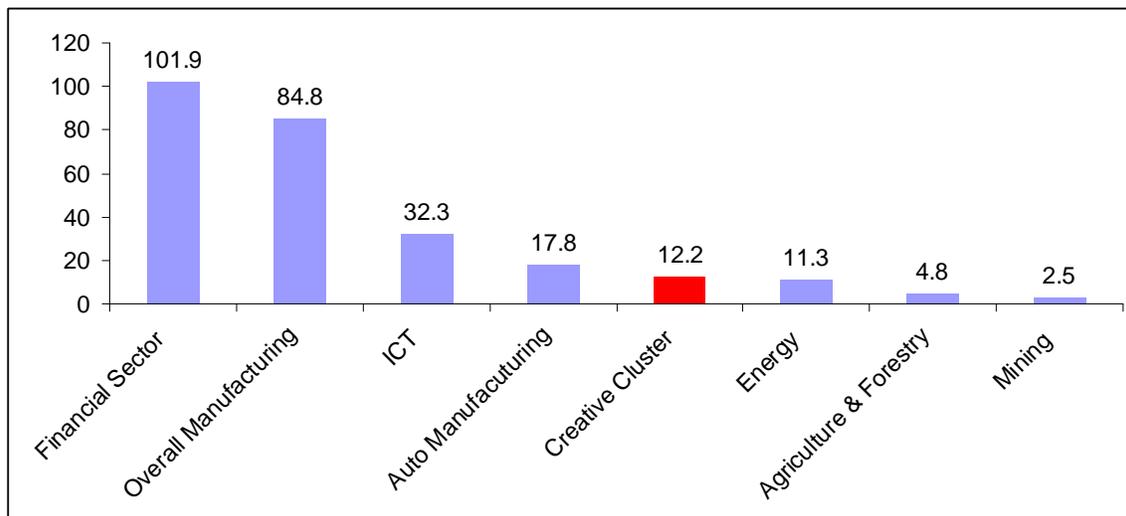
<sup>6</sup> Seizing Global Opportunities, Ontario's Innovation Agenda, 2008.

<sup>7</sup> Ontario Budget 2008, pg 25.

cluster.<sup>8</sup> The cultural media industries – film and television, book and magazine publishing, music and interactive digital media — contributed more than \$6.7 billion to the provincial economy in 2007.<sup>9</sup>

The creative cluster is one of the major industry groupings in Ontario, as the following graphic shows. It is also one of the most important sectors after Ontario's traditional strengths (i.e. the financial sector and manufacturing). The creative cluster is about 2/3 the size of the automobile sector, and is larger than the resources sectors of agriculture, energy, and mining.

**Figure 1 - 2006 Share of Ontario GDP, in \$billions**



Source: Ministry of Finance (selected sectors aggregated), dollar indexed to 1997

Note to figure: ICT = Information and Communications Technology

### 3.2 Specific Investments in Ontario’s Creative Industries

In addition to positioning the creative industries within the Ontario Innovation Agenda, the province has made explicit budget provisions for the creative sector. For example, the Ontario Ministry of Culture’s (MCL) funding will be increased by \$63 million over the next four years.<sup>10</sup> In another specific example, the Ontario government will provide \$4 million over the next four years in an “International Fund” to support international marketing and touring initiatives, co-productions, and cultural participation in trade missions and fairs to increase the profile of Ontario’s artists and cultural industries on the world stage.

<sup>8</sup> Ibid.

<sup>9</sup> Ontario Ministry of Culture (MCL), “Results-Based Plan 2007/08,” pg 9.

<sup>10</sup> Ontario Budget 2008, pg 24.

Further initiatives such as this will be vital to supporting both the Innovation Agenda and a vital creative cluster. As an integral component of both, book publishing should be a full partner in programs aimed at supporting cultural enterprises.

### **3.3 The Book Publishing Industry's Vital Role in the Creative Cluster**

The book publishing industry is at the core of Ontario's creative cluster. One interviewee described books as the "creative engine" that fuels many other forms of expression including film, television, magazine and newspaper articles and even interactive content. The Canadian-owned sector publishes 80% of Canadian authored books and has been responsible for works as diverse as the *Franklin the Turtle* series, beloved by children around the world, and Margaret Laurence's *The Stone Angel*.

Ontario children's book publishers have been particularly successful in the export arena and our children's books are respected internationally. For example, Second Story Press has sold the rights to publish *Hana's Suitcase* in over a dozen languages around the world, as well as theatrical, film, and audio rights.

The book industry has been somewhat fortunate in that it has not been at the forefront of the digital revolution. The music industry has had change forced upon it over a very short period of time, as the digital transformation swamped existing modes of content delivery. Book publishing is still traveling the curve of digitization. As the example of the music industry attests, book publishers must adapt quickly to the new environment or risk losing their sales markets and with them consumer habits.

The book publishing industry's business model is, so far, the creative industry least disrupted by digital technologies in terms of content. In comparison with the audiovisual media industries, books remain overwhelmingly traded in their traditional analogue format and that the stock-in-trade of the industry has not yet moved over into digital modes of content delivery. As digitization creeps increasingly into allied print media such as newspapers, magazines, and journals, it can be expected that consumers will grow increasingly comfortable with digital books. This may result in widespread disruptions to the book publishing industry's traditional business models, as occurred with the shock of the digital revolution to the music industry.

There are nevertheless bright spots on the horizon that show that the Ontario book publishing industry may succeed at moving smoothly through the digital maturity curve. The industry has embraced digital technology for internal workflow processes, for supply chain systems and processes, and for marketing and sales. In fact, the Canadian industry, as exemplified by its supply chain organization, BookNet, is now considered an example of global "best practices" in the area of supply chain digitization.

Ontario's Harlequin Books is a leader in innovative exploitation of its book content in digital format. Its Digital Content and Interactivity Division, although currently only representing about 1% of the companies' total sales, is experimenting with bundled packages of ebooks, subscription models, original content in digital format which is later produced in book format, short form content, various pricing models, digital rights management systems and more. The company has the resources, a long tradition of marketing direct to the consumer and a strong global brand as the foundation for future growth on new digital platforms. Although Harlequin's practices may not be within the means of the rest of the industry, they do provide an 'Ontario grown' example of what is possible when the resources are available.

The Ontario book industry contributes both to the economy of the province and to the quality of life in the community. For example:

- Events like Toronto's annual Word on the Street and the International Festival of Authors enrich the lives of citizens and attract tourists. Smaller centres also celebrate books and authors (e.g. Callander's Books by the Bay, Bayfield's Bayfield Writers Festival).
- The Toronto 2007 Word on the Street event welcomed 210,000 visitors and drew participation from 245 book and magazine exhibitors and 200 authors, workshop presenters and arts performers. Word on the Street was recognized as the "Best Event" by NOW Magazine in their "Best of Toronto picks for T.O.'s Top Everything" edition, one of Toronto's "Top 100 Events" by Biz Bash (the leading trade media for the event industry), and was nominated for a 2008 Canadian Event Industry Award in the "Best Festival" category.<sup>11</sup>
- Ontario is home to national organizations that service the industry like Access Copyright, the Association of Canadian Publishers, the Canadian Children's Book Centre, BookNet, the Writer's Union of Canada, and many others.
- Ontario boasts some of the countries most prestigious award programs, such as the Giller Prize, the Donner Prize, the Charles Taylor Prize, and the Trillium Awards, plus many others.
- The largest Canadian-owned book publisher, Harlequin, and the book publishing multinationals are all located in Ontario as are most of the small- and mid-sized publishing houses that make up the Canadian industry. Ontario-based publishers who receive support from the federal Book Publishing Industry Development Program Aid to Publishers (ATP)

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<sup>11</sup> [http://www.thewordonthestreet.ca/toronto/about\\_us\\_history.asp](http://www.thewordonthestreet.ca/toronto/about_us_history.asp)

- alone have net revenues of \$226.9 million, or 32% of all Canadian ATP recipients' net revenue (\$713.1 million in 2007-2008).<sup>12</sup>
- The province is home to many independent bookstores, the chain (Chapters Indigo) headquarters and many of Canada's library wholesalers. Indigo's financial results for the fiscal year ended March 31, 2007 reported overall revenues of \$875 million and profits of \$30 million (an increase of 3% and 18%, respectively, from the previous year).<sup>13</sup>
  - Most of Canadian creators in the English language (writers, illustrators, photographers) are residents of the province.
  - Ontario is also home to the majority of English language freelancers (editors, designers, assembly artists, researchers, etc.) who are a vital part of the industry ecosystem as well as agents, distributors, printers and other suppliers.
  - An economic impact study,<sup>14</sup> based on 2002/2003 numbers, reported that the total GDP impact of the book publishing industry is estimated to be close to \$510 million for Canada and about \$428 million for Ontario. The corresponding employment figures are 5,066 jobs for Canada and 4604 for Ontario.

Thus, the Ontario industry contains a range of elements that make up the entire book publishing value chain, from editors to authors and printers to publishers both large and small. Likely, it is disproportionately larger as a share of the total national market than would otherwise be indicated by the size of the provincial economy. As such, it makes a major contribution to the economic enrichment of the province as well as the enrichment of the lives of its citizens and visitors.

### 3.4 Consumer Habits in Canada

Without readers there would be no book industry. Fortunately, Canada continues to be a nation of readers with 54% of Canadians reading books for pleasure virtually every day<sup>15</sup> and only 13% identify as non-readers. This rate of daily book readership compares favourably with the 43% in the US. In a worrisome trend, recent evidence from south of

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<sup>12</sup> Based on number provided by the Book Publishing Industry Development Program Aid to Publishers, 2007-2008.

<sup>13</sup> The Book Retail Sector in Canada *The Book Retail Sector in Canada*, study published for the Book Publishing Industry Development Program, July 2007.

<sup>14</sup> *Economic Impact Study of the Canadian-Owned Publishing Industry*, a report prepared for the Organization of Book Publishers of Ontario and the Ontario Media Development Corporation by Pollara Strategic Public Opinion and Market Research, 2004.

<sup>15</sup> *Reading and Buying Books for Pleasure: 2005*, report by Creatac+ commissioned by Heritage Canada.

the border indicates that there has been an overall decline of 10 percentage points in literary readers in that country from 1982 to 2002.<sup>16</sup> While the causes of this decline in book readership are unknown, Canadian reading rates should continue to be monitored in order to identify and perhaps offset any long-term decline in levels of book readership.

In addition to enjoying reading, consumers must be prepared to buy books, in both physical and digital form, to ensure the health of the industry. As the industry migrates to an online environment, it needs to be able to test and monitor, on an on-going basis, consumer response to various formats and to purchasing and pricing models.

The music industry provides some insights. That industry has found that Canadian consumers are among the least willing to pay for music downloads in the world and among the worst in terms of illegal downloading.<sup>17</sup> While Canadians' comfort with illegal downloading must be addressed, their ability to download is facilitated by the extent of Canada's broadband connectivity. By 2005, more than 50% of Canadian households subscribed to high speed Internet connections (up 43% from the previous year).<sup>18</sup> Whole book digital files – just like music and video files - would be utterly simple to trade over such high-quality networks. On the Internet, where digital copying and sharing is as easy as a click of a mouse, protecting the right of reproduction can become severely impinged. This right (copyright) has formed the backbone of the book publishing industry's economic model since the eighteenth century. The challenge to copyright posed by the Internet, and exemplified by the case of the music industry, is thus of significant interest in analyzing the position of book publishing.

The challenges faced by the music industry point to areas that the book industry will need to address. Clearly Canadian consumers are very sensitive to pricing, to ease of use and to the 'free' culture of the Internet environment.

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<sup>16</sup> *Reading at Risk" - A Survey of Literacy Reading in America, June, 2004, Survey of Public Participation in the Arts 2002 – NEA.)*

<sup>17</sup> *A 2008 Special 301 Report, issued by the Office of the United States Trade Representative in Washington, D.C., placed Canada on a level with China and Russia as leading piracy jurisdictions. OECD has also identified (in 2005) Canada as having the highest per capita rate of file sharing (1.3 billion illegal downloads in 2006 vs. ~20 million legal ones that year.*

<sup>18</sup> Canadian Heritage, "Economic Profile of the Music Industry in Canada 2006," pg 3.

## **4 Industry Trends: Growth Opportunities and Barriers**

This section provides an overview of key market and business trends in the Canadian book publishing business and then outlines emerging digital models.

### **4.1 Key Trends**

Book publishers today face the necessity of having to juggle two realities at the same time:

- a) The day-to-day necessity of dealing with their traditional markets (retailers, libraries, library wholesalers, specialty accounts, etc.) and traditional business models (sale of physical books and sale of subsidiary rights) which provide the bulk of their current livelihoods; and
- b) The necessity of having to understand and adapt their businesses to take advantage of the digital environment that will be integral to their future livelihood.

The elements that impact this trend are outlined in more detail below.

#### **4.1.1 Retail Environment**

“Physical retail is not very effective... so publishers need to sell direct to consumers.”

“We are at a crisis with (the retail chain).”

“Canadian publishers have to have the resources to compete with the multinationals for shelf space. Paying for space/profile works but lowers margins.”

“It is ever harder to get placement in fewer and fewer retail outlets.”

- Sample quotes from interviews.

Retail sales are flat across many of the genres<sup>19</sup> favoured by the Ontario book publishing industry, and growth is forecast to be slow over the next five years.<sup>20</sup>

<sup>19</sup> *The Book Retail Sector in Canada*, study published for the Book Publishing Industry Development Program, July 2007.

<sup>20</sup> *Global Entertainment and Media Outlook 2008-2012*, a report by PricewaterhouseCooper, June 2008.

The retail sector exerts huge leverage over Canadian book publishers, as the traditional retail bookstore market has consolidated into one major chain, Chapters/Indigo, accounting for 44% of domestic sales in 2006.<sup>21</sup> The chain is driving ever-tougher terms with book publishers on discounts, co-op marketing contributions (marketing and promotion driven by the chain to which publishers contribute), preferential shelf space, etc. The emphasis is on “frontlist” (new titles) with ever less attention paid to backlist sales. Returns of books from the chain continue to be an issue notwithstanding the major systems and process changes, both by the retailer and the industry, that were intended to diminish the number of the returns. Only the large multinationals and a few large Canadian publishers have the size and clout to negotiate more favourable terms with the dominant chain – and there is a definite risk of alienating this major customer in doing so.

