COMMUNICATION IN PRINT:
The Current State of Canada's Book and Magazine Industries

By Rowland Lorimer

THERE IS A GREAT DEAL TO CELEBRATE IN CANADIAN WRITING AND PUBLISHING. THE CANADIAN LITERARY COMMUNITY HAS NEVER BEEN THIS VIBRANT, NATIONALLY OR INTERNATIONALLY. ALMOST MONTHLY, ANOTHER EXCITING WRITER EMERGES FROM THE SEEMING INEXHAUSTIBLE SUPPLY OF INSIGHTFUL AND SKILLED AUTHORS WHO ALMOST IMMEDIATELY ARE EMBRACED BY CANADIAN-OWNED AND CANADIAN-BASED PUBLISHERS, CANADIAN READERS, AND FOREIGN PUBLISHERS. RIGHTS TO PUBLISH ESTABLISHED AUTHORS IN OTHER LANGUAGES ARE SNAPPED UP, AS ARE MOVIE RIGHTS. IN THE MAGAZINE INDUSTRY, EACH YEAR, ALONGSIDE ESTABLISHED SUCCESSES AND INVIGORATING RE-LAUNCHES, NEW AND EXCITING MAGAZINE TITLES EMERGE AND THEIR STAFF FIND INVENTIVE WAYS OF REACHING AN AUDIENCE. OUTSIDE CANADA, CANADIANS SUCH AS BONNIE FULLER AND TYLER BRULÉ MAKE THEIR MARK ON *GLAMOUR* AND *WALLPAPER*.

These are exciting times in the publishing and writing world. But they are also tense times. The reason for the tension is that both sectors are living in a highly competitive environment and in these days of media convergence and globalization, as well as aggressive industrial reorganization, almost any industry can be drastically transformed in a matter of a few years. Change is afoot in both areas of publishing.

Take the world of books as a beginning. For as long as there have been bookstores in Canada, bookselling has been a local affair. Many times, the love and respect that various people had for books impelled them to nurture that love and to share it with their community by setting up bookstores. As they added knowledge of their customers to their, sometimes encyclopedic, knowledge of books, the wise bookseller could be counted on to suggest a title suited to the taste of his or her customer. Of course, other bookstores more oriented to simply stocking and selling books existed too. Jack Cole ran one such store on Yonge St. in Toronto. In the 1970's Mr. Cole did Canadians a great favour by building a national chain of bookstores in Canada's emerging suburban malls. Other chains, such as Smithbooks and Classics, were also established. They brought more readers to books, some of whom felt slightly uncomfortable in the shop of a highly literate bookseller.

Perhaps it was Canada's vastness, perhaps too much competition, or perhaps the wide ranging tastes of Canadian readers. Whatever the factors, after some initial success in the marketplace these bookstore chains ran into difficulty generating normal levels of profit. Classics closed. Smithbooks was sold to a non-bookstore conglomerate based in Winnipeg (Federated Industries). Coles loped along with a mix of book and non-book items. The independent booksellers, at first fearful of the chains, for the most part, managed to survive in their non-mall shops. Retail bookselling was split about 50/50 between the chains and the independents.

Then came Larry Stevenson with his MBA-approach, his love of the big box, and his combative style based, it appeared, on his training in the armed forces. Stevenson saw in bookstores what Max Aitken (Lord Beaverbrook) saw in cement – an unorganized industry that could be transformed through the creation of a clearly dominant position. Stevenson's first success was to persuade Canada's Competition Bureau that he should be allowed to purchase both Coles and Smithbooks and to combine them into a single national chain. Given the uncertain future of both enterprises, and the desire of both to sell, Stevenson did not meet a great deal of resistance from either the bureaucrats or the publishing industry. With this approval in hand, a plan to build a set of big box bookstores to be called Chapters, and by signing up the influential former premier of Ontario, David Peterson, as Chairman of the Board, Stevenson was able to attract public investment on what seemed like a sure-fire way of making money. He attracted investment based on a plan to bring a wide range of books at low prices to the consumer by taking advantage of the economies of scale of a national chain. The icing on the cake was the big box concept that created the illusion if not the reality of a sufficiently large enough store to present unlimited selection.

