

An Economic Impact Study of the Ontario Book Publishing Industry

Final Report

Prepared for

Ontario Media Development Corporation (OMDC)

by

Nordicity

and

Castledale Inc.

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Acknowledgements and Disclaimer

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Executive Summary

Introduction

The Ontario Media Development Corporation (OMDC) engaged Nordicity and its project partner, Castledale Inc. (Castledale) to undertake an economic impact study of Ontario-based, Canadian-owned book publishers and to quantify the sector's contribution to Ontario's economy. In so doing, Nordicity would:

- Update baseline data from the 2004 Pollara report "Economic Impact Study of the Canadian-owned Publishing Industry" (the Pollara report) in order to assess the current state and economic impact of Ontario-based Canadian-owned book publishers; and
- Quantify and describe the impacts of digitization on the sector, many of which were not yet widespread at the time of the last survey.

Mandate and Methodology

To achieve the study's objectives, Nordicity required a solid base of financial data from a sufficiently large number of book publishers to provide a credible basis for the economic analysis. To that end, a web-based survey was designed and distributed to 130 Ontario-based, Canadian-owned publishers, asking about their 2011 publishing activities.¹

Nordicity received useful responses (*i.e.*, ones where the respondent has provided *at least* the basic financial information) from 38 Canadian-owned, Ontario-based book publishers. Nordicity was then able to add data for Harlequin Enterprises (Harlequin) to the survey results, based on the detailed 2011 annual report of Harlequin's parent company, Torstar Corporation (Torstar).² Recognizing that many of the book publishers surveyed were quite small, Nordicity used book sales in Canada to estimate the degree to which the survey responses accounted for book publishing's economic activity in Ontario rather than the direct response rate. With the addition of Harlequin data, the sample collected accounts for an estimated 94% of all Canadian book sales in 2011.³

Part of the study's mandate is to compare key aspects of Ontario's book publishing industry in 2003 and 2011. Nordicity determined that it would be necessary to "recast" the 2003 raw survey data according to the approach adopted for 2011 survey results for an accurate comparison. In order to accomplish this recasting, Pollara and the OMDC made the raw 2003 survey results available to Nordicity.

Using the raw 2003 survey data, Nordicity prepared a recast 2003 economic impact analysis. This recast 2003 economic impact analysis was conducted using a model based on Statistics Canada's

¹ Results from this survey are sourced as "2011 survey data."

² Torstar reports its book publishing activities separately from its other divisions, and its book publishing activities stem entirely from Harlequin (Torstar 2011 Annual Report, p. 10).

³ That is not to say 94% of Canadian-owned, Ontario-based publishers, but 94% of 2011 book sales in Canada by Ontario-based, Canadian-owned publishers.

input-output tables and an induced impact multiplier. The original Pollara economic impact analysis, however, was based on the University of Toronto's FOCUS Model.

While both the 2011 survey data and the recast 2003 Pollara data provide robust data sets, they reflect only a portion of the Canadian-owned book publishing industry in Ontario (in 2011 and 2003, respectively). For this reason, Nordicity took steps to "gross-up" the sets of sample data to reflect the size of the entire Canadian-owned book publishing industry in Ontario in 2003 and 2011. Nordicity calculated a "gross-up factor" of 1.06 for 2011 and 1.07 for 2003.

For the economic impact analyses, Nordicity prepared estimates of the direct, indirect and induced impacts of the Canadian-owned, Ontario-based book publishing industry. For each stage of economic impact, Nordicity prepared estimates of the employment (as measured in terms of full-time equivalents [FTEs]), household income and gross domestic product (GDP) attributable to the economic activity stimulated by the Canadian-owned, Ontario-based book publishing industry.

Finally, in order to prepare a quantitative analysis of the impact of digitization on the Canadian-owned, Ontario-based book publishing industry, Nordicity drew primarily on the responses to its survey, in which publishers were asked to estimate:

- The average net revenue per copy for each digital and physical sale;
- The average profit margin per digital and physical sale; and
- The percentage of 2011 digital sales that represent the replacement of physical sales.