Although generally supportive of the Canadian publishing industry, independent booksellers demand similar treatment to Chapters/Indigo in order to remain competitive. Big box stores like Wal-Mart take large orders but focus on a limited range of books.

Online retailers like Amazon offer publishers an alternative sales channel but they compete directly with physical bookstores. Smaller independents that do not have the resources to develop a substantial web presence of their own are at a particular disadvantage. The online retailers are also aggressive discounters and that drives bricks-and-mortar bookstores to discount in order to compete.

Supply exceeds demand and publishers are competing for limited shelf space. As mentioned earlier, each year, in addition to the approximately 16,000 new titles a year from Canadian publishers, there are 300,000 produced in the United States.<sup>22</sup> In addition, there are already millions of older titles available and readily found through ever more sophisticated search tools offered by bookstores and online retailers. Add to that the availability of used books and the result is an exceedingly competitive marketplace.

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<sup>21</sup> The market share held by chain bookstores has increased in recent years, as the share held by independent bookstores has gradually declined. Canada's national book retail chain, Chapters/Indigo, accounted for 44% of domestic book sales in 2006. Independent bookstores held a 20% market share, with non-traditional retail and online booksellers accounting for 20% and 4%, respectively. *The Book Retail Sector in Canada*, study published for the Book Publishing Industry Development Program, July 2007.

<sup>22</sup> *The Book Retail Sector in Canada*, study published for the Book Publishing Industry Development Program, July 2007.

This is an area where publishers may benefit by being bigger and stronger. However, it should be remembered that it is the small and mid-sized Canadian-owned sector that is responsible for publishing the majority of Canadian authors.

#### 4.1.2 Used Books Market

“In my line, the online used book market has created a big impact since it has organized itself systematically...This new used book platform is really eating into new book sales.”

“Used books are eliminating backlist and reprints.”

*- Sample quote from interviews*

The sale of used books, which used to be a fringe market that did not substantially impact the industry, has been enabled by the online environment and now forms part of most online retailers' offerings. Amazon, for example, offers both new and used books, cheek by jowl. No money from the sale of used books goes back to either the publisher or the creator. Academic publishers report that the expansion of this secondary market has actually decreased reprints of new titles, even those in high demand, squeezing margins yet again and forcing publishers to increase the price of the original printing.

#### 4.1.3 Institutional Market (Library and Classroom)

“Small publishers do well when there is strong library and educational support for domestic books.”

“The demise of the school and library budgets has taken its toll on backlist sales.”

*- Sample quotes from interviews*

In February of 2008 Premier McGuinty announced that Ontario would provide school boards with an additional \$40 million over the next four years to hire about 160 more library staff. In May, the Minister of Education announced an additional one-time \$61 million for new textbooks and library books and other learning resource materials for both elementary and high schools.

***“Numerous international studies have demonstrated a link between student achievement and the presence of professionally staffed and accessible school libraries. Studies have also shown that reading enjoyment is a significant factor in improving student performance not only in literacy, but in science and mathematics as well.”***

*- School Libraries and Student Achievement in Ontario, a study by Queen’s University and People for Education prepared for The Ontario Library Association April 2006.*

Once a mainstay in terms of their purchase of Canadian books, Ontario’s school libraries have suffered years of cutbacks that have left them decimated. The new money for books, although at this point only a one-time allocation, is welcome news. The industry has already initiated conversations on the issue of allocating funds for the purchase of Canadian books. However, it will need support in developing and delivering a compelling, sustained case to key influencers in the Ontario Ministry of Education and other appropriate areas of government. It is important that school libraries, at both the elementary and high school level, and public libraries receive adequate support.

#### **4.1.4 Export**

**“About 60% of (our company)’s sales are in the US... (The company) had been hit hard by the exchange. Volume sales are up but margins are down.”**

**“Selling to the US market is enormously challenging. It is costly to support with marketing and promotions.”**

**“We can’t exist on Canadian sales alone.”**

**“There is a lot that I want to know about where markets are headed.”**

*- Sample quotes from interviews*

The global market has always been very important (although expensive to access) to Canadian publishers and many are adept at selling foreign rights or negotiating co-publishing deals with foreign publishers, particularly in the U.S. More and more publishers are distributing their books directly into the American market and continuing to see growth in volume even in the face of the recent increase in the value of the Canadian dollar. Export success is directly related to the effort and resources that a publisher can afford to put into it. The most successful exporters in the industry have resources (people and money) devoted to the target market. Some publish content

designed specifically for that market although many others are successful in exporting books originally published for the Canadian market.

Various export support programs at the provincial and federal level have been instrumental in helping publishers both gain understanding of and access to international exports. These programs continue to be important both to new and established companies.

Digitization is a boon to export in that it facilitates communication, the exchange of files for rights deals and co-editions and offers the opportunity to use POD technology that eliminates the need for shipping and storing inventory of physical books.

The export of Ontario/Canadian books accomplishes another end. Many of our books showcase the country and the province to the world, promoting tourism and generating interest in and greater understanding of who we are.

#### 4.1.5 Pressure on Margins

**“The industry has narrow margins at the best of times.”**

**“We could use more support because the exchange rate with US has really hurt our margins. We still sell the same units but the revenue is way down.”**

*- Sample quotes from interviews*

Never robust, the Ontario book industry’s profit margins are being squeezed from all sides, from the rise in the value of the Canadian dollar, through pressure from the retail sector, to increased costs.

Canada has higher book printing costs than the United States – and much higher costs than such new, low-wage cost entrants into book printing such as Nigeria and India. Canadian publishers will continue to experience market pressure to print offshore and distribute from there in order to keep costs low, particularly with the recent impact on book prices precipitated by the rise in the value of the dollar. Rising fuel costs will also affect the industry.

In this very competitive environment, digitization and the Internet offer huge opportunities for Ontario book publishers.

#### 4.1.6 Digitization and Internet Technology

“The new world of digital accessibility raises the question of ‘What will a publisher be?’”

“Digitization has changed the way we make books.”

“Digital opportunities like POD and digital delivery of content may eliminate returns and fundamentally change the financial/business model of the business.”

“The ability to move digital files around means it is as easy for me to work with an author in Africa as it is to work with one in Toronto.”

“The internet allows us to sell directly to customers.”

“Direct marketing to small niche markets via the internet is also opening a lot of possibilities.”

*- Sample quotes from interviews*

Digitization is having a major impact on all aspects of the business from the way book content is produced through the way it is managed and promoted to the way it is sold and distributed. Sales of physical books through online retailers and publishers’ own websites continue to grow although they still represent only a small fraction of most publishers’ total sales.

The global online retail market is dominated by large multinationals like Amazon. In Canada, the three major players are Amazon.ca, Indigo, and Abebooks (BC based and specializing in used and rare books worldwide – it was recently announced that Amazon will be purchasing Abebooks effective the end of 2008). Like the traditional bookstore market, online retailers rely on publishers to do the lion’s share of the consumer promotion that drives buyers to make a purchase.

In addition to selling through online retailers, most Ontario publishers are now selling directly to their customers on their own websites. For many, this direct contact with the customer is a new opportunity and one that offers huge benefits. Because there is no intermediary, the margins on direct sales are higher and there are no returns. Publishers, if they have the processes and people in place, can build a strong, online community to whom they can sell directly and from whom they can solicit feedback to improve both their lists and their marketing. One publisher interviewed has built up a

database of approximately 6,000 names and says that annual direct-to-consumer sales online now rival the sales to a robust independent bookstore account. There are real opportunities to specialize in targeted niche markets.

However, to be realistic, sales by publishers directly to customers are very unlikely to ever be more than a tiny fraction of the market share held by the giants like Amazon. Establishing a major retail presence in cyberspace requires breadth of product that makes it unlikely that even the major international publishers will ever ramp up sales from their own on-line sites to be more than a tiny fraction of overall sales.

More and more book 'content' can be divorced from the 'physical' book itself. The early and largely ignored e-book device has developed into the ever more sophisticated and smaller format e-readers (Kindle, Sony Reader) that are gaining a foothold in the market. Digital book aggregators, wholesalers, and distributors are carving out specific niche markets while others target the general consumer.

Some genres of book publishing (e.g. reference, encyclopaedias, cook books, travel books, etc.) are threatened or made obsolete by the web while for others, the web offers a way to market directly to a targeted consumer.

Print on Demand (POD) technology is being used by publishers for some short run niches (e.g. course packs), for reprints in small quantities, for producing promotional material and, in some cases, for export sales. For example, BookSurge (now owned by Amazon) has built a network of POD suppliers in global markets that allow customers to order single copies of books from around the world, eliminating the need for expensive physical inventories to be shipped and stored.

Aggregators of digital content are introducing new business models to the industry. Google, for example, offers publishers who participate in their Publisher Partnership a share of the ad revenue from contextual ads, placed next to the publisher's book pages for which there is a click-through.

Publishers' needs differ widely and what works for one genre does not necessarily work for another. For example, Ontario publishers who specialize in academic, scholarly, and adult non-fiction are already benefiting from the sale of their digitized backlists through an aggregator to a consortium of institutional libraries. However, this model is not immediately adaptable to children's book publishers. On the other hand, children's book publishers may find that developing interactive games based on book content meets their market needs. A smaller publisher may find that a redesigned website with a shopping cart feature works best for them.

At its most basic, digitization allows the industry to improve efficiencies and lower costs both in internal workflow and throughout the supply chain. At the next level, the web offers publishers new opportunities to promote and market both physical and digital books through online retailers and directly to consumers themselves. It also allows publishers to talk to and conduct research directly with their customers without the traditional intermediary of the bookstore.

And, at its most innovative, the digital world allows publishers to exploit their book content in new and interesting ways, from offering snippets of text that can be “mixed and mashed,” thus creating a new print entity, to mixing text with audio, visual and search capacity to produce a hybrid multi-media experience.

The challenge is to help the Ontario industry stay on top of emerging digital opportunities and business models. With the music industry as an example, the publishing community must also find ways of exploiting and protecting their intellectual property as it moves into the digital arena.

#### **4.2 Barriers to Accessing Digital Opportunities**

Digitization is an expensive growth opportunity in its initial stages. The Canadian-owned sector’s limited access to capital serves, in many cases, as a barrier to the adoption of new technologies and systems. Many publishers also lack the technical expertise necessary to fully participate in the online marketplace, let alone be innovative in it. In order to develop further digital capacity, publishers must have access to financial wherewithal and resources to exploit existing opportunities and to explore and find new ones.

It is also important to consider that the very things that make digitization so attractive (e.g. ability to transmit files and to work without geographic proximity) may also provide barriers to some areas of Ontario’s growth potential. The reality now is that the first phases of the book publication process can be implemented entirely via personal computers and standard email. This means that much of the process can be outsourced to other jurisdictions and countries. This is a situation that will bear close scrutiny to ensure that Ontario publishers and the freelance community that works with them maintain a competitive advantage. On the other hand, Ontario’s advancement in Internet uptake and computerization may give its community of book publishing industry professionals a relative edge in the medium-term at least.

There is also the major issue of copyright in a digital environment: who should control it, how to adequately protect it, and how to fairly recompense the various partners in the publishing process. The parameters of this debate extend across all of the IP-based industries and across all of the countries of the world. Much is at stake in the attempt to

extend the traditional bounds of copyright protection – the prime tool used to reward creativity and innovation – onto the Internet. The current round of worldwide copyright reform aimed at addressing the digital environment has produced disparate pieces of legislation – from the Digital Millennium Copyright Act (DMCA) in the USA, which imposed large penalties to illegal file sharing, to legislative models offering more consumer and fair use protections such as the amendments to the Copyright Act of Australia.

It falls outside of the scope of this report to give a slate of recommendations for Canadian copyright reform from the point of view of the book publishing industry. Nevertheless, it is vital to the book publishing industry of Ontario and Canada that some new legislative framework be enacted in the short term to clarify existing ambiguities and extend copyright protection to the Internet.

#### ***Other Growth Opportunities and Barriers***

There will continue to be growth opportunities in export, in sales channels other than retail (i.e. special sales) and in particular niches. The biggest barrier is access to both knowledge and resources. There are a number of existing programs specifically targeted at helping publishers access the export market and others at enhancing their marketing efforts but they are fairly modest in size. Ontario based publishers are largely small- and mid-sized enterprises and need access to sources of financing and investment if they are to grow.

#### **4.3 New and Emerging Business Models**

The following chart briefly summarizes some of the evolving business models in the digital arena.

**Figure 2 - New and Emerging Business Models**

| Initiative / Business Model | Examples                                                                                                          | Key Change or Opportunity                                                                                                                                 |
|-----------------------------|-------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|
| Ebook/ereader Technology    | Amazon's Kindle, Sony eReader                                                                                     | Improvements in technology and service is promoting wider adoption (e.g. Kindle offers access to 125,000 books, magazines, newspapers, blogs).            |
| Print On Demand (POD)       | Lightning Source (Ingram), BookSurge (Amazon)                                                                     | Technology continues to improve, offers more formats. Academic markets (course packs), reprints, short run niches (e.g. poetry)                           |
| Ebook online bookstores     | WOWIO, Mobipocket, eBooks.com, publishers (e.g. Harlequin, Harper Collins), Amazon                                | Many and diverse with different and evolving business models (e.g. Amazon shorts offers short literary works @ .49 cents)                                 |
| Aggregators                 | Canadian Electronic Library, NetLibrary MyLibrary, Qwestia                                                        | Many and diverse serving various institutional markets. Institutional budgets specifically for Canadian content. Some \$\$ flowing to Canadian publishers |
| Search Engines              | Google, Microsoft (Live Search), Lycos                                                                            | Major players driving toward 'universal library' of content. Publishers receive portion of ad revenue.                                                    |
| Online Marketing            | Publishers and industry websites (e.g. Open Book Toronto), niche websites, blogs, social networks (e.g. Facebook) | Enables direct publisher relationship with consumer including direct sales.                                                                               |

## 5 Key Success Factors and an Evaluation of Ontario

In this section we evaluate the book publishing industry in Ontario against criteria for success in the book publishing industry in general. These criteria are the key success factors (KSFs) needed for a vibrant and economically successful domestic book industry. Based on this evaluation we can contrast Ontario with other jurisdictions (see Section 6) and then develop options for creating appropriate strategies for the industry in the province.