Once granted approximately 50 percent of the market, at least for English Canada, Stevenson set out increasing market share. His tactics were two-fold. The first was discounts: thirty percent off bestsellers combined with a wide selection of bargain books, known to the industry as remainders. In addition, Chapters republished titles under its own imprint (Prospero Books) to create yet another type of bargain. Stevenson's other tactic was to be an in-your-face competitor, quite an unusual stance for the genteel world of bookselling. Consistently he chose locations close-by already established and usually successful and respected bookstores, offering a greater range of titles, lower prices, and the freedom to browse to one's heart's content. Stevenson also took advantage of industry practices that had been put into place as aids to getting books to readers. Browsed items were returned to the publisher for credit. Bills were paid no earlier than necessary, a minimum of 90 days which stretched to 120 days and beyond. Publishers found themselves having to purchase prominent display space (customarily, books that were selling well and books that were important for their content were given privileged high-selling space). Faced with a seemingly inefficient distribution system, Stevenson established his own wholesaler, Pegasus, in an effort to obtain a few more percentage points off the price of the book. Publishers who complained about the business practices of Chapters found their orders cut back, although few were willing to either complain or admit to what appeared to be retaliatory action. Other companies, notably companies operated by publishers who were designated industry spokespeople, were treated well.

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Many independent booksellers went out of business. By 2000, hardly any general independent bookstores existed in Toronto. Some left without a fight. Others, such as Duthie Books in Vancouver, fought and lost, downsizing from 10 stores to one store. One private study suggested that in the large cities, Chapters accounted for up to 70 percent of bookstore sales. Other booksellers who survived were distant enough from a Chapters store not to have to compete directly. Some, such as McNally

Robinson of Winnipeg and Bolem Books of Victoria, BC, found deep pockets and built themselves into big box equivalents to Chapters stores. Still others such as Different Drummer of Hamilton, the first store to experience hard-by competition from a Chapters store, were inventive and strong competitors and beat back the competition by Chapters.

By the time the Standing Committee on Canadian Heritage looked into the book market, in late February of 2000, Stevenson's Chapters had such a clearly commanding position that it was effectively a monopsony: a single buyer with sufficient power to put any publisher out of business should it wish to do so. And while the Committee saw fit not to recommend the break-up of Chapters, possibly because its financial health was already precarious, it was clear that the structure of book retailing in the country was threatening the existence of the Canadian publishing industry. Moreover, it was also clear that public subsidies to publishers were effectively flowing through the hands of publishers into the hands of the well paid executives of Chapters by virtue of its demands on its suppliers. In an industry in which five percent of revenue is seen as a healthy profit, and where the average wage is less than $40,000, it was quite a shock to learn of the millions of dollars that were paid out to senior Chapters personnel.

While one might think it counterproductive to destroy one's suppliers, for Chapters it was not. The chain could have easily obtained 'product' in the form of mainstream titles published by foreign conglomerates in all genres, except for one shortcoming, a profound lack of Canadian content. Moreover, as the single, in-place national chain, were Canadian publishing to collapse, the value of Chapters in an integration with, for example, the US chain Barnes and Noble, would have been considerable, as would have the rewards for Larry Stevenson were he to have sold his holdings. I use Barnes and Noble as an example because Stevenson hired Barnes and Noble executives to help him get off the ground and the design and organization of Chapters looked to be a direct application of the design and operation of Barnes and Noble in the US. Had Canadian publishing collapsed, so Canadian writing would have gone with it. And the decimation or disappearance of both of those would have knocked a very large hole in Canada's literary heritage.