Pollara's survey questionnaire did not include any reference to digital sales or costs, which may reflect the pre-digital state of the industry in 2003. As a result of this particular difference, it is not possible to compare the impact of digital production or sales between the two studies.

Additional detail on all of the above methodological issues can be found in Appendix A.

Industry Snapshot

Ontario has long been the centre of Canada's English-language book publishing industry. It is not only the host province for the Canadian subsidiaries of the leading multinational publishers, but also home to approximately one-third of Canadian-owned book publishers.⁴ In 2011, the composition of Canadian-owned book publishers based in Ontario consisted of long-established companies, with relatively few new arrivals:

- 72% of publishers had been in operation more than 20 years.
- 87% of publishers reported fewer than 20 employees in 2011.

In 2011, Canadian-owned, Ontario-based publishers experienced numerous critical and commercial successes, including Patrick DeWitt's *The Sisters Brothers*, Esi Edugyan's *Half-Blood Blues* and others. Despite these successes, between 2003 and 2011 the Canadian-owned, Ontario-based book

⁴ Nordicity tabulations based on individual online lookups of approximately 300 Canadian-owned, Canadian-based publishers with sales recorded through Booknet in 2011 to determine whether the publisher was based in Ontario.

publishing industry experienced enormous flux and endured numerous mergers and acquisitions. Some entities, such as Key Porter and H.B. Fenn, shut their doors altogether.

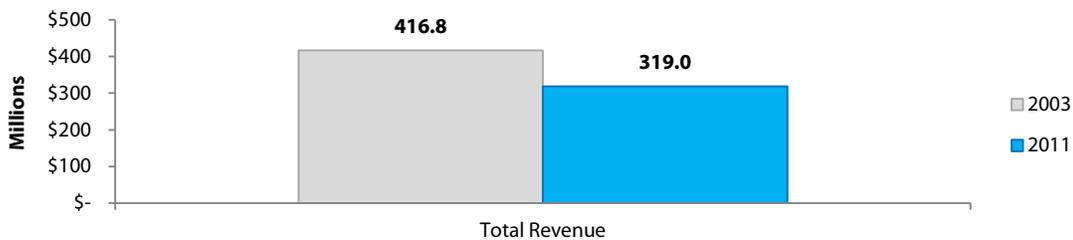
Over this period, the rise of social networking and the popularity of e-readers, smartphones and tablets have also had a significant impact on the book publishing industry. These technologies have transformed the way many Canadians purchase and read books as well as the ways in which publishers produce and distribute them. When surveyed about barriers to future growth, publishers cited “Competition from other media for readers’ attention” as the top challenge.⁵

Economic Impact in Ontario

Revenue

Based on the 2003 and 2011 survey data as well as data collected from Torstar’s financial statements, Nordicity estimates that Canadian-owned, Ontario-based book publishers earned **\$319.0 million** in total revenue in 2011. This figure equates to a 23.5% drop of \$97.8 million from the revenues reported in the recast 2003 Pollara data. The Compound Annual Growth Rate (CAGR) between 2003 and 2011 was negative 3.3%.

Figure I Canadian-owned, Ontario-based book publishing industry revenue (2003 and 2011)



Source: 2011 survey data, Torstar 2011 Annual Report, recast 2003 Pollara data and Torstar 2003 Annual Report

Based on 2011 survey data, Nordicity notes the following:

- Canadian-owned, Ontario-based publishers vary widely in size. Just 6% of book publishers reported 2011 revenue of more than \$10 million. One-half of book publishers could be considered small, reporting 2011 revenue of under \$1 million. A similar distribution is evident in 2003.
- Excluding Harlequin, physical book sale channels continued to generate the vast majority (88%) of Canadian-owned, Ontario-based book publishers’ revenue in 2011. Digital sales channels accounted for 4% of revenue. In addition, physical book sales through bricks-and-mortar retailers accounted for 50% of 2011 revenue. Neither digital sales revenue nor any revenue by sales channel were collected in the 2003 Pollara report.