The industry in a particular jurisdiction need not have a strong showing in all KSFs to be successful. However, all the KSFs are contributing factors to a growing and prosperous marketplace. The following figure lists – but does not prioritize - the KSFs and states generally the goals to be realized in each.

**Figure 3 - Summary of Evaluation of Key Success Factors for Ontario**

| <b>Key Success Factor</b>                                             | <b>Performance</b>              | <b>Rationale</b>                                                                                                                                                                                |
|-----------------------------------------------------------------------|---------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Presence of a Vibrant Literary Community                              | <b>Above Average</b>            | Strong community in urban centres; fairly strong domestic literary festivals, events, awards; no international book rights fair.                                                                |
| Critical Mass of Local/Domestic Book Publishers                       | <b>Average</b>                  | Largely small- to mid-sized enterprises; no domestic educational publishers, most firms founded between 20 and 40 years ago; few new entrants; creative and resilient but economically fragile. |
| Local Retail Sector                                                   | <b>Below Average (physical)</b> | One dominant chain and much smaller independents; more focus on frontlist to detriment of backlist; prime shelf space limited and expensive to access.                                          |
| Healthy Institutional Market                                          | <b>Below Average</b>            | Weak budgets; school libraries at end (hopefully) of long decline; no imperative, incentives for educational institutions to buy Ontario books.                                                 |
| Supportive Media                                                      | <b>Average</b>                  | The number and range of traditional outlets in decline; little or no emphasis on domestic books; growth online.                                                                                 |
| Online Marketing, Sales, and Distribution Channels for Physical Books | <b>Average</b>                  | As a percentage of publisher's sales continues to increase; diverse and growing range of platforms and outlets.                                                                                 |

| <b>Key Success Factor</b>                                                           | <b>Performance</b>                                         | <b>Rationale</b>                                                                                                                                                                                                                                                                                                                                                         |
|-------------------------------------------------------------------------------------|------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Online Marketing, Sales, Distribution Channels for Digital Books (eBooks) & Content | <b>Below Average</b>                                       | Some success stories; still evolving; many and diverse platforms and players no one business model.                                                                                                                                                                                                                                                                      |
| Innovation in New Business Models                                                   | <b>Below Average</b>                                       | Domestic publishers beginning to explore, experiment but have limited resources for innovation, risk, and expert help. Leaders are multinationals.                                                                                                                                                                                                                       |
| Exports                                                                             | <b>Average<br/>(could be much stronger)</b>                | Major part of many domestic publishers' sales. Some markets not as robust as previously (e.g. children's). Pressures on margins (e.g. currency exchange rates) and limited resources for expansion.                                                                                                                                                                      |
| Professional Skills Development                                                     | <b>Average</b>                                             | Lacking mid and senior level business and technical training. Good supply of entry-level training at institutions (Humber, Ryerson, etc.) and industry PD through associations.                                                                                                                                                                                          |
| Direct Government Support                                                           | <b>Above Average<br/>(across all levels of government)</b> | Overall good level of support but less than some other cultural industries such as film/TV. Emphasis on annual project-based support, little for multi-year core funding of companies. Applications and reporting procedures can be complex and time-consuming. No standardized forms, processes. Need programs that help with access to capital for growth, innovation. |
| Access to Private Investment and Financing                                          | <b>Below Average</b>                                       | Very difficult to obtain. Mainly owner-funded. No real access to venture capital financing. Some 'angel investors' but they are the exception (no incentives).                                                                                                                                                                                                           |
| Copyright Framework                                                                 | <b>Below Average</b>                                       | Protection of rights arising from new Internet and platforms; industry consensus on copyright position                                                                                                                                                                                                                                                                   |
| Industry Co-operation, Cross-industry Collaboration                                 | <b>Average</b>                                             | Traditionally strong collaborative lobbying through associations. Just beginning to collaborate on digitization. Little or no cross-industry policy collaboration but some project-based initiatives (e.g. Page to Screen).                                                                                                                                              |

| Key Success Factor                                                                                                                                                                                        | Performance                                                                        | Rationale                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Strong Eco-System:</p> <ul style="list-style-type: none"> <li>i) Authors/Creators</li> <li>ii) Domestic Producers</li> <li>iii) Multinationals</li> <li>iv) Agents</li> <li>v) Distributors</li> </ul> | <p><b>Above Average<br/>(strong pool of players<br/>across the eco-system)</b></p> | <ul style="list-style-type: none"> <li>i) Creatively strong and diverse but economically challenged</li> <li>ii) Strong in nurturing talent, producing and marketing books but hampered by lack of resources (acquisition, marketing, etc.)</li> <li>iii) Generally positive role but in a position to skim most promising authors from domestic sector. Have resources for innovation that domestic industry lacks.</li> <li>iv) Deal largely with multinationals and larger domestics. Success hinges on general health of industry both globally and domestically.</li> <li>v) Tend to be larger publishers (domestic and multinationals) with some independents. Remains more lucrative, less risky aspect of business but requires major investment.</li> </ul> |

As the above chart outlines, Ontario has the raw materials (the ecosystem) for a healthy book publishing industry and there appears to be the will, at the government level, to support it. However, as the KSFs indicate, the province lags in terms of access to the domestic marketplace, both retail and institutional; online marketing, sales and distribution channels; innovation and experimentation with new business models; access to private investment; access to senior skills and expertise in technology and business. Many of these weaknesses are related to lack of resources and the inability to access traditional private financing and investment.

Not all strengths and weaknesses have equal weight. Thus, it is probably more feasible to address the lack of access to the Ontario school library market than to try to repair the bricks-and-mortar retail system. Helping the industry innovate and grow in the digital marketplace and in alternative markets will help the industry grow and prosper overall. Similarly, strengthening the industries' exports and its access to capital is likely more critical than soliciting greater exposure by Ontario media.

The results of the facilitated book publishing industry strategy workshop - conducted by the consulting team – led us to identify the following key success factors as priorities:

- Institutional Market – specifically the school and public library market;
- Internet and Digital Technology – as it impacts both physical books and ebooks/e-content;
- Access to Private Financing/Investment;
- Export Development;
- Government Support;
- Cross-Industry and Cross-Sectoral Collaboration.

The consulting team added the last KSF, 'Collaboration,' as it was felt to be important to the achievement of recommendations that emerge from this report.

We have taken these conclusions into consideration with the other research findings and developed some ranking of these priorities, which we discuss in the section on conclusions and recommendations.

## 6 Ontario Compared: The Industry in Other Jurisdictions

In the course of our research, we rated the book publishing industries in several jurisdictions according to their overall performance relative to each of the key success factors (KSFs) discussed above. This in turn led us to identify best practices in foreign jurisdictions that might have potential for implementation in Ontario. The jurisdictions selected fall into three broad groups:

- **International Giants:** Large-market countries with multinational publishing headquarters, namely the **US, UK, France, and Germany.**
- **Comparable Countries:** The book trade is characterized by persistent, though evolving, patterns of centre-periphery relations. Research focused on a group of countries that share three key attributes with Ontario that place them in a similar overall strategic position:

Medium-sized market;

High level of income and literacy;

Exposure to imports from larger same-language neighbours.

Four comparable countries were identified: **Austria, Australia, Ireland, and Belgium**, all of which are significant net importers of books. These four are, like Ontario, placed at the mid-point between the metropolitan centres of international publishing and the cultural periphery (or centre-periphery), and because they too seek to maintain and expand their book publishing industries through various strategic initiatives.

- **Other Canadian Provinces:** Research focused particularly on **Quebec and British Columbia**, as they have the largest industries in Canada after Ontario and have structures and programs of interest.

**Figure 4 - Summary of Other Jurisdictions**

| Jurisdiction                                       | Rating | Driving KSFs                                                                                                                                                                                                                                                                                                                                           |
|----------------------------------------------------|--------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>International</b>                               |        |                                                                                                                                                                                                                                                                                                                                                        |
| International Giants<br>(USA, Germany, UK, France) | A+/-   | <ul style="list-style-type: none"> <li>▪ Major metropolitan literary communities</li> <li>▪ Centres of mergers and acquisitions</li> <li>▪ Critical mass of domestic publishers</li> <li>▪ Innovation in new business models</li> <li>▪ Net exports</li> <li>▪ Major international publishers benefit from good access to private financing</li> </ul> |

| Jurisdiction     | Rating | Driving KSFs                                                                                                                                   |
|------------------|--------|------------------------------------------------------------------------------------------------------------------------------------------------|
|                  |        | <ul style="list-style-type: none"> <li>Varying levels of direct governments support (e.g. France high and USA low)</li> </ul>                  |
| Australia        | B-     | <ul style="list-style-type: none"> <li>Government support</li> <li>Supportive Media</li> <li>Export Programs</li> </ul>                        |
| Ireland          | B-     | <ul style="list-style-type: none"> <li>Government support</li> <li>Vibrant literary community</li> </ul>                                       |
| Belgium          | B+     | <ul style="list-style-type: none"> <li>Government Support</li> <li>Vibrant literary community</li> </ul>                                       |
| Austria          | B-     | <ul style="list-style-type: none"> <li>Government Support</li> <li>Healthy Institutional Market</li> </ul>                                     |
| <b>Canada</b>    |        |                                                                                                                                                |
| Quebec           | B+     | <ul style="list-style-type: none"> <li>Vibrant Literary Community</li> <li>Government support</li> <li>Healthy Institutional Market</li> </ul> |
| British Columbia | C+     | <ul style="list-style-type: none"> <li>Government support</li> </ul>                                                                           |

As the above table (Figure 4) indicates, the overall KSF profiles of the international giants are impressive and should be kept in mind when framing medium- to long-term strategic goals for the Ontario book publishing industry. Further, the table demonstrates that important KSFs for the comparable countries are programs of direct and indirect government support and strong local literary communities.

Ontario also has strong government support and a vibrant community of authors and readers, and any strategic assessment of the province's book trade must pay specific attention to enhancing these important KSF drivers. However, Ontario book publishing must look beyond these core strengths in its medium-term strategy to embrace the KSF drivers of the international giants: especially business model innovation and enhanced access to private financing.

Beyond these overarching observations, our analysis leads to the following conclusions as to preliminary "best practices" for book industries worldwide:

- Economies of scale lead to strong, profitable, book publishing:** This statement may be tautological from a business perspective but it nevertheless bears repetition in a strategic assessment of the situation in Ontario. Those countries whose domestic industries produce large print runs and have large lists or even clusters of publishing houses tend to have the largest, most profitable industries. These attributes in turn allow for access to investment capital, competitive exports and, for the largest publishing conglomerates, policies of acquisition.

- **Government support remains vital for mid-sized publishing industries:** While the US is a centre of worldwide publishing, its strength is focused in its major centres and on a *per capita* basis its book trade is not as significant as it is in the European countries. Some countries, such as France, have tightly regulated book trades with mechanisms such as price control and direct subsidies at every link of the book chain and to companies both large and small. Many European countries exempt book sales from VAT (value-added tax), in effect paying for a price adjustment. Without government support to small, medium, literary, and scholarly-publishers in all jurisdictions, many would fail.
- **Digital innovation in book publishing is centred in North America and Asia:** Ontario is home to the head office of Harlequin, arguably the current world leader in direct-to-consumer digital book sales. Harlequin delivers content of different sizes (chapters, books, series) for consumption with various reading devices (eReaders and PCs), and has succeeded in expanding its market through mechanisms such as giveaways and videos. Many of the other companies experimenting in electronic sales of various forms of content – Google, Amazon, and the eJournal databases – are US-based. Asia is also driving innovation in book delivery, boasting the head offices of several eReader companies (especially Sony), as well as experimenting with new channels such as direct-to-mobile device content delivery.
- **A robust independent book retailing sector supports smaller publishers:** Jurisdictions such as Quebec, Germany, and the UK with robust independent booksellers have strong local publishing industries. Too much bookseller concentration appears to have a deleterious effect on the diversity of the publishing ecosystem. Quebec's efforts to even its book selling playing field through regulation are particularly significant, and have helped independent bookstores account for 56% of total sales in 2006.

Vital to the cultural profile of an area though sometimes unprofitable, publishing programs can benefit from charitable donations. While all publishers would like to turn a profit, many find profitability difficult to achieve and their primary goal is to make certain types of material available or produce beautiful objects. There are ancillary, indirect benefits to a jurisdiction from this kind of activity, not least of which is supporting literary and design communities. Some jurisdictions have mechanisms in place to support this kind of philanthropic donation to for-profit and/or non-profit publishing programs.

- **The impact on book publishing of the digital revolution and the economic growth of the developing world is just beginning:** As the business of books migrates increasingly onto the web and PCs, the traditional dominance of the major centres in publishing may be destabilized as the low labour-costs of the developing world generate a competitive advantage. While this is beginning to be felt in printing and low-skill jobs such as backlist scanning, it has yet to occur in such domains as head office or editing. Further, developing country markets remain dominated by educational demand. However, the steady growth of the book market in English-language markets like India and Nigeria combined with the astonishingly low prices of domestically-produced books in those countries, are long-term trends of strategic importance.