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In 2001, Stevenson lost control of Chapters and the ownership of book retailing was concentrated even further. He walked away with several million in his pocket. Heather Reisman and her very successful and wealthy corporate takeover-and-turnaround-artist husband, Gerald Swartz, purchased Chapters in a hostile takeover. Reisman is the founder of Indigo Books (after unsuccessfully trying to serve as a conduit for the establishment of the US book chain, Borders, in Canada). She also served a term as President of Cott, the generic soft drink company. Again, the lack of choice for all involved persuaded the Competition Bureau to approve the deal. The condition it put on the purchase – that a number of stores be put up for sale – was a vain attempt not to let ownership concentration increase beyond the point it had reached. After trying, for some time, to sell a number of stores identified by the Competition Bureau, in an attempt to maintain competition, no serious buyers emerged and Reisman was left free to rationalize her chain as she saw fit. Working with the advice of the publishers, the Competition Bureau found a way to establish a rudimentary regulatory framework for Indigo/Chapters to discourage the firm from exploiting its monopsonistic position. So far, it appears to be working. Perhaps with Reisman as the monopsonist – she and her husband are probably worth more than the entire Canadian-owned publishing sector and are presumably not out to destroy Canadian writing and publishing, but to act more as cultural patrons and contribute ideas and knowledge – Canadian publishing will at least survive, if not thrive.

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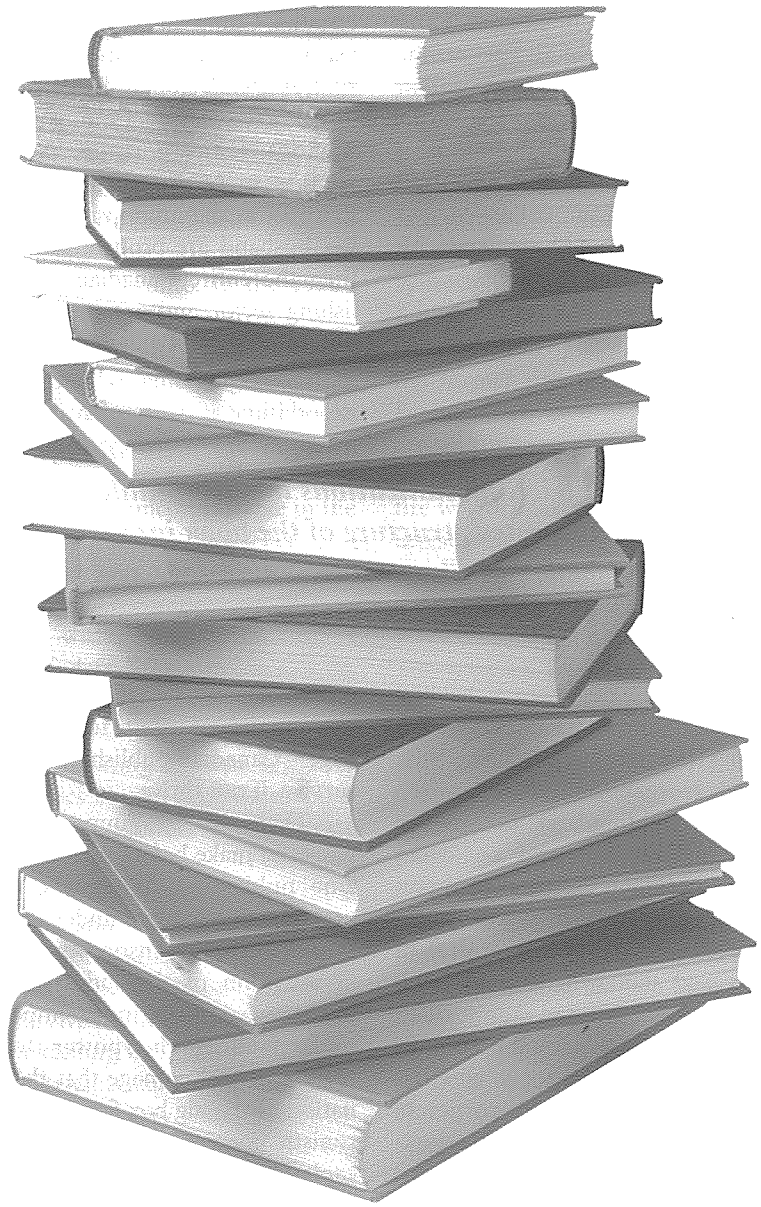
There are two important closing points to make before turning to magazine publishing. While the business practices of Chapters under the leadership of Larry Stevenson were the centre of attention of the industry and the media, what seems most important is understanding the power to create major cultural damage that the combination of the big box format, a monopsonistic position, and a healthy pool of capital represents. Big box stores specialize in known mainstream products. They do nothing for the realm of ideas,