⁵ Nordicity, 2011 survey data.

- As in 2003, Non-fiction was the largest single genre of publishing for Canadian-owned, Ontario-based book publishers in 2011 (excluding Harlequin) and accounted for 39% of total revenue in 2011.
- Since 2003, the share of revenue derived from domestic sales, as compared to export sales, has increased from 70% to 76% (excluding Harlequin).

Expenditures

In total, Ontario book publishers' operating expenditures amounted to **\$263.7 million** in 2011. This figure represents a 20.9% drop from 2003's expenditures of \$333.5 million. Of this 2011 total:

- \$116.8 million, or 44%, was spent in Ontario;
- Ontario book publishers spent an estimated \$73.6 million on wages and benefits in 2011; the vast majority of these wages and benefits (\$58.8 million, or 80%) were paid inside Ontario; and
- Wages and benefits represented the largest expenditure category for publishers in 2011, whereas in 2003, the largest category was printing and production costs.

Economic Impact

- The economic activity stimulated by the Canadian-owned, Ontario-based book publishing industry generated an estimated 1,970 FTEs in Ontario in 2011, including 1,450 FTEs directly in the book publishing industry. The economic activity stimulated by the Ontario book publishing industry also generated \$90.3 million in household income for Ontario residents and \$159.8 million in GDP for the Ontario economy.
- For every \$10 million of revenue, the Canadian-owned, Ontario-based book publishing industry generated:
 - 61.8 FTEs throughout the Ontario economy;
 - \$2.8 million in household income and \$5.0 million in GDP in the Ontario economy; and
 - \$0.7 million in provincial and local tax revenue for the Ontario government.
- On a Canada-wide basis, the economic activity stimulated by the Canadian-owned, Ontario-based book publishing industry generated an estimated 2,590 FTEs in 2011, including 1,660 FTEs directly in the book publishing industry. The economic activity stimulated by the Canadian-owned, Ontario-based book publishing industry also led to \$117.5 million in household income for Canadians and \$197.4 million in GDP for the Canadian economy.
- For every \$10 million of revenue, the Canadian-owned, Ontario-based book publishing industry generated:
 - 81.2 FTEs throughout the Canadian economy;
 - \$3.7 million in household income and \$6.2 million in GDP in the Canadian economy; and
 - \$1.8 million in tax revenue for federal, provincial and local governments in Canada.

- A comparison of the results of this 2011 economic impact analysis to recast results derived on the basis of Pollara's 2003 survey of the book publishing industry in Ontario indicates that the industry's economic and fiscal impact fell between 2003 and 2011 in much the same way as the industry's revenue dropped.
- Direct industry employment in Ontario was down by 7%, from 1,560 FTEs in 2003 to 1,450 FTEs in 2011. The total employment impact (direct + indirect + induced) in Ontario was down by even more; it dropped by 18%, from 2,390 FTEs to 1,970 FTEs. Similarly, the total Canada-wide employment impact (direct + indirect + induced) fell by 23%, from 3,360 FTEs to 2,590 FTEs.
- The drop in employment between 2003 and 2011 also led to a drop in household income impact. Total household income in Ontario (including employees, authors, freelancers and indirect and induced impact workers) dropped by 14%, from \$104.4 million in 2003 to \$90.3 million in 2011. On a Canada-wide basis, the total household income impact dropped by 18%, from \$143.6 million in 2003 to \$117.5 million in 2011.
- The book publishing industry's total GDP impact (direct + indirect + induced) in Ontario fell by 22%, from \$205.3 million in 2003 to \$159.8 million in 2011. Canada-wide total GDP (direct + indirect + induced) fell by 23%, from \$257.6 million in 2003 to \$197.4 million in 2011.