While each jurisdiction is unique, there are specific projects, initiatives, programs, and regulatory and legislative approaches which are worth examining in the implementation of a book publishing industry strategy. While the relative levels and different emphases of direct support to authors, publishers and booksellers are important; the following are examples of innovative support programs that do not take the form of direct subsidy:

- Quebec's **accreditation system**, combined with strong direct support programs, has led to its robust independent booksellers and publishers. The accreditation system is also responsible for the strong institutional procurement preferences given by Quebec's schools and libraries to accredited publishers and booksellers.
- Quebec's **salons du livre** combine an important international trade show at the Salon du livre de Montréal with a network of smaller fairs across the province targeted at the general reader. These provide many direct and spin-off benefits for the book publishing industry.
- Quebec's **Tax Credit for Book Publishing** is designed to foster the development of the book publishing industry within Quebec, to allow for works published within Quebec to enter foreign markets with success and to provide support for major projects. Thirty-five percent of the preparation costs and a quarter of the printing costs are eligible for credit for any amount that does not exceed \$437,500 for each eligible published work.
- Quebec's **SODEC** (Société de développement des entreprises culturelles – Cultural Industries Development Corporation) has a broad mandate to support the cultural industries of Quebec and to co-ordinate government support programs for all of them. With respect to book publishing, it provides a range of support programs to publishers, editors, authors, translations, the salons du livre,

- export promotion, and aid to digitization. Through its accreditation process it accredits publishers and bookstores, making them eligible for aid that is only for Quebec-based enterprises. Accredited books are in turn favoured by the Quebec educational system. SODEC and its power of co-ordination is an important force behind the strength of Quebec book publishing and of the creative cluster that is increasingly flourishing in Quebec with targeted government support.
- BC's **Book Publishing Tax Credit** aims to support the BC book publishing industry without unnecessarily increasing paperwork by harmonizing its contribution with that of BPIDP. Recipients of a Book Publishing Industry Development Program contribution are eligible for a tax credit of up to 90% of that contribution. The potential pitfall is that the benefit becomes entirely contingent on securing a BPIDP grant and its size. However, as a result of these attractive tax credits, a number of small publishers have relocated from Alberta to British Columbia. This form of government support both enhances publishing activity within the region and helps to further develop the industry within this location by attracting companies to relocate to BC.
  - BC's **Arts Renaissance Fund** is a provincially-funded body that matches private investment for endowments and capital with public sector funds. This fund is part of the Vancouver Foundation, to which citizens make charitable donations in order to provide support for a number of cultural industries—the publishing industry is one such example.
  - Australia's **30-day rule**, whereby Australian rights to a book were forsaken if it was not released in Australia within thirty days of its release in any other jurisdiction, did much to foster Australian publishing. In a sense, it was similar to the United States' nineteenth-century nonrecognition of foreign copyrights, which did much to build US publishing. The Australian rule created an incentive for publishers to print and publish works in a frequent and timely fashion. In turn, this rule has led to an increased confidence of authors in the region as well as assisted in Australia's development of a respectable reputation within the international publishing arena. That said, it is being challenged under the US-Australia FTA. While it seems *prima facie* doubtful that such a program could fall under the cultural exception of NAFTA, no such decision has yet been made.
  - Australia's **Registry of Cultural Organizations (ROCO)** accredits cultural organizations based in Australia, including some publishers. Individual and corporate donors may then benefit from a tax deduction if they give to these organizations.

- The **Australian Council for the Arts** provides funding to support the creative arts industry. In 2006/2007, the Council provided more than \$7.8 million in support through literature grants and initiatives. Exemplary grants include “**Booked**,” which is a government grant that serves as a travel fund for publishers and literary agents and “**Breaking New Ground**,” which is a \$40,000 grant provided to fund the next work of a promising, previously established Australian author. “**Books Alive**” is the Council’s largest promotion of books and reading; it is a campaign that produces a list of 50 great reads and provides support in the form of TV advertising and local bookstore promotions.
- Ireland’s **Taxation Policy** supports its publishers in two interesting ways: there is no VAT (value-added tax, akin to the Canadian GST or Ontario PST) on book purchases and authors do not pay taxes on income derived from contracts with publishers.
- The Dutch-language community of Belgium’s program **CultuurInvest** is an investment fund derived fifty-fifty from the Dutch-language community government and private sources that support cultural industries – including publishers. Support is realized in three principal forms: project financing, which consists of short term financing for specific projects; growth capital, which is funding for mature cultural organizations to achieve higher levels of development; and subordinated loans, which are long-term investments in projects and companies within the industry. CultuurInvest also seeks to facilitate development of industries, like publishing, through collaborating with companies that provide investment capital to start up enterprises, co-financing projects with other funding entities, and providing management support and training to entrepreneurs within the industry. Through a reasonable rate of return from cultural industries and further public and private participation, CultuurInvest aims to generate a constantly rolling fund that is accessible to Flemish cultural industries.
- The Austrian **Wiener Buchwoche** (Vienna Book Week), like Quebec’s Salons du livre, excels at engaging the broader public through panels, discussions, and opportunities to interact with Austria’s leading authors and is held in association with the **Austrian Book Trade Association**. For just over 60 years, this festival and reading week represent a successful cultural initiative in its promotion of the newest book releases and the industry itself.
- The **Austrian Book Trade Association**, established in 1859, serves as a mediator of the industry and a catalyst for development and collaboration as it unites professionals within the book publishing arena.

- Switzerland's **Educational Book Publishing** has historically been provided by five public, cantonal publishers. As its educational and textbook market is liberalized, these publishers are seeking private financing and international collaborators to continue publishing their lists and their relationships with the cantonal schools and libraries.

Finally, the comparison with other countries shows that while there are other jurisdictions, which are obviously quite successful, Ontario has many assets and advantages. All jurisdictions are struggling with the onset of the digital revolution, and the Ontario book publishing industry should be as well placed as any to take advantage of this brave new world.

## **7 Strategy: Emerging Recommendations for Book Publishing in Ontario**

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In this section, we develop recommendations to improve the book publishing industry in Ontario. The recommendations flow from the research, analysis and the facilitated workshop with key industry representatives. They are designed to strengthen Ontario's position in the areas outlined in the key success factors (see section 5) and to be more competitive with other jurisdictions (see section 6).

### **7.1 Goals, Objectives and their Measurement**

The recommendations outlined have been developed in the context of a number of premises and objectives for the industry. The overriding premise is that, with targeted support, the Ontario book publishing industry is poised and ready to take advantage of the opportunities inherent in the digital environment. The industry has the capacity to become more entrepreneurial, to grow sales in both traditional and digital markets, to increase in value and to attract external financing. Strategies that would help the industry succeed in doing so are favoured.

Another premise is that, as the creative media move more into the digital age, there is greater potential for inter-relationship among creative industries. Therefore, measures that benefit book publishing alone are balanced with those that foster cross-sector creativity.

We have also recognized that the creative industries should not be measured on bottom line considerations alone; they must also be looked at in terms of the quality of the creative products they produce and their contribution to the cultural vibrancy of the community.

The goal of these recommendations is to help the Ontario book publishing industry reach a level:

- Where Ontario book publishers have increased access to domestic and foreign markets;
- Where the Ontario-based industry has the resources, knowledge, and skill sets to master the online and digital environments and to use the technology to generate more revenues and/or to decrease costs;
- Where Ontario publishers have access to private financing/investment;

- Where the book publishing industry in Ontario reinforces creative expression and development as well as business success.

It is expected that government, federal and provincial, will look to performance measures for ensuring a reasonable return on investment of any resources it allocates to this sector.

- **Economic measures:** One set of performance measures will be economic, i.e. some combination of employment figures, contribution to GDP, exports, attraction of investment, and incremental tax revenue for the province. The economic benefits can also include certain spin-off benefits and activities, e.g. the economic and labour impact on supplier and service industries.
- **Socio-cultural measures:** Another set of performance measures will be socio-cultural, e.g. the vibrancy of the literary scene in Ontario; the creation of opportunities for Ontario residents to see and hear talented authors and illustrators talk about their works; the presence of authors and illustrators in schools and the general benefit to Canadian culture from being able to access and enjoy the creative output of home-grown talent.

The book publishing industry already delivers substantial benefits to Ontario and is capable of delivering even more if it can realize the opportunities inherent in the digital environment.

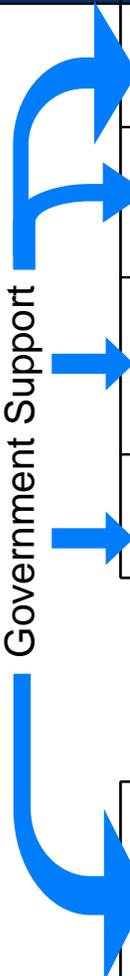
## 7.2 Areas of Priority Focus and Criteria

We have grouped measures within six areas of priority focus. Within those areas, we outline optional strategies and make recommendations where they can be substantiated through analysis, data, industry feedback, and other research on domestic and international practices.

The areas of focus were arrived at by comparing Ontario's performance to the key success factors described in Section 5. Those evaluations were then integrated with the priorities designated by key stakeholders at a strategy formulation session held at the OMDC. Each of the areas incorporates several of the key success factors identified. Additionally, the areas of priority focus were informed by international comparisons and best practices in other provinces and abroad.

The following graph outlines the five areas of priority we have identified, ranks them in order and provides the ranking rationale in brief. We show government support running along side each of the priorities, as it is instrumental to all. A more detailed explanation follows:

Figure 5 - Priority Ranking Rationale

|                                                                                                          | Priority Ranking                                          | Ranking Rationale                                                                                                                                                                                                                                                                                                                                                                                                      | Areas of Recommendation                                                                            |
|----------------------------------------------------------------------------------------------------------|-----------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|
| <br>Government Support | <b>1. Digitization and Internet Technology</b>            | Book industry must adapt to digital technology in all facets of the value chain – or simply be forced to react to whatever others do.                                                                                                                                                                                                                                                                                  | - Digital Transformation Fund                                                                      |
|                                                                                                          | <b>2. Access to Private Financing/Investment</b>          | The book industry needs access to financing and investment both as a means to sustain itself within traditional business models and in order to take advantage of new opportunities in the digital era.                                                                                                                                                                                                                | - Targeted, Working Capital Funds<br>- Business Skills Development                                 |
|                                                                                                          | <b>3. Access to Institutional Market</b>                  | With new budgets announced recently for Ontario school libraries and an increased profile around the issue of strong, well-stocked, well-staffed libraries, it is the right time for the book industry to advocate for the purchase of domestic books.                                                                                                                                                                 | - School and Public Library Market<br>- Classroom Adoption                                         |
|                                                                                                          | <b>4. Export Development</b>                              | The Ontario industry relies on export markets for growth and stability. Some improvements are needed in government support measures.                                                                                                                                                                                                                                                                                   | - Enhanced Export Marketing                                                                        |
|                                                                                                          | <b>5. Government Support</b>                              | This remains a critical component for the industry to ensure it can compete globally.                                                                                                                                                                                                                                                                                                                                  | - Expansion of Ontario's Tax Credit Program<br>- Renewal/enhancement of Government Programs        |
|                                                                                                          | <b>6. Cross-Industry and Cross-Sectoral Collaboration</b> | <p><b>i) Cross-Industry</b><br/>Strengthening this ability in areas like research, professional development and industry advocacy would help facilitate the implementation of any recommendations.</p> <p><b>ii) Cross-Sectoral</b><br/>Creative industries should use 'strength in numbers' to increase government and public understanding of the importance of the IP industries to the future of the province.</p> | - Industry Associations<br>- OMDC as Catalyst/Coordinator consistent with its corporate objectives |

### 7.3 Recommendations

#### 7.3.1 Digitization and Internet Technology

The Ontario book publishing industry needs support in transforming itself to take advantage of opportunities offered by digitization and the Internet.

The industry has come a long way in terms of internal workflow and supply chain processes and continues, through the efforts of individual companies and group collaborations, to test and experiment with a variety of other digital initiatives. There

have been two recent studies, one in French and one in English,<sup>23</sup> on the impact of digitization on the industry, both of which gave rise to recommendations which are supported by this study. Several larger projects that feature collaboration by both book industry and non-industry groups have been made possible by significant support from the Entertainment and Creative Cluster Partnerships Fund jointly administered by OMDC and the Ministry of Culture.

However, there is still a great deal to be done, and, in many instances, there is no clear right way to go. As has been previously discussed, the industry cannot afford, on its own, to risk already scarce resources on experimentation with evolving business models where there is no proven return on investment. Yet, if it does not explore and innovate, the Ontario industry will lose ground in the increasingly competitive global marketplace.

There are two broad areas of opportunity that are emerging in the digital area:

- i) The marketing and sale of physical books online; and
- ii) The marketing, sales and distribution of digital books (ebooks) and digital book content.

### ***Marketing and Sale of Physical Books Online***

The sale of books through online retailers is a growth area. In the US, online sales represent between 20%-30%<sup>24</sup> of the total market. There are no equivalent Canadian data, but it is logical to assume that while the Canadian market lags somewhat behind the US, it has the potential to catch up.

In addition more publishers are selling directly to consumers on their own websites as well as using that direct relationship to improve their market research capabilities.

Ontario publishers need the skills and funds to produce, upgrade, keep current and promote their websites on an ongoing basis. Additionally they need the resources to hire

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<sup>23</sup> *The Impact of Digitization on the Book Publishing Industry*, by Diane Davy, a report commissioned by the Association for Canadian Publishers and *Les enjeux de l'édition numérique pour les éditeurs: Etude réalisée pour le compte de l'association nationale des éditeurs de livre* under the direction of Guylaine Beaudry.

<sup>24</sup> "Two surveys released over the past several weeks put the share of the consumer book market controlled by online retailers at between 21% (R.R. Bowker) and 30% (Fairfield Research), growth that has been fuelled, in large part, by the expansion of Amazon...Over the last five years, sales through bookstores rose a meagre 3.6%, while sales through Amazon jumped a remarkable 104%." (Source: *As Amazon Soars, Bookstores Creep* by Jim Milliot, Publishers Weekly, 4/14/2008)

people experienced in the dynamics of online and direct marketing to drive sales whether from traditional bookstores, online retailers, or the publishers own website.

***Internet and Digital Distribution, Marketing and Sale of Digitized Book Content***

Digitization, combined with the Internet's ability to distribute direct to consumers, allows book content to be separated from the physical confines of the traditional format. Now a digital book (ebook) can be distributed and read on any device that will support the format, including a computer screen, a PDA, a mobile phone, or a dedicated ebook reader like Amazon's Kindle or the Sony Reader. Furthermore, any part of the content that makes up a book (chapter, excerpt, paragraph, or phrase) can be disengaged from the complete book and treated separately.

The ebook/econtent marketplace is evolving and will do so for the near future. The advantage will go to those who have some capacity for experimentation without immediate return. In a marketplace where some retailers are offering consumers ebooks for a variety of prices (e.g. Mobipocket, Amazon's Kindle Store) and some are offering them for free (e.g. WOWIO) standard business models have yet to develop.

The kinds of digital initiatives that are most desirable will very much depend on the individual publisher and the specific market. However, any support program should be multi-year and of sufficient magnitude and flexibility to offer substantive assistance to firms that demonstrate a solid plan and the capacity for growth in the digital world.

Support could be modelled on Canadian Heritage's Book Publishing Industry Development Program (BPIDP), i.e. a formula based on eligible sales. There might be some project funding reserved specifically for smaller firms. There should be broad discretion as to how an eligible publisher could access such support and flexibility in how a company uses the funds. Specifically, the following, as they relate to digital transition, should all be eligible: training (including to special technology seminars both inside and outside the country); research; marketing and sales initiatives for physical books and ebooks/econtent; digitization of content; hiring of expert consultants; subsidization of internal hires in areas related to technology; feasibility studies; export initiatives; purchase of appropriate software programs; research into and piloting of innovative business models.

