PUBLISHING BY THE NUMBERS

ABSTRACT

Despite its relatively small size and its low profitability, the book industry in Canada is alive and kicking, due in part to a group of particularly business-savvy publishers, and extremely talented writers. Those in the business of writing, making, and selling books, then, can only be in it out of sheer commitment and passion. The author describes some of the strategies used by the book industry to remain healthy in a difficult market and praises the fact that if the business of books isn't financially profitable, it nonetheless brings our country, as well as others where we export our literature, incredible cultural wealth.

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In this essay, I would like to engage with the relation between a particular kind of cultural activity, namely book publishing, and some of the financial and market factors that explain the defining characteristic of the business of book publishing – low profitability. I first intend to talk in general terms about book publishing as an activity and about Canadian book publishing specifically. Then, I will attempt to explain why Canadian publishing combines mediocre economic performance with such stunning cultural success, and whether anything can, or should, be done about this.

Let me open by saying that book publishing in Canada today does not make business sense. There is, in my view, no business model that can be expected to provide a reasonable rate of return to an entrepreneur attempting to publish adult Canadian trade books in Canada. What, then, motivates them to do it? I have spent most of my publishing career in academic publishing, so it seems appropriate to quote from the Italian Marxist philosopher Antonio Gramsci. Although he was not specifically speaking about publishing books in Canada, Gramsci's phrase "Pessimism of the intellect, optimism of the will" describes perfectly, in my view, the psychology of the successful publisher. In order to be successful in this activity, publishers need to combine the natural emotional optimism that accompanies any new enterprise with the intellectual pessimism that reminds one that publishing is a difficult activity too often yielding a low rate of success. Publishing successfully is like baseball. Only about three of ten publishing projects are successful – a .300 batting average. In baseball, this is good enough to get into the Hall of Fame.

This low rate of success in Canada is exacerbated by other factors, which make Canadian book publishing an industry that suffers from poor or no profits. By Canadian publishing, I mean the Canadian-owned trade book sector. The profits of this sector are poor. After grants, the average publisher earns about 2-3% net profit; on net sales of $1,000,000, we make a profit of $20,000, or $30,000 before tax. Yet, we are blessed as an industry with an astonishingly high number of intelligent, entrepreneurial, publishers – I know many of them very well, and they could be successful business people in more lucrative industries.

It's important to note that book publishing in general is not a particularly profitable business. Canadian publishers are not the only ones who make little money. In fact, few publishers around the world are profitable on book sales alone. Large payments for film, paperback and other subsidiary rights are considerable factors in delivering the bottom line to the Random Houses of this world.

The general activity of book publishing, unlike many industries, combines two unfortunate characteristics: low consumer interest combined with a very high unit cost of manufacture and marketing. It has been some time since I have seen a study of consumer book purchase, but I know that fewer than 10% of the general population will admit to buying a book over the past year.

Small markets are certainly sustainable for certain kinds of industries. Book publishing revenues in Canada are about the same as those for the ball bearing industry. But once you have a good ball bearing, I assume that you can manufacture it again and again, and sell it to the same few companies. But when you combine a small market with very high unit costs – every book is an entirely new product, and must be marketed separately – you have a different set of problems. There is little room for effective market research because of the uniqueness of each product. In fact, the market research performed in this business is usually the first print run.

Publishing general interest books in Canada has other items of interest which make our finances difficult. Our market is very small, and our prices are too low. In terms of market share, Canadian publishers perform at least as well and possibly better, in relative terms, than their counterparts in other countries. In the field I know best, scholarly publishing, our sales per title for Canadian academic books in our domestic market are about sixty percent of sales of American scholarly publishers, which is a remarkably high percentage given the relative size of the markets.

Sales of books published by Canadian-owned publishers comprise about 25% of book sales in Canada. This is a huge percentage – higher, I would think, than any other cultural industry.

But our market is so small that it is surprising, as well as very gratifying, that we have a domestic publishing industry at all. Canada has about 20 million potential English-speaking adult readers. The United States has 220 million, a market size about 11 times larger than ours. The effect of our small market on domestic sales is dramatic and important for understanding our industry. For example, last year, the University of Toronto Press published an important work of Canadian popular narrative history, which is expected to sell, in its first two years, about 5,500 copies. This book will sell almost entirely in Canada – there is no market in the United States for works of Canadian history.