the development of knowledge, and literature. In the book world, they thrive on celebrity, established authors, established genres, and useful titles (cookbooks and guide books). Big box bookstores can generously carry copies of every living Canadian writer. But for the consumer to find writers and books that wold appeal to them, promising new writers, explorations of brand new ideas, and challenging perspectives without the help of informed staff, or without a commitment to an organization that leads people to such titles, is next to impossible. Monopsony means that small decisions are large decisions. One decision of a young buyer fresh out of university who has been immersed in the basics of title categories and reading markets who "cannot see" how a title will work, may mean that a title disappears forever. This is hardly a good model for freedom of expression and the encouragement of plurality. Ready access to capital in an industry of low profit margins translates into excessive vulnerability of other players and an inability to compete.

The other significant closing point to make is that in building Chapters, Larry Stevenson increased the size of the pipeline that took Canadian books to consumers. All those big boxes needed to be filled with books from which readers could select. Like Nortel and Cisco Systems, Chapters overbuilt the infrastructure. But while in telecommunications the overbuilders suffered, because of the antiquated structure of the book industry it was and is the publishers, not Chapters, who suffered. Nothing stood in the way of Chapters keeping books for 90 days, returning them to the publisher, and requesting a fresh shipment, thus forever putting off paying for stock until it was sold. The publishers had no choice but to supply the retailer. To do otherwise would lose them sales. To supply the market, publishers needed more copies of books. Thus, they increased their print runs. But when the dust settled, the size of the market had not increased significantly yet the publishers had been printing greater numbers of copies of each title. In short, printing costs were rising, display costs were being implemented, and discounts to Chapters were increasing, while sales were remaining fairly constant.



In the spring and summer of 2001 this all came to a head. Chapters returned massive numbers of copies to the publishers and their distributors. And again, facing the clout of Chapters, publishers were effectively powerless even as Chapters failed to abide by the conditions of sale set on returns (their condition, the time period that had elapsed since they had been initially shipped, and so on). This backflow is still working itself through the industry more than one year later. It is causing Heather Reisman some headaches in maintaining Chapters profitability as she tries to shut down surplus and under-performing stores. As this article was being written, a major distributor for Canadian publishers, General Distribution Services (GDS), the chosen distributor for the majority of small, especially small literary, publishers, filed for bankruptcy protection, owing over $40 million to its creditors including the many publishers it served. The company had staved off this move about 6 months earlier by obtaining a loan guarantee from the federal government. In 2001, granting agencies helped the publishers

by moving forward the distribution of grants. As GDS collapses, it will take some publishers with it, even if the government steps in to assist. Already, ECW Press, which publishes about 40 books per year with annual sales of approximately $2.5 million has put itself up for sale. And what destabilizes publishers cuts off opportunities for Canadian authors and Canadian readers.

MAGAZINES

The vulnerability of Canadian writing and publishing to business dynamics is not confined to the book industry. Canadian magazines have their own trials that are brought about by the aggressiveness of US media conglomerates with the inexorable march of free trade ideology.