Support should move the Ontario industry forward in terms of digital transformation and should be consistent with individual corporate goals. Results should be measured in terms of economic and cultural impact. Some portion of a support program should be reserved for collaborative efforts coordinated by the book industry associations.

***We recommend the creation of a substantive, flexible, multi-year Digital Transformation Fund, similar in concept to the federal Supply Chain Fund, to help the book publishing industry bridge the next five years while it adapts to and finds its way in the digital marketplace.***

### **7.3.2 Access to Private Financing/Investment**

The growth of the Ontario book publishing industry is seriously hampered by its lack of access to private financing and investment. This is a handicap that the book industry shares with the rest of Ontario's entertainment and creative cluster. Traditional lenders and investors find it difficult to deal with entities whose assets primarily consist of intellectual property (IP), the value of which is not straightforward or secure. In addition, most investors are looking for higher rates of return over shorter periods of time than the book industry, and the entertainment and creative cluster generally, can deliver with its current business performance.

A few individual book companies have been fortunate enough to attract the interest of "angel" investors who are interested in the industry and have motives beyond straight return on investment. However, these are the exception and the industry has to show better margins and growth potential in order to attract mainstream private investment and credit.

Part of the professionalization of the industry has been the development of skills across the industry. The interviews indicate that the industry is well serviced in terms of emerging level training and many specialized professional areas like editorial. However, there is still a need for senior and mid level business skills training. Simon Fraser University in BC is looking into the possibility of developing an executive business course for publishers and Humber College is looking at additional course for mid-level personnel.

***We recommend that resources be allocated to allow Ontario publishers to take advantage of business training opportunities both within and outside the province.***

For the cluster to truly realize the vision of becoming a major economic driver for the province over the next 20 years, there needs to be greater understanding of opportunities and barriers on each side of the financial divide. The financial industry needs more insight into the nature of and opportunities inherent in the IP-based

industries and the cluster needs to deepen its relationship with the investment community and improve its understanding of what is needed to attract funds. There could be a role for the OMDC in bringing the financial sector and the creative sector together.

***We recommend that the book publishing industry work with the other creative industries and government, with the OMDC acting as a catalyst/coordinator, to create a dialogue with the financial services sector in order to create awareness of the attractiveness of IP-based businesses.***

Improvement in this area will require multi-year, multi-faceted initiatives and, over the near term, will probably require government support that encourages investment and/or lending.

Several models of improved access to government or private financing emerged from the research, including:

- **Farm Credit Canada** - Institution specializing in loans, business and financial service to Canadian agriculture started with large federal government subsidy and run by people who understand the agricultural business
- **Loan Guarantee Program** – An earlier provincial program for the book publishing industry was discontinued but might be re-examined. There is also a current loan guarantee program for Ontario’s forestry industry, offered by the Ontario Ministry of Natural Resources, which could act as a model.<sup>25</sup> Loan guarantee concepts have been out of fashion in recent years and require the cooperation of lending institutions, which is cumbersome to arrange on a single industry basis.
- **CultuurInvest**, a Belgian investment fund derived fifty-fifty from the Dutch-language community government and private sources that supports cultural industries – including publishers; this is a revolving fund accessible to Flemish cultural industries which is replenished from the payback from its investments.

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[http://www.mnr.gov.on.ca/en/Business/Forests/2ColumnSubPage/STEL02\\_167204.html](http://www.mnr.gov.on.ca/en/Business/Forests/2ColumnSubPage/STEL02_167204.html)

***We recommend that the OMDC, working with the Ministry of Culture and other government departments, the book publishing industry, and other creative sectors, explore various public/private financing models that would help the creative industries access capital for growth and innovation.***

A flexible loan guarantee program, similar to the old provincial program, may be of particular interest to the industry. Such a program would be arranged with financial institutions that had an established lending operation in the creative industry area. There would have to be some incentive for that institution to exercise due diligence, and not simply use the public guarantee as a means of protecting their interests. In the film production business, a couple of specialized lenders have surfaced to take on the role of “gap financing,” and something similar, over the long term, would be an ideal solution in the book publishing sector to help smooth the hiccups of finance succession, acquisitions, growth initiatives and other capital intensive activities. However, it must be recognized that the volume may not be sufficient to entice someone into this line of business.

***We recommend that the Province engage with the financial services sector to develop, over the longer term, an effective loan guarantee program that would enable publishers to undertake a variety of business activities including but not limited to succession plans, acquisition and growth initiatives.***

One way to increase the profitability of specific book publishers is through scale, which can be hastened through the acquisition of other publishers or complementary businesses. When they are larger entities, publishers can obtain better terms from banks, suppliers (e.g. printers) and foreign and domestic distributors. Therefore, some consolidation of the publisher sector of the Canadian book publishing industry could lead to greater profitability and thus access to capital and new platforms. In fact, some consolidation would be in keeping with the consolidation in the bookstore retail sector and provide some measure of counterweight in that relationship.<sup>26</sup>

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<sup>26</sup> Note that BC-based Douglas and McIntyre recently bought a Canadian firm of almost equal size (New Society Publishers) whose main business is in the US market. The transaction was privately financed, mainly because the profit margins of both entities were above the norm, so the financiers would have confidence in their expected ROI.

Our interviews revealed some inadvertent disincentives to consolidation embedded in some government funding support criteria. One of the barriers to consolidation is the federal BPIDP ceiling on the size of funds allocated in line with a publisher's sales success. While it is intended to avoid a Quebecor or Harlequin obtaining funds through BPIDP, it can have a negative effect on companies who are assembling properties and expand beyond the BPIDP eligibility ceiling.

While consolidation can bring economic benefits to the acquiring companies, it is recognized that consolidation *per se* is not necessarily positive for the Canadian book publishing sector. True, there can be profitability gains as a result, and capital to follow so that the profitable entity can grow and prosper. However, the publishing of Canadian authored books is often a labour of love by the smaller Canadian publisher. Once "consolidated," the larger entity might discover that there is insufficient profitability in publishing certain Canadian authors.

Thus, there can be two different perspectives on publishing by Canadians; one that extols the benefits of consolidation, such as concentration of capital and risk,, economies of scale, and vertical integration; and the other that aims to continue to support a large basket of smaller publishers, who are less impelled by financial considerations and may find it a priority to look for and develop Canadian authors and literature. It is likely that the right balance will fall somewhere between these two perspectives. Nevertheless, the question of consolidation is sufficiently important to merit a study of its potential impacts and of the current policy framework favouring decentralization.

***We recommend that funding programs should be reviewed to assess their impact on the consolidation of the Canadian book publishing industry, and to regard consolidation as one of the tools to stimulate profitability and new growth in the industry as appropriate.***

### **7.3.3 Institutional Market (School and Public Libraries and Classrooms)**

The recent announcements of money for school library staffing and resource material acquisition, as outlined in the Trends section of this report, are good news for the industry.

Members of the Ontario industry have already initiated conversations on the issue of dedicating funds to the purchase of Canadian books but they need support for their advocacy campaign.

An effective ‘buy Ontario books’ advocacy campaign needs to be directed, not just towards government, although that is a key element, but also to those who influence purchases and/or buy books directly on behalf of school and public libraries, such as library associations, librarians, teachers, principals, school boards and, finally, the Ontario public. The message should embrace both the importance of well-stocked, well-staffed libraries in improving student performance in a variety of areas and, more specifically, the economic and cultural benefits that Ontarians receive from being exposed to content produced in Ontario. The point could also be made that the province supports the creation of domestic content and should complete the circle by supporting its consumption.

Advocacy efforts should be coordinated with other like-minded groups (e.g. Ontario Library Association, the Ontario Coalition for School Libraries) to make best use of limited resources.

The advocacy campaign will need to be multi-year and aimed at both elementary and high schools and public libraries. The acquisition package announced by government is currently only a one-time thing targeted at elementary schools while the issue of adequate budgets for school libraries at all levels is an on-going issue. A well-stocked library includes current titles as well as older ones and, increasingly, digital resources as well as print materials.

An important measurable would be an increase in Ontario publishers’ sales to libraries over the period of the campaign, benchmarked against sales the year before the campaign begins.

This kind of outreach to the Ontario school market is an area where collaboration across the entertainment and creative cluster would be both feasible and desirable. In the book industry, larger trade publishers have traditionally targeted the educational market through structured presentations that align the publishers’ books with the appropriate curriculum material and grade level. Presenters, who include publishers, sales representatives, and authors, talk about specific books and provide concrete suggestions on how to use them in a classroom setting.

Hands-on marketing initiatives can be expensive, but they produce concrete results, and success would benefit the whole creative cluster. With coordination and resources, it would be possible to put on a travelling “Ontario Showcase” that would take content produced by the creative cluster (books, music, videos/DVDs, magazines, interactive content) out into the educational community. The Ontario government could consider

developing an incentive system for school books purchasing agents to acquire Ontario produced books.

There would be a strong role for the Ministry of Culture and the OMDC as catalysts and coordinators for both the 'buy Ontario books' and 'Ontario Showcase' programs.

For the 'buy Ontario books' campaign, the OMDC (through the Ministry of Culture) could help the industry identify key influencers in the Ontario Ministry of Education and other appropriate areas of government and facilitate access to them for industry representatives. The OMDC could also provide support to the industry in developing, producing and delivering a compelling multi-year (2-3) advocacy campaign to stakeholders in i) government ii) the educational system (specifically those who influence purchasing) and iii) the public (this last possibly in partnership with the broader creative cluster).

The emphasis at the elementary level should be on the acquisition of physical books and at the secondary and public library level it should be on both physical and ebooks.

***We recommend that the OMDC and Ministry of Culture support the work begun by the industry in advocating for the purchase of Ontario books published by Canadian-owned publishers for Ontario school and public libraries and classrooms.***

### ***Classroom Use***

The advocacy campaign with the Ministry of Education could also discuss introducing a requirement that works of Canadian literature be taught at various points in the curriculum.

Quill & Quire recently reported that British Columbia has just introduced a requirement that high school English courses in that province will soon be required to include at least one "significant" work of Canadian literature in each of grades 8 through 12.<sup>27</sup> The provincial ministry recently revamped the curriculum and included the provision after strong lobbying from various groups. While there is not yet any budget allocation to support the requirement, it represents an interesting precedent for Ontario.

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<sup>27</sup> (Q&Q Omni, June 27, 2008).

Schools and institutions in Quebec must buy through accredited bookstores that, among other criteria, have to carry a minimum of 6,000 titles of which 2,000 must have been published in Quebec.

Although few Canadian-owned publishers specialize in publishing curriculum-related text books, many publish trade books that have relevancy in a classroom setting either as literary works to be studied or as ancillary books to augment core texts.

***We recommend that the Ontario industry include a request that some Canadian books published by the Canadian-owned sector be used in Ontario classrooms in their discussions with the Ministry of Education and in their advocacy campaign with stakeholders in the educational community.***

***We recommend that Ontario should establish as the ultimate goal that there be a) a per student dollar commitment for Canadian content in both libraries and classrooms and b) a per user dollar commitment for public libraries.***

***We recommend that the OMDC and Ministry of Culture, working with representatives from across the cluster and the Ministry of Education, investigate the possibility of producing and piloting a one-year 'Ontario Showcase' travelling show that visits schools across the province.***

#### **7.3.4 Export Markets**

The Canadian market alone is not large enough to sustain a healthy book publishing industry, let alone allow for substantial growth. Access to export markets is a necessity for most publishers. Ontario publishers interviewed for this study depend on exports, particularly to the US, for anywhere from 25% to more than 50% of their total sales—and there is still plenty of room for growth for both physical and digital content.

The total exports of Ontario publishers who received support through the federal Book Publishing Industry Development Program's Aid to Publishers (ATP) was \$35.5 million,

or 36% of total export sales of all Canadian ATP recipients (\$98 million in 2007-2008).<sup>28</sup> It should be noted that the federal program excludes non-Canadian authored or originated titles.

Interviews confirmed that the industry finds the various federal and provincial government support mechanisms offered through the Association for the Export of Canadian Books and the OMDC to be, in general, helpful, effective and well run.

There are, however, some areas that need attention. The amount that publishers can access from the various funds has not risen to keep pace with the cost of accessing export markets. Some reporting requirements (e.g. reporting sales in foreign currency) are cumbersome and of questionable value. As with other government support, the industry would like to see larger, flexible, multi-year funds and more recognition that companies can identify their own priority markets. Thus, continued support for marketing initiatives in a market like the US may be a better strategic option for a publisher than opening up a new market in China.

Overall, in order to offset the challenges of the domestic market, the industry needs more resources to effectively access foreign partners and increase export sales of physical books, book rights and digital content in world markets.

***We recommend that the federal and provincial governments maintain and enhance existing export support programs by making them larger, more flexible, multi-year and more responsive to publishers' strategic directions.***

As previously mentioned in the section on digital technology, export initiatives need to be part of the Digital Transformation Fund. It is becoming more and more necessary for publishers to acquire world rights for a property in order to be able to exploit digital rights in a borderless environment. This is impacting the size of advances that publishers have to offer to acquire a title, particularly from more prominent authors with good prospects for world sales. Given that the Ontario book publishing sector already struggles to compete with the multinationals for access to established talent – home-grown or otherwise – further erosion of the bargaining position of Ontario publishers in signing authors would stand to exacerbate an already difficult situation.

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<sup>28</sup> Based on numbers provided by the Book Publishing Industry Development Program's Aid to Publishers, 2007-2008.

### 7.3.5 Government Support

The support of the federal and provincial governments has been essential in developing the Ontario book publishing industry and publishers are, for the most part, positive about existing programs. Interviews and the facilitated session demonstrates that there is a widespread feeling amongst publishers that the current funding structure is too hand to mouth, and they would thus like to see some level of multi-year core funding to support established, high-quality publishing programs. The Ontario Tax Credit Program was cited as being a very significant source of government support. However, the industry was unanimous in criticizing the restriction of eligibility for the tax credit to only the first three works by an eligible author in any genre, which was deemed to be unreasonably restrictive and unsupportive of successful author-publisher multi-volume collaborations. Neither is it in keeping with the criteria applied to the other cultural sector tax credit programs (like film and television), since none of them have similar restrictions applied.