This is one of the two nubs of the matter. Cookbooks and books about golf and puppies have universal appeal. Books specifically about Canadian subjects do not. Therefore, export sales of Canadian books can never be more than a small portion of our revenue. Like many Canadians, some book publishers and politicians regard export as the saviour of our industry. Export sales are fine things, of course, particularly to the U.S. It makes us, as Canadians, feel good to sell books in the United States. We feel that we've finally made it to the big time, that we are being taken seriously. A few years ago, the story that Margaret Atwood's latest novel had received a mediocre review in the New York Times received more coverage in the Globe and Mail than 90% of the books published in this country in that year. But I digress. Sales of our own books in our own market is where our industry will live or die. Which brings me back to the 5,500-copy work of non-fiction.

In relative terms, this is the equivalent of a sale of 60,000 copies in the United States. What does this mean in terms of relative cost? A first printing in Canada of 5,000 copies of a paperback of, say 350 pages, will carry a unit cost to the publisher, in manufacturing alone (not including overhead) of about $8. A printing of 60,000 copies would drop that unit cost to about $5.

It has been a standard rule of thumb for publishers to price their books at about six times the manufacturing costs. Using that standard multiplier, our history title should be priced at $48. The American book would be priced at $30. That would be fine – the differential pricing would mean that both American and Canadian publishers could generate enough margin to cover their costs and give their companies some little profit. Canadians would pay more for books, just as the Germans, the Dutch, and the English. But what actually happens is interesting, and absolutely key to understanding our industry. Because of our proximity to the United States and our free border, we price our book at $30 as well. Canadian books, sitting on the shelves of retail bookstores in Canada, cannot carry retail prices which are out of line with the American competition. In other words, the cost of production of English-Canadian books is too high in relation to their retail price (please note that I have not factored exchange into account, since it doesn't effect the argument).

Canadians get a world class domestic publishing industry, delivering Canadian stories, both fiction and non-fiction, at bargain basement prices. If one travels to Australia or Germany and looks at the prices of domestic books, one will see that they are much higher than the equivalent Canadian price.

The result of this pricing anomaly is simple. Canadians get a world class domestic publishing industry, delivering Canadian stories, both fiction and non-fiction, at bargain basement prices. If one travels to Australia or Germany and looks at the prices of domestic books, one will see that they are much higher than the equivalent Canadian price. Publishers in these countries can use the normal business model to price their books – they do not have to contend with the artificial constraint of low-priced American imports.

The apparent "solution" to Canadian publishers' financial problems would be to increase the price of domestic books significantly. But we can't, because of the free flow of books across our border – a flow that has always been supported by Canadian publishers. We agree that books should not be the subject of tariffs and restrictions. I remember when the idea of limiting the import of books and placing quotas for Canadian books in bookstores was seriously debated. Publishers themselves were the most vocal opponents of such measures.

So, given these difficulties, how do we even reach marginal levels of profitability? In many cases, the difference is the support we received from agencies such as the Book Publishing Industry Development Program, the Canada Council, and others. These grants do not make Canadian publishers rich. Usually, they make them turn a slight profit. But they do enable publishers to produce books about Canada at competitive prices. A few years ago, after reading another editorial about book publishers feeding at the public trough, I realized that a more sensible way to think about these grants are as consumer subsidies – subsidies to the Canadian reader – a subsidy that drives the price of books below their "true" price. This small

amount, to paraphrase Micawber, can make the difference between misery and happiness – or make the difference between having a domestic publishing industry, and relying on the local offices of international publishing companies to publish Canadian stories.

And the Canadian government does rather well out of all this. Our industry, through book sales, collects about $105 million annually in GST. The total value of federal subsidies for books in Canada is slightly less than one- half that. So, Canadian readers pay the federal government $105 million in taxes on the purchase of books, and the Canadian government invests half of that in the publishing industry. As a result, book prices are kept artificially low. Publishing grants act as a subsidy to the Canadian reader. This is a happy balance, I submit, between public policy and commercial need.

We do not publish more books so that we can get larger government grants. Grants are earned, in large part, because of publishers' excellence and their sales program. The motivation of publishers across this country is to produce good books – not go bankrupt – and have some fun doing so.

In fact, ours is one of the most successful domestic publishing industries in the world and is the greatest success story of any Canadian cultural industry. The Canadian-owned sector has between 25% and 30% of total sales revenues, which is far more than, for example, the share of box office receipts collected by Canadian films. The litany of awards won by Canadian authors is too long to go into. Our proximity to the U.S. gives us access to a wonderful ancillary market for some of our books. We accept lower prices as a cost of the freedom of access for all our citizens to the wonderful panoply of books from the United States and Britain. We are unique in the world in that we have access to more books than practically any other country.

Let's be somewhat un-Canadian and revel in our success, and make sure that our public officials, politicians, and citizens hear the story of that success.



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