Since 1965, the Canadian magazine industry has grown on the foundation of two policies. One is found in Section 19 of the Income Tax Act. This section of the act allows businesses to deduct advertising aimed at the Canadian market as a business expense only when the advertising vehicle is owned and controlled by Canadians. The actual level of ownership used to be 75 percent. Now it is 51 percent. This rule has made it necessary for foreign-owned media such as radio stations, television stations, newspapers and magazines to charge about half the normal advertising rate to compete with their Canadian competitors. A second mechanism, Customs Tariff 9958, prevented the importation of magazines in which US-oriented ads had been stripped out and replaced with Canadian ads. Tariff 9958 allowed for magazines to carry up to five percent of ads directed at Canadians.

These two policies worked well until 1993, when Time Warner obtained a ruling from Canada Customs that it could beam its editorial content by satellite to a printing plant in Canada, sell ads for a "Canadian edition" of its magazine, and technically not be a split run. Time Warner was still subject to the provisions of Section 19 of the Income Tax Act, but at least it could re-use its editorial content. The clearly unhappy Canadian magazine industry demanded an inquiry and got one in the form of the Task Force on the Magazine Industry, set up in 1993 and chaired by Patrick O'Callahan. After reviewing the industry, the task force recommended that an 80-per-cent excise be placed on advertising space sold by foreign magazines to advertisers who were directing their advertising to Canadian audiences. The government looked favourably on this and, ill-advisedly, brought forward Bill C–103, to apply the 80-per-cent excise tax on all foreign publications.

In 1996, the US challenged this legislation, magazine postal subsidies, and Tariff Code 9958's provision against the importation of split-runs within the World Trade Organization. The WTO, both initially and after appeal, ruled in favour of the US. Determined to protect Canadian magazines, the Canadian government responded with alternative measures. In place of postal subsidies, the Department of Canadian Heritage now provides postal grants to qualifying Canadian-owned and -controlled magazines. Secondly, in 1998 the government brought forward Bill C–55, which became the Foreign Publishers Advertising Services Act (passed into law in 1999) and would allow only Canadian magazines to provide advertising space to those seeking to reach Canadian consumers.

The reaction of the US to Bill C–55 was immediate. Knowing that they were unlikely to win if they protested Bill C–55 within WTO, the US lobbied hard and, when that failed, threatened massive retaliation, far beyond the financial restriction that US magazine firms would have to live with; in short, a trade war. Though Bill C–55 cleared the House of Commons in March 1999 and went on to the Senate for consideration, on 26 May, 1999, Trade Minister Sergio Marchi and Heritage Minister Sheila Copps announced that a bargain had been struck. The deal was this: US magazines now have the right to create and sell split runs in Canada. These split runs are allowed to have 18 per cent of the their ad space devoted to advertising directed solely at Canadians (phased in over three years). Should US magazine owners want to increase their access to Canadian advertisers, then they would be required to get permission from the Department of Canadian Heritage, set up an office in Canada, and increase their Canadian editorial content (supposedly to at least 50 per cent). In contrast with the past, Canadian advertisers will now be able to deduct their advertising costs in split-runs of any magazine as business expenses.

As the Canadian and US economies integrate increasingly, and as the very critical advertising industry organizes continentally and bases itself in New York, split-run magazines become just one manifestation of the competitive advantage enjoyed by US businesses that, on the foundation of a large and solid home market, can expand into Canada.

What did the Canadian magazine industry get in this deal? Ministers Marchi and Copps claimed that it represented a victory for Canada: they had achieved recognition from the US of Canada's 'right in trade to protect our culture'. The fact that this is exactly what the cultural exemption in NAFTA was supposed to do was not mentioned. The ministers, in December, 1999, also set up the Canada Magazine Fund with an annual budget of $50-million to assist the Canadian magazine industry with their anticipated loss of $98 million per year in ad revenue (Canadian Magazine Publishing Industry, various press releases).

The predicted inundation of split runs into Canada has not materialized, as some industry members, such as the retired President of Reader's Digest Canada, Ralph Hancox. predicted they would not (on the basis that the economies of split runs don't recom-

mend themselves to many magazines). After nearly three years, a few magazines are exploring the possibilities, but the issue does not end there.