There is also concern that, although there is appropriate pressure from funding bodies for the book publishing industry to adopt more businesslike practices such as multi-year business planning, there is still a project versus corporate bias to most funding criteria. The major exception would be the Book Publishing Industry Development Program, which is based on a publisher's eligible sales revenue.

***We recommend that the Tax Credit for the book publishing industry be expanded: a) to include all books by an eligible author rather than be limited to the first three in any genre and b) to increase eligible production costs from 50% to 100%.***

***We recommend that existing funding programs be renewed and reviewed/redesigned with the goal of making them more corporately focused (versus project), more flexible and multi-year in order to meet changing market circumstances.***

### 7.3.6 Cross-Industry and Cross-Sectoral Collaboration

The industry associations play a pivotal role in enabling the industry to undertake joint initiatives and to collaborate across other industries and organizations. If they did not exist they would have to be invented. However, like the industry itself, the associations are under resourced and hard put, in a time of major transition, to provide the services and leadership that are needed to move the industry forward. Much of the work is done by volunteers and there is a definite possibility of "burn-out" as many of the same people serve time and again.

The book publishing industry is eager to collaborate with its colleagues in the other creative industries but, once again, resources are stretched.

***We recommend that the industry associations, working with the OMDC, determine areas of industry collaboration (research, professional development, advocacy, promotion, etc.) and devise a multi-year strategy, consistent with the goals of this study (digitization, export, access to domestic educational market, etc.) that could be coordinated by the associations with appropriate resources in place.***

***We recommend that the OMDC, working with the Ontario-based book publishing associations, take the role of catalyst and coordinator in forming an Entertainment and Creative Cluster Think Tank with the understanding that the industry associations will have to build capacity in order to lead their membership in a variety of ways.***

## **8 The Recommendations in the Wider Context**

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In this section we discuss our recommendations for the book publishing industry strategy in a wider context. First we refer to implications for OMDC's potential role and this discussion leads to consideration of the wider implications for the Ontario government. Finally, we propose some potential next steps for the book publishing industry.

### **8.1 OMDC's Potential Role**

The strategy options and recommendations proposed in this document basically constitute a direction for the book publishing industry along the following lines:

- Intelligent embrace of the digital area, particularly for marketing, promotion, sales and distribution of both physical and digital books;
- Promotion of innovation and investment, and development of more senior level business skills with a view to improving a company's financial health;
- Targeted advocacy within the government and educational system for the priority purchase of Ontario/Canadian books for both school libraries and classroom use.

The industry has the challenge of sustaining its traditional business models (i.e. sales through bricks-and-mortar bookstores) which still generates most of its sales, while ramping up to develop new business models in the digital environment where sales opportunities are growing but return on investment is uncertain. The industry must do this with limited resources and very little ability to access private investment and financing.

The recommendations made for consideration by the book publishing industry suggest a larger role for Ontario and a great deal of collaborative work by the industry and related stakeholders. Because the industry associations' resources are stretched, an enhanced role for the OMDC as a catalyst and coordinator seems appropriate.

### **8.2 Opportunities for Efficiencies and Synergies Across Provincial Government Ministries**

Given that the options developed for the book publishing industry embrace a range of functional areas, there are clearly opportunities for participation by other ministries in Ontario. Possibilities include:

- **Ontario Ministry of Culture (MCL):** This ministry is core to advising the Minister regarding the role of the OMDC, and as the rallying point for the entertainment and creative cluster.

- **Ministry of Economic Development and Trade (MEDT):** Export promotion and support, and representation of the industry as an important economic contributor to the Ontario community;
- **Ministry of Small Business and Entrepreneurship (MSBE):** Bringing a business viewpoint to the development of a business culture in the book publishing industry;
- **Ministry of Research and Innovation (MRI):** The book publishing industry's future growth in a digital environment will require innovation that draws from the ICT as well as from the content component of the industry itself;
- **Ministry of Training, Colleges, and Universities (MTCU):** The skills development component, though not the priority area for the industry, is recognized as important to the enhancement of the business skills among the managers, labels, and service providers; access to the Next Generation Jobs Fund;
- **Ministry of Finance (MoF):** Any change in the tax credit regime will of course involve Finance;
- **Ministry of Government Services (MGS):** This ministry and others would be involved in a cross-ministry approach to the protection of copyright for the book publishing and other IP-related industries;

Many of these other Ontario ministries would not have considered the book publishing industry as high on their relevancy list but may be encouraged to do so. If the overall case of the creative media can be made to complement the digital media priority of the Ministry of Research and Innovation, for example, there will be clear benefit for the book industry.

### 8.3 Conclusions and Next Steps

With targeted support, the book publishing industry in Ontario is ready to take advantage of the opportunities inherent in the digital revolution. However, as publishers still derive most of their sales revenue from the traditional retail business model, they will also have to take care of business as usual while ramping up for the future.

The recommendations suggested in this report are designed to help the industry bridge the next five years. The objectives are to give Ontario book publishers the opportunity to experiment and innovate in the digital space; to seek incremental growth opportunities in traditional markets like export and the domestic institutional market and, for the longer term, to look for ways to improve access to private financing and investment.

The report also takes into account the book publishing industry's position within the Ontario entertainment and creative media cluster and the Ontario government's recognition of that cluster's role in the growth of the province over the next 20 years. By acting collaboratively on issues that are common to all members, the creative cluster, with the OMDC acting as a catalyst, can bring the power of "strength in numbers" to the table.

Some of the strategy options and recommendations are process oriented in nature, rather than being specific programs or actions. It is recognized that many require more thought and consideration by industry stakeholders but the direction is clear.

## Appendix A: Interview and Strategy Workshop Summary

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### Interview Highlights

Following is a summary of the results of the interviews, including highlights from the Strategy Workshop with the Book Advisory Committee, conducted for the Strategic Study for the Book Publishing Industry.

### Publishers/General

#### **Q. What is your view on the current health of the book publishing industry in Ontario? In Canada?**

The prevailing responses from interviewees on the health of the book publishing industry were that it was 'fragile', 'precarious', 'struggling', 'very challenged', 'flat-lining', 'very hard to get placement in fewer and fewer retail outlets' and that 'publishers are struggling to keep their head's above water' – in short not particularly healthy.

However it was also pointed out that 'it depended on the publisher and the territory', that 'it was not as bad as sometimes characterized as witnessed by the fact that not a lot of firms have gone under', that 'it is an industry in transition', that 'it is a time of crisis and opportunity', that 'it (publishing) is as relevant as ever, particularly for the reader' and 'Canadian books are better than ever and show well in the competitive international market'.

Furthermore, publishers were described as 'having challenges but they are resilient' and as being 'adept at managing within challenging circumstances'. One interviewee said that 'publishing is a creative engine that inspires the Canadian identity and creates ideas and vision'. Another, who brought senior level general business skill to his/her perspective, said "the industry is not as bad as everyone says but we need to grow, create value in the digital age, get better rates from distributors, look for acquisitions and put more investment in the US."

#### **Q. What do you see as the most exciting recent developments in the book publishing industry? What has been the impact of digitization on your company to-date?**

The majority of those interviewed identified opportunities created by the digital environment as the most exciting recent developments in the industry. Respondent's comments included the following:

"There is a huge potential for digital."

“The explosion of web and new digital processes provide new ways to reach audiences.”

“Digitization processes are bringing the cost of producing a book down with savings on pre-press costs.”

“Digitization has changed the way we make books.”

“Digitization offers another channel of distribution but it is not a silver bullet.”

“In an online world, the industry can market directly to the consumer.”

“After a long period of false starts the industry might be seeing emerging digital business models.”

“One of the most exciting developments is electronic sales to academic libraries.”

“Digital, particularly POD although it isn’t there yet.”

“I am very excited by internet technology and digitization in terms of providing limited- or full-content in open access form.”

“Watching young publishers finding new ways to reach their markets by turning the digital ‘threat’ into an ally.”

“The new technology that is available. It is both the cause of much of the turmoil in and the possible salvation of the industry.”

In addition to digitization, several interviewees mentioned the recent allocation of additional money to Ontario elementary school libraries.

In terms of the direct impact of digitization on their companies, publishers spoke about how beneficial the supply chain initiative had been; the change in internal workflow and production processes; digitization of their backlists; the sale of digitized content to an academic library consortium through a Canadian aggregator; pending deals with ebook companies for ebook content; the use of POD to keep books in print and for short run reprints; increased sales through online retailers; increased sales direct to customers on publisher’s own websites; the use of the online environment (e.g. Facebook) to market

books; experiments with offering content for free; the ability to work with authors/creators around the work through email.

Overall the impact was seen as positive although there is still trepidation over how the market will evolve over time.

**Q: What do you see as the biggest challenge in your business today? What do you see as the biggest opportunity?**

Challenges:

The fundamental challenge was accessing funding/financing to adapt to and experiment and innovate in the digital world while continuing to manage a competitive, changing traditional business model that, although difficult, still provided most of the Ontario industry's revenues. Interviewees had the following to say:

"Finding funding/financing when the traditional market is static and the growth is in digital but there is no established financial model for digital as yet. The industry needs to be able transform itself from the old structure to the new but there isn't new money."

"The question is how to bridge from the traditional model which currently delivers most of the revenue to a digital market whose outlines are not yet clear."

"Access to capital. The traditional retail market is crumbling and alternative models are not yet in place."

"Basic business supports. The industry needs resources to grow, invest in authors and to compete where possible."

"The challenges are obviously financial. Competition is also a challenge. The question is how to rise above the competition."

"Ontario publishers haven't the money, personnel or capacity to invest in R&D. There is little room for risk."

"Publishers need to be supported in the transition from the traditional to the new."

"It is expensive to compete with the big boys (multinationals) in terms of co-op and placement and just in general dealings with the chain."

“The biggest challenge is working in the context of the general economy. There isn’t a lot of resilience in the publishing industry to deal with abrupt and major changes like the exchange rate.”

“Publishers face the challenges of a small market-base, Canadian content restrictions and no capital for export marketing. There is generally a lack of capital.”

Other challenges mentioned included: the difficulty of dealing with the dominant chain; the need to continually improve efficiencies in the supply chain process; the growth of the online used book market; the potential decline of book readership, particularly among young people; the demise of the school and library budgets and the lack of any incentive/mandate to buy Canadian/Ontario books; and the difficulty in finding and keeping people with technical expertise.

#### Opportunities:

Most of those interviewed cited digital technology and the Internet as providing the biggest growth opportunities, although many balanced their optimism in this area with concern about the cost of realizing those opportunities and the uncertainties about business models. Following are a sampling of quotes:

“Digitization is both the biggest opportunity and the biggest hurdle.”

“Digital makes it easier if the company has the expertise and the ability to sustain development in this area but few do.”

“Digital does provide an opportunity, however it is in its infancy. All publishers can really do is be ready to exploit this other avenue of revenue.”

“Ebooks in both the short and longer term are becoming a new revenue stream although with many revenue models.”

“The opportunities are online. Our company has a very active website and we have a database of over 6000 opt-in customer email addresses. We send a regular newsletter to members. (Online sales are growing) and they pay immediately and there are no returns.”

“The digital environment reduces the boundaries between writers and readers, publishers and consumers, regional and global.”

**Q. In what areas of book publishing are you active? Do you plan to expand into others? Into any IP-based industry sectors?**

The consultants interviewed publishers of trade (adult and children's), scholarly and educational books. Some are looking at diversifying their lists or expanding into new genres and, in a few cases, either acquiring existing lists or purchasing another company. A few offer Canadian distribution services to publishers from the international community and are looking at expanding in that area. Several publishers and associations are exploring digital software solutions related to digital rights management and distribution.

However, for the large part, the industry is 'sticking to its knitting' and concentrating its resources on finding alternatives to the changing traditional retail market that has been the mainstay of sales and in moving more aggressively into the digital environment.

**Q. Do you export? How are government programs helping your export business? How could they improve?**

Most of the publishers interviewed considered export as an important part of their business. Responses included the following:

"The US is about 50% of our market and growing. The UK isn't a big market for us. India is seen as an emerging market but it is too expensive for us to access readily."

"Definitely. About 60% of our sales are in the US. We can't exist on Canadian sales. Also we do well in the UK and with (some titles) in Australia."

"(Our company) exports lots to the States. 50% of our sales are there and, even with the declining US dollar, the sales have grown 20% over last year."

"About 60% of (the company's) sales are in the US and we have been hard hit by the exchange. The volume sales were up but the margins were down."

"We have tended to sell in the domestic and US markets and are just now getting into Europe. 41% of our sales in 2007 were to the US but we think it has dropped since then due to the dollar and the US economy. 55% are in Canada and the rest outside."

"Yes, mainly to the US. It makes up 25-30% of our total sales."

“Rights sales make up 10-15% of our total business.”

“The US is about 45% of our total market, 7% is overseas.”

The industry uses and is generally complimentary about the various export programs (AECB and OMDC) however there are some concerns and suggestions.

“The AECB and OMDC support is instrumental in opening doors for publisher. The support allows (the company) to make more export related trips than we would otherwise but they haven’t kept pace with costs. The funds now represent about 25% of our real costs. However, one sale generally pays for the cost of a major fair. Government support is imperative for starting the process.”

“The AECB is useful, if rather bureaucratic. I like that it is a separate pot of money at arms length from Heritage.”

“(Our company) uses the existing export funding support programs. The gaps are in support for electronic marketing.”

“The AECB export reports about foreign markets are very useful, especially around US libraries and wholesalers and French-language in the US.”

“We do take advantage of AECB and OMDC export grants and find them very helpful although not huge—but every bit counts.”

“We have used AECB funding and we feel they do a good job organizing the fairs. The reporting requirements are a bit over the top.”

“We take advantage of AECB funding. The money is much appreciated and the people are great but I feel that there are political mandate considerations that I’m not sympathetic to. I think basically it should be that if you do good publishing, you get rewarded and that way governments would, in fact, get more bang for their buck without too much interference in the functioning of the publishing houses. I would like to seek broader, more flexible funds with a corporate vs. project focus.”

“AECB helps with attendance at trade show and conferences that help us build institutional sales. The OMDC export program is great. The applications are easy, it’s juried and based on publisher-initiated projects, and the criteria are for measurable outcomes. The amount could be more.”