Impact of Digitization

Since 2003, new technologies, changing consumer buying and reading habits, and other dynamics have forced publishers to evolve their abilities to reach and engage audiences on multiple platforms. Moreover, the rise of e-books, online retailers and self-publishing has disrupted the traditional role of the publisher in the once-linear publishing value chain. Nordicity drew on 2011 survey data to examine how publishers are managing the impact of digitization.

- In terms of average revenue per sale on digital vs. physical sales, Ontario publishers reported higher revenues on physical or print editions than on digital or e-books. In 2011, average e-book revenue per unit was approximately 88% that of a print sale.
- Nordicity asked publishers to consider the amount of digital book sales they estimate would previously (before the proliferation of e-books and e-readers) have been physical book sales. The average of the responses from publishers suggested that 7% of digital book sales in 2011 were estimated to have displaced what might have otherwise been print book sales. This suggests that over 90% of digital book sales were perceived as incremental sales. That is to say, publishers estimated that 93% of digital books would not have been sold in another format other than digital.
- The average profit margin per digital sale in 2011 was slightly higher than in print: 23% on digital versus 19% on print or physical editions.
- In 2011, Ontario publishers reported an average per-sale profit of \$2.41 in digital formats and \$2.23 in print. In other words, the average profit on a digital sale in 2011 was approximately 8% higher than on a print sale.

Conclusions

Canadian-owned, Ontario-based book publishers are experiencing a period of extended flux. While the total (Canadian- and foreign-owned) book publishing industry in Ontario has operated in a no-growth environment since 2003, Canadian-owned, Ontario-based publishers' revenue has declined by 23.5%. This revenue decline may be due, in large part, to the numerous mergers and closures of Canadian-owned, Ontario-based publishers between 2003 and 2011. That publishers' expenses have declined in much the same way suggests that the remaining Canadian-owned, Ontario-based publishers have worked well to preserve profit margins. This result is particularly notable as publishers have been forced to maintain two separate business models, both print and digital, even though one of the models (print) is still responsible for the vast majority of publishers' revenue in 2011.

For example, in 2011, physical book sale channels in total continued to represent 88% of Canadian-owned, Ontario-based book publishers' revenue. Physical book sales through bricks-and-mortar retailers still accounted for 50% of 2011 revenue. As a result, publishers are grappling with new technologies, distribution models, formats and consumer behaviours, while also encouraging the ongoing success of their established lines of business.

In this context, publishers recognize that opportunities for future growth are almost certainly in digital and yet, excluding Harlequin, digital sales channels accounted for just 4% of Ontario publishers' 2011 revenue. Among other factors, this digital revenue lag may be due in part to the challenge of preserving established book prices in digital formats. The continued downward pressure on e-book prices globally (what some experts are calling a "race to the bottom, to the free e-book"⁶) is of enormous concern for publishers and may affect the future health of the industry. Between 2003 and 2011, average profits per unit and profit margins for physical editions remained relatively steady.

The recent mergers and closures (*e.g.*, the January 2012 transfer of McClelland & Stewart to Random House Canada) have threatened to weaken the Canadian-owned, Ontario-based publishing industry, leading to further uncertainty in the industry. Looking ahead, Ontario's remaining Canadian-owned publishers reported to Nordicity they will be increasing their digital activities and looking for new ways to reach audiences directly in the future, despite the challenges and financial pressure they face.

⁶ Webb, Jenn. "Putting a Price on Value: The ToC Perspective," July 27, 2012. <http://www.publishersweekly.com>

1. Introduction

This introductory section describes the project's mandate as well as Nordicity's approach and methodology. The following section, "Industry Snapshot," draws on secondary research and survey responses to present a portrait of the Ontario book publishing industry, including types of companies, their growth predictions, and barriers to growth.

1.1 Mandate

The OMDC engaged Nordicity and Castledale Inc. (Castledale) to:

- Measure and analyze the economic impact (direct, indirect and induced) and contribution of Ontario-based Canadian-owned book publishers; and
- To update the findings of the 2004 Pollara report "