As the Canadian and US economies integrate increasingly, and as the very critical advertising industry organizes continentally and bases itself in New York, split-run magazines become just one manifestation of the competitive advantage enjoyed by US businesses that, on the foundation of a large and solid home market, can expand into Canada. Large businesses such as automobile manufacturers, electronics manufacturers, liquor distillers, the tobacco industry, the clothing industry, appliances, and leisure goods and services industries purchase access to audiences that are likely purchasers of the goods and services they sell. In the same way that they will sign with an advertising agency that can serve their North American, if not world-wide needs (likely based in New York), so the agency they sign with will place ads in publications it knows (that are also, probably, based in New York). In such an environment, magazines such as *Maclean's*, *Canadian Geographic*, *Chatelaine*, *Flare*, *Saturday Night*, *Elm Street*, and *R.O.B. Magazine* are all small potatoes. Reaching further, to the small communities of interest that are served by Canada's 2000 or so small magazines, is too expensive to be bothered with.

In short, while the magazine industry is not under immediate threat by a great number of split runs, it will, almost certainly, be challenged over the longer term by the integration of the US and Canadian economies, the advertising sector, the likely North American organization of distribution of titles to newsstands, and the capture of the advertising business of transnational firms by transnational magazine companies.

Concern over the gutting of cultural policy by international trading rules extends beyond books and magazines into all cultural sectors.

The international trade issue for the book sector is the possible collapse of the territorial-based intellectual property exploitation practices of the book trade. In overview, these involve the buying and selling of territorial, language-based, and otherwise divided copyright or exclusive distribution rights among firms from country to country. The position of Canadian firms is bolstered by a federal government stricture (the Baie Comeau Agreement) against foreign acquisition of book businesses including publishers, wholesalers, distribution agencies, and bookstores. The foundation of distribution which, in the past five to ten years, has been expanded by Canadian publishers into aggressive buying and selling of rights, has contributed significantly to the ability of firms to develop and publish Canadian authors and their works. Were US firms, who themselves acquire rights from British and other overseas publishers, to insist on serving the Canadian market from the US (by refusing to sell Canadian territorial copyright {which many already do to some extent} or Canadian distribution rights) then a certain amount of wind would be let out of the sails of the Canadian publishing industry as a financially viable enterprise.

Concern over the gutting of cultural policy by international trading rules extends beyond books and magazines into all cultural sectors. At the behest of the Department of Canadian Heritage and the Department of Foreign Affairs and International Trade, a group of cultural industry representatives called the Cultural Industries Sectoral Advisory Group on International Trade (SAGIT) met to discuss and develop an overall cultural strategy document. One result was a 1999 report entitled Canadian Culture in a Global World: New Strategies for Culture and Trade (see www.infoexport.gc.ca/trade-culture). (More recently, in 2001 and 2002, a person active for many years in culture has been hired and is currently drafting a cultural policy for Canada.) The SAGIT report brings forward two main recommendations. The first is for the government to continue to use the strategy of exempting culture in international trade negotiations. This is really their fallback position in case their second, new, and more radical recommendation fails. That second recommendation is to negotiate 'a new international instrument that would specifically address cultural diversity, and acknowledge the legitimate role of domestic cultural policies in ensuring cultural diversity.' Since 1999, the Heritage minister, Sheila Copps, has been attempting to build international momentum for such an initiative. Whether the international community will receive this policy initiative with sufficient favour to make it an effective initiative has yet to be seen. Certainly, the US will argue that it opens the door to government control as well as to interference by governments in the marketplace.

The heartening element in looking at the Canadian book and magazine industries is that, in spite of these potential hazardous shoals, both sectors appear to be navigating full steam ahead. Canadian book authors, especially authors of fiction, have a commanding presence on the national and world stages. The 2000 magazine titles serve every taste and community and while certain titles lack lustre, many do not. In a related area, the online publishing of scholarly journals, Canada is a leading player in the provision of free online access to scientific content and, within a year or two, an arrangement may be in place where all Canadian social science and humanities journals may be freely available online, at least to Canadians.

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