**Q: How do you see existing government programs for book publishing? Which ones have been the most/least effective in your view? What programs are missing, or what is missing in the existing support programs? Are there gaps in Ontario and/or Federal policies and programs that impact the Ontario book publishing industry? Could you describe the nature of these? What changes/improvement could be made to remedy these gaps?**

Publishers were, once again, very appreciative of the government support they received but did have various comments and suggestions. The industry as a whole would like to see the provincial tax credit program expanded to all authors in a genre.

“Generally we are lucky in the support we get. However, the programs are only as good as the people who work there and some funding bodies don’t have knowledgeable book people. The OMDC has an excellent book officer. The OAC is losing (their long time book officer) and I’m not sure who will replace her. Overall it is a fractured structure with support at all levels – federal, provincial, municipal. I would like to see a more cohesive Canadian content focus. I would like to see more programs where the government makes sure each child gets a Canadian book, for example, when a baby is born, a book each year of school. I would also like to see the tax credit program expanded to all books by an author.”

“BPIDP continues to be good but they said they were based on an industrial model vs. a cultural model and then they eliminated foreign authored books from the eligibility criteria. The AECB is great but not enough money. The OMDC marketing grant is terrific but the tax credit program penalizes success. As an author is just getting to the point of gaining an audience their books are ineligible for the program.”

“BPIDP is hugely important but could work better. It mostly is based on a sales formula but sometimes takes a more cultural slant. It isn’t always consistent but I am very glad it is there. The Canada Council formulas and some assumptions about what sells don’t make any sense. Kids’ books are under funded. There is no relationship between sales and grants and so some publishers with almost no sales get significant grants. I like the predictability of the OMDC export and marketing pots and the fact that they can be used for the ‘tried and true’ as well as more innovative efforts. What I need are resources to actually get someone who can explore and jump into new things. For example I would like help to explore new markets; do a monthly newsletter aimed at our main customers; maintain a Facebook page and other things. ”

“Programs like BPIDP create a barrier to growth through acquisition of other companies because we would lose support after 3 years. The unintended consequence is that a company would tend to look to the US for future acquisitions. On the other hand, I understand the criteria are intended to keep a giant like Quebecor from being able to get a grant.”

“I am happy with the grant programs.”

“The removal of foreign authored books (from the BPIDP program) really hurt (our company). The Canada Council increase was helpful. I would like to see BPIDP increased. At a provincial level, I would like to see the tax credit extended to all Canadian authored books. It wouldn't be expensive. Overall the gaps are in access to capital. I like the Quebec/SODEC model that offers a basket of programs – grants, loans, and interns. Their model provides one organization that can look at the full company and its performance. I think that SODEC has business people with backgrounds in the industry and in financial services that have the ability to make rational, business-like judgments. They can help a company get a line of credit, a term loan and/or business training so the company can deal with their own bank better. The BC model (based on % of BPIDP grant) is admirably simple but it could be risky if the feds cut support.”

“The OMDC funding programs are straight-forward to deal with. The tax credit program was quite bureaucratically time-consuming as is BPIDP although it is a good model in that it supports ‘industry’. Publishers are totally overloaded with work so, if you want to support the industry, don't make it a big bureaucratic hurdle.”

“BPIDP does an excellent job and has a good staff. The Ontario Arts Council doesn't have enough money and the reporting and applying is too complex. The OMDC is very good. (The officer) is excellent. The tax credit program should support all Canadian authored books and should take out the ‘print in Ontario’ requirement.”

“I love BPIDP except it could be tweaked so the money comes in fall when it is more needed. We really found the Supply Chain initiative helpful. It should be on going. The Canada Council's requirement to print in Canada is a real bugbear. We could have run-on (added to the print run) a recent award-winning book with the American publisher and it would have been far more cost efficient but the book would have lost its grant eligibility. It also means that YA books can't be

competitively priced. I really love the OMDC. The fund is easy to apply for and to report on. It is flexible and allows for some very imaginative, innovative programs that have helped us raise our profile. (The book officer) is without equal in bureaucratic circles. The tax credit should be expanded and is a bit of a pain to do. There should be a digital transition fund.”

“We use BPIDP. It’s good and well structured. The problem is that it is extremely time consuming and taxing for small publishers with few human resources. The fact that we have to pay several thousand dollars a year for an accountant to submit our reports is very expensive. The CC criteria can be a bit bizarre. For the OMDC marketing projects, the reporting structure makes them prohibitive for houses with small staffs, especially the ‘tangible results’ for marketing because it is so difficult to measure. The supply chain initiative is good because it’s easy to apply to with BPIDP. Maybe there could be a more general common application to funding bodies. There should be a federal tax credit that harmonizes with the provincial one.”

“Without government programs, we would not be able to function. It is such a tight market that every cut hurts deeply. We could use more money because the dollar (exchange rate) has really hurt our margins. We still sell the same units to the States but revenue is way down. We would lose the Canadian voice without government grants. (In our particular field) we need to publish people from around the world, not just Canadians, in order to develop prestige. For the health of the industry and to be competitive, we need to publish international authors.”

“We need to recognize the importance of supporting both the production and the purchase of domestic cultural materials. We need to bring education to the table.”

“BPIDP is a great instrument and is less bureaucratic than some other funds like the provincial tax credits. It really does help ‘level the playing field’ without attempting to meddle in the publisher’s business. The tax credits are almost as important in terms of dollars as BPIDP. Collectively the grants help the industry price its books competitively with the US. Canada Council is more meddlesome. Its cultural slant, while not an issue for (our company), can be punitive to publishers like (some other Canadian publishers) because foreign-authored titles are ineligible. The OAC aid is miniscule and book publishing is an orphan in their basket as the only ‘industry’ they deal with. OMDC is improving but still has a film/TV bias. I feel they would do better if they had more money. The Partnership Fund emphasis on cross industry collaboration is hard to do, as the businesses

are fundamentally different. There needs to be more money and more flexibility with the emphasis on the company vs. cultural content.”

“We would like to see larger pools of money with multi-year commitments. I would also like to see some set of common forms across the various funders. I really liked the OMDC new strategic direction talks about more funding for technology. I would want any new fund to let the publisher decide how to use the money and really hope it won’t be project based. Publishers are in the business of disseminating content on an on-going basis and so technology support should be on-going, not a one-time thing.”

**Q: From any experience you have had with the practices in other countries, have you seen examples of support in other jurisdictions which could be useful to emulate in Ontario?**

Interviewees frequently cited Quebec’s SODEC model as one worth looking at closely and did speak about a range of international countries with programs that had some value. Comments included:

“SODEC may have things worth emulating.”

“Australia and the Australian Arts Council. They have a ‘visiting international publishers’ program that they run around the same time as their Writer’s Festival. A group of publishers come and pitch their lists to Aussies from across the country. It promotes good, in-depth relationships. Sort of like From Page to Screen but international. It might be a thought to extend From Page to Screen to international producers.”

“Ontario does a good job. Our tax credit program is better than the one in BC.”  
“The Dutch publishing industry seems to receive a lot of support particularly for translation grants to help sell a work to another country.”

“Within Canada, Quebec has more money and broader corporate support as well as support to bookstores that is based on their selling Quebec books. Ireland gives tax breaks to Irish authors.”

“Getting the BC ferries to carry BC books is an interesting new practice. France is doing a lot to promote the export of their books. Australia is doing a lot in marketing. The AECB is doing a Canada-Australia summit at Frankfurt to talk about selling into each other’s markets.”

“New Zealand used to be the ‘bad’ example but they are moving along.”

“Every European country supports their cultural industries in some fashion.”

**Q: What do you consider to be best practices in the book industry in Canada and elsewhere? Which Ontario/Canadian publisher(s) are the best examples of ‘best practices’ and why?**

Respondents gave a range of examples:

“I know some people have been using offshore subcontractors for copyediting and assembly. India is big for that. These kinds of developments have huge implications job-wise. We are getting our books scanned in India.”

“Insomniac. (The owner) is really into using digital means to sell and promote.”

“Acquire a good company from people who want to stay. Pick a profitable company with good bank relations and use credit for the purchase. You can obtain credit based on receivables and inventory but personal guarantees are still required as banks want everything.”

“Everyone has strengths and weaknesses but no one company has it all. It is good when the industry works in partnership on big issues like the library issue.”  
“I like Firefly’s combination of distribution and publishing.”

“In terms of rights, M&S. In terms of lines, ECW which is interesting, diverse and lacks pretentiousness; Coach House which sticks to its knitting and Annick which seems to appear on the BookNet bestseller lists frequently.”

“Best practices are always issues of internal efficiency. McGill-Queen’s has good practices because they have enough personnel to do an efficient marketing job. Best companies in Ontario in terms of presenting themselves are the children’s presses, specifically Kids Can. They have become a brand name with a lot of value for libraries, booksellers and even parents.”

“Multinationals. Harper Collins, for example, is very forward thinking. They are aggressively marketing direct to consumer and adopting and using technology. On the Canadian-owned side, Anansi who has substantially increased its web sales; Insomniac; Kids Can. Douglas & McIntyre’s new president is bringing in new plans. The university presses are doing lots of interesting stuff.”

“In terms of best practices for associations, the Maritimes, Manitoba, BC and Saskatchewan.”

“There is a lot of neat stuff going on in BC. There could be a lot of value in the provincial associations working together to roll out some good coordinated events.”

“Publishers that build a community around themselves do a good job of marketing themselves as a press -- for example, using their websites and hosting events locally and nationally with good writers.”

“The House of Anansi is doing a good job of branding its books and company, both with retailers and consumers.”

“SODEC/FIDEC.”

“Kids books have developed brands around their books and authors. They generally do a better job at cross-platform content and promotion than adult publishers although often it doesn't bring in much.”

**Q: What can the Ontario book industry do to help realize a new growth strategy?**

Responses centred on support for digitization, audience development, and access to capital.

“Ontario and the industry need to find a way to be at the forefront of the digital revolution so that, in a world without borders, we will be at the front of the pack. And, at this state, the investment has to be made with the realization that there are no answers as yet.”

“We need to do more things like the Open Book Toronto website that focuses on books and book events in the GTA. It is a collaborative project funded by the OMDC. I am waiting for a program that will provide funding for trial projects to develop digital content.”

“The key will be to cultivate a wider culture of reading so a big part is valuing culture as culture in order to develop book reading. In Sweden, for instance, over 90% of the people are daily readers and hold library cards.”

“We need to not be in the same place as music companies. We have to figure out the best strategy to avoid that. We need to figure out how to get iTunes

ready. What will be the book model for that and how do we get there? Copyright must be protected online.”

“I would like to see the government mandating the teaching of Canadian content in schools and even facilitating the purchase of Canadian books. We have to start with our children being exposed to and encouraged to read what we produce now.”

“We need to get more books into the libraries.”

“The Ontario industry can’t compete with the multi-nationals head-to-head. We need access to capital to fund acquisitions but it needs to be done in such a way so as to not give rise to an escalating ‘war of the advances’. A possible mechanism might be a rotating royalty advance fund of about one million dollars. Publishers could access it to top up advances and percentage of the book profits would go back to the fund. Tax relief for authors might be good but it only works for authors who actually make money – might be okay as one of a basket of remedies.”

“We need to improve access to capital. There also needs to be support for on-going professional development around technology over and above what is currently offered by the federal government. Growth would be accelerated by the sharing of information and evolving business models amongst members of the industry.”

“We need more emphasis on children. We need an aggressive new commitment to making Canada a nation of readers.”

**Q: Are there any recommendations you would like to see emerge from this study?**

One of the most frequently mentioned recommendations was an expansion of the tax credit program to include all books by eligible authors. There were a variety of other responses as well including creation of a digital fund – a theme that ran through responses to other questions.

“Expand the tax credits.”

“I would like to see an expansion of the tax credits and some sort of help with accessing capital to grow, to compete with the multi-nationals. We could use a program to enable new entrants and established companies to go to the bank with government support and a long term, maybe 20 years, payback.”

“Expand the tax credit program. I would like to see the OMDC take a role on interacting on behalf of the industry with other areas of government like education.”

“Help with access to capital and support for training – perhaps a match with the federal program.”

“More money from the Canada Council.”

“More money for the OMDC. I would like a fund for succession planning, mergers and acquisitions. I would also like to see a streamlining of bureaucratic restraints and multi-year funding.”

“Continued support for the publishing industry at minimum and any increased support would be a good thing. There should be a dialogue once the study is completed in order to make it relevant to the industry.”

“Support for market research.”

“More collaboration in terms of marketing efforts, from booksellers to publishers.”

“Create a new digital transformation fund like the Supply Chain one.”

“The question is how to stimulate love of the written word in society, through schools, libraries, and really working on the young people.”

### **Key Success Factor Attributes**

#### **Q: How effective is the retail sector – physical and electronic – at supporting the Ontario/Canadian book publishing industry?**

In describing the effectiveness of the physical retail market, interviewees used phrases like “horrible and inefficient”, “not good”, “it isn’t”, “terrible”, and “the chain is a big bully”. There are clearly issues with the dominance of the major chain and the ability of smaller and mid sized publishers to access shelf space.

“Big box stores are more accessible in many instances than the chain. Canadian publishers have to have the resources to pay for space to compete with

multinationals for shelf space. Paying for space and profile works but lowers margins.”

“Why did the federal government allow one company to gain a 70% market share?”

“We are in a crisis with (the chain). The implementation of SAP hasn’t worked as promised. It doesn’t accommodate returns with has made a bad situation worse. Now all backlist is considered returnable all the time. SAP is designed to be good at tracking data/inventory but it hasn’t solved the problem of one store in the system returning a title while another is ordering. So, with the cost of co-op, added discounts and returns within 12 weeks, the situation is bad.”

Digital retail is looked on as the growth area. One quote sums it up:

“Books lend themselves to buying online. Developments like Google’s ‘look inside the book’ make the whole experience very easy.”

**Q: Do the local and national media in Ontario adequately support the promotion of Ontario/Canadian books? Radio? TV entertainment shows and television services/programming? Newspaper dailies and local papers? On-line social networks and web portals?**

The general consensus was that traditional book review media was in decline and not terribly supportive of domestic books. Online media coverage is growing and is particularly good for niche markets.

“The coverage is disappointing except for the Globe & Mail. The Star is in decline. Media mostly reviews US books, rarely Canadian but online is taking up some of the slack.”

“Traditional media is ineffective. The circulation of newspapers and magazines in declining with fewer and fewer readers. Online is growing. Author’s sites are good and (our company) will build an author their own site that bounces orders back to (our company). We can see direct results. It is targeted and more efficient. We do blogs for some books.”

“Less good than it has been. It is probably at the lowest point it has been in 20 years. The Globe no longer does features on Canadian authors. The Star is good for features but the book pages aren’t very good. The CBC is discontinuing

Shelagh Rogers. Digital does replace to some extent but hits a limited demographic market.”

“It’s awful. The Globe and Star don’t review enough Canadian books. I’m using more online marketing and it works. The authors like it. We have done a Facebook campaign.”

“There isn’t enough space devoted to children’s books and little recognition. Kid’s books are always placed at the end after adult books.”

“The situation isn’t good. We are suffering from mergers within the industry. If you get a review in one place it goes throughout the affiliated media and that is all you get. CanWest is an example. There are fewer voices and fewer opinions surfacing because of the alignment of the media. Online is helping. Publishers need to expand their activity to find relevant outlets.”

**Q: How successful is the Ontario book industry in selling to foreign markets? Do multinationals contribute to the Ontario book industry?**

Opinions were varied but, in general, the respondents felt Ontario publishers did a fairly good job with their available resources. The Ontario industry does recognize that multinationals add value to the overall ecosystem but that they also create challenges for the domestically owned industry.

“Fairly successful but the foreign markets are becoming ever more difficult. Our industry people have, with long term government support, become as sophisticated as anyone out there in accessing markets but the marketplace is problematic.”

“The industry has been quite successful but has really been hurt by the exchange rate.”

“On the kid’s side, the industry has been very successful; on the adult side not as successful because of the content. It depends on what you are publishing.”

“Not very – Canadian publishers need to be developing products for international markets.”

“Multinationals do add value in that they employ many very strong people in the industry. However, they create a huge imbalance in that they have the resources to offer larger advances than Canadian houses. Maybe there could be tax support for advances or tax relief for creators who work with Canadian houses.”

“The industry needs some help in dealing with multinationals – perhaps tax incentives for authors who publish with the Canadian owned sector.”

“The multinationals drive advances up, often over paying if they want an author. However, high advances are slowing down. They are happy to buy the Canadian rights only, which makes it harder to get world rights from other authors. Otherwise they help.”

**Q: Is training and professional development a key success factor for the industry? Do we adequately address the needs at all levels -- people new to the industry? People in mid-career looking to broaden/deepen their skills? People at a senior level looking to strengthen/up-date business, technical, strategic, marketing skills??**

The general consensus was that there are enough training opportunities at the entry and emerging level but that there need to be more business oriented courses at the mid and senior level.

“Training is under-supported by the publishing houses themselves. They are all lean and don’t have much in terms of resources. We have sent people through the Ryerson program. Centennial has a program that we use and Humber has one. That’s all very junior stuff. We need more on advanced skills like business school programs for innovation, marketing techniques and so one. An education fund would be a good way to make training more available.”

“Yes. Canadians train to death but there is no replacement for practical experience. I think the Gutenberg initiative (an online training program focusing on the use of technology for marketing/sales that is in development) is interesting. I think a forum where people could take the time to exchange and think would be good for the senior level and maybe a technology incubator for more experienced publishers.”

“There’s not a lot out there for mid-career - business training is needed. At entry level there is Centennial, Ryerson, Humber – almost too much.”

“We need more at the mid and senior level. I like the concept of Gutenberg 2.0 (online with a residential component). I have taken an online course and enjoyed it but I like a blend.”

“The industry needs more at the upper levels. There are various non-book business courses but they are pricey. We also need on-going technical training.”

“We don’t adequately address marketing and promotion. We need more across the board sharing on what works and what doesn’t. I would like to have actual case studies shared. We need to know more about sales channels, about where people are shopping and who is picking up rights. I would like to see publisher ‘sharing forums’ at all levels.”

“We could use more concise, to the point courses for mid and senior level people. We need to be able to get in, learn what you need to know and get out. It’s tough to take six months out to take a course.”

“We are missing business training for the senior level.”

“We need to bring the middle level up to the top. Perhaps we need to explore a senior apprentice type model for things like succession where people are brought in and learn on the job. The industry needs to know more about business in general.”

**Q: What are Ontario’s strengths and weaknesses in the various points of the book industry value chain?**

Interviewees felt that the industry was strong at the creative front end and weak on the business end and in the retail marketplace.

“Strengths – creators, design, production and distribution. We are weakest at coming up with new ways of doing business.”

“Our strengths are creating and producing books. Our weaknesses are in selling and distribution. The retail monopoly is a weakness.”

“Strengths are the creators and publishers. The weakness is the retail end.”

“The industry is strong across the board. It’s the marketplace that isn’t.”

**Q: How effective is the book publishing industry in collaborative initiatives?**

With a few exceptions, interviewees felt they did well on collaborating on particular kinds of initiatives.

“The industry is very collaborative and collegial. Look at Open Book Toronto, BookNet and the various cluster fund initiatives.”

“Surprisingly so. The industry is particularly effective in the exchange of ideas. The associations (ACP and OBPO) are effective and collegial.”

“We aren’t all that good at it. The will is there but there is a competitive element although we are very collegial. It is a problem for the ACP in that the old guard thinks there may be one common ground but there may not be. Everyone has different businesses and therefore collective action may not be effective across all the niche markets. The more similar colleagues within a niche are, the more they are in competition.”

“Very effective when it makes sense to be. There aren’t that many places to collaborate on a business level.”

“We are good at lobbying through our associations. The consortium (sale of digital content from several publishers through an aggregator to a library consortium) was a good example of a collaborative initiative and probably as good as it can be particularly as the market becomes ever more niche oriented.”

“The industry does do some really important initiatives in a group particularly through the associations. They do best when not ‘pushed’ into it. They are both competitive and collegial. Some things like digitization work well as a group effort and have the added benefit of providing transferable skills to publishers. A group can equal critical mass and more power.”

**Q: How difficult is it for publishers to access capital to build their business?**

There is general agreement among interviewees that it is very difficult for the industry to access capital. Even profitable companies with proven track records and solid business plans had difficulty.

“Impossible – there are a few ‘angels’ but it is very hard.”

“Very difficult. In any conventional sense, we are not a profitable industry so capital cannot really be traditionally invested. There are ‘angels’ out there who

support the industry for the love of books. Their support is so important and made without an expectation of return in any traditional sense. Governments should try and leverage those kinds of potential investments on the part of individuals. This could be similar to the credit you receive when donating a painting to a museum.”

“Very difficult even if a publisher is profitable. A line of credit is ‘gold’. The Business Development Bank interest rates are too high and they don’t do lines of credit. There needs to be support for succession plans.”

“Not easy.”

“They can’t get capital.”

“That’s a tough one. Lots of small and mid-sized publishers have personal guarantees for their lines of credit. Access is tough. Credit is only given on inventory not rights.”

“We don’t go to the bank for money. (Our genre of publishing) is too niche. We get grants. If we shut down, good authors wouldn’t get published.”

“There is no capital for the industry and banks don’t want to loan to publishers.”

**Q: Does the book publishing industry obtain government support (federal/provincial) as much as other cultural industries – through tax credits, project financing, international marketing, copyright protection and rights remuneration, innovation, etc.**

Most respondents identified the film and television sector as receiving more support but that the book publishing industry was well treated other than that.

“Nope, film and television get far more support in comparison to what they contribute to the economy.”

“Film and television get the lion’s share, particularly through tax credits. I wonder if it would be fairer if there were some sort of formula based on the percentage of the total industry revenue as compared to the total cultural sector revenues.”

“Film gets more.”

“Sort of, with the exception of film and TV which are perceived as sexier and get more money.”

“Film – the industry is better organized, has more resources and presents its case better. It does show that there may be an opportunity in banding together for lobbying, for example, around the purchase of Canadian materials for school libraries and classrooms.”

“There is a screen based bias within the OMDC.”

“No, film and television get more and books are the next largest.”

**Q: What kinds of support do other industries get that might be useful to the book industry?**

Interviewees cited the example of the farming industry and the Farm Credit Canada fund; the film and television industry sectors broader access to the tax credit program; the mining industry (a tax credit for various development phases of that industry); and the Quebec industry and SODEC.

**Q: Some authors/creators want to hold on to the rights to exploit their works in digital format. How are you (and others in the industry) dealing with this?**

It depends on the stature of the author but most of the small and mid-sized Ontario owned sector is insisting on digital rights.

“We want and generally get all rights. I think the retention of digital rights by the author is often agent driven but (our company) doesn’t do many ‘agent-ed’ deals.”

“(Our company) won’t take on an author unless they grant rights to digital. Generally once I outline all that we will do to exploit those rights, including creating a website for the author, they are happy. We need the rights in order to be able to effectively market the book.”

“We need rights in digital. Publishers need some clarification around rights returning to the author and what out-of-print means in a digital context.”

## Agents

### **Q: How is the role of the agent changing in the digital realm?**

“The industry is getting harder with all the consolidation. There are fewer driving engines both in the multinationals and the Canadian owned sector. I find the whole digital realm intriguing. I wonder if it will lead to a reversal of the traditional model with lots of marginal work being published online and only the best of the best getting to be published as a hard-cover book.”

### **Q: What new business models or deals have developed between agents and their creator clients? Between agents and publishers on behalf of their clients?**

“We are assuming that the ebook rights are primary rights that will remain with the publisher but not interactive. We haven’t seen any significant income from electronic books as yet.”

## Questions for interviewees outside the industry

### **Q: What in your experience has potential relevance to the book publishing industry?**

“I really have respect for what Export Development Canada (EDC) is doing. I find the personnel realistic and knowledgeable. They understand SMEs (small and mid-sized enterprises) and actually help. They are good at developing information packages on different markets. Maybe the OMDC could do more market research that would help clients access markets. I find that most Canadian SMEs don’t do much business internationally. They are afraid of the paperwork and the restrictions. EDC will actually walk companies through the process. They maintain a database of information on Canadian companies that is really impressive.

I would like to see more cooperation with other centres and other industries. The publishing industry needs to get various other departments like DFAIT, Immigration) on board. Why not use Canadian cultural content (books, films, magazines, music) in teaching English as a second language.

I feel the industry needs to be better at marketing and needs to embrace direct marketing like Harlequin does. Need to do more research, be able to profile their readers, get past simple demographics to things like ‘mood states’. For example,

Harlequin finds it does appeal even to professional women who sometimes just want to 'break away' and read a romance.

Generally Canadians are very good at quality and innovation but they are appalling bad at commercializing products. They don't seem to understand they need to spend equally on the creation of a product and on the marketing of the product.

Perhaps the OMDC could embrace a coaching model like old BDC model. The BDC used to have a relationship with a company that hired retired and other senior executives to coach individuals who approached the bank. Money was contingent on getting input

Also funders need to realize that it takes time to get into a new market – 3-5 years. It takes awhile to build up traction”.

**Q: Are there 'best practices' in your area of business that might be applicable to the book publishing industry? Are there innovative financial models that might be transferable? Business models? Training programs?**

“It is important to recognize that the markets are capable of generating more funding than any government program or tax incentive – if there is a likelihood of a decent ROI. Job creation as an objective is becoming more expensive for governments so they should concentrate on businesses that can achieve growth on their own merits. So foreign markets are much more important in unlocking more revenues that than generate economies of scale and hence more capital for the companies in the industry. Thus, export markets are key. This means that IP-based industries have to be geared to international markets, more frequently, more blatantly and they have to be better marketed. Obviously there are cultural implications, but successful international projects can improve the health of the business to enable the development of projects that are more Canadian in focus. There is a pitch to be made to the banks – that credit is only a small part of the sector's business. The deposit side of the business in the creative industries is more important to banks. The more that facts can be presented to the banks about the overall business contribution, the more attention they will pay to the industry.”

“Social networks like Facebook can work to open up books to new audiences. It works bet for non-fiction like travel guides. There are tools for creating open source software to allow creation of assets in 3D. Characters, in their more

prosaic forms, can be translated into programmable behaviour. The character can then be engaged with questions.

“There is the example of the construction industries in BC. They recognized that the industry was made up largely of SMEs that were trying to pitch for larger projects internationally but not capable of competing. Government set up a consortium of construction skills to allow a group pitch. Anecdotally it has been quite successful. Shows the success of government acting as an ‘enabler’ rather than a ‘doer’.”

“The British bring the key elements together. I have seen them in action all over the globe including China and Japan. They integrate cultural activities with commercial ones. For example they hold ‘British Weeks’ that feature both the commercial and the cultural to give a broad picture of Britain’s accomplishments. Plus they do lots of ‘little’ things like readings/events/mini British Weeks. They are very good at joint ventures. For example, in Japan they partnered with major department stores (in Japan many department stores have art galleries on their top floors). They featured British commercial and cultural wares. They tied in with local manufacturers and did a big tour that featured British goods and cultural products. The Council is well funded and approaches it strategically with the rational that it promotes tourism as well as interest in specific goods. The key when resources are limited is to make the best use of all existing sources of funds and focus. Might also make the link that creativity is the wellspring of change/innovation in both cultural and commercial activities. What about having one major Toronto event that showcased/celebrated all things ‘Ontarian’ rather than have a separate cultural event like Luminato?”

Then there is the Japan Foundation, which is part of their external affairs. Key sponsor is the royal family in Japan and they have active say in how it works. The goal is more cultural, who they are as a people. It was set up in the late 70’s/early 80’s in an effort to encourage the world to better understand the depth and breadth of Japanese culture (vs. the post war stereotype). But defines ‘culture’ very broadly to include social, anthropological, architecture, etc. They want to promote appreciation, acceptance of things Japanese. Gets rid of discipline silos. In addition to events the Foundation has physical centres (there is one in Toronto at 150 Bloor St 2<sup>nd</sup> Floor – has a library, publications and space for events. Toronto got one because one of the Japanese princes went to school at Queens.) The Foundation gives research grants to global scholars doing research on anything relating to Japan.

I feel that as we go global, people want to know more about the country – nature, visual arts, and native peoples. Japanese and Chinese are fascinated by Canadian history, particularly as it relates to their own people who have immigrated here.”

**Q: Are there government support programs in your business area that might be applicable to the book publishing industry?**

“There have been loan guarantees in the past for the cultural sector. However, they foundered on the lack of knowledge about creative industries at the retail level of banking. As experience develops about the 'bankability' of digital sales or licenses, maybe there is a possibility that the banks would accept receivable for credit, which they don't for sale to booksellers because of the returns policies.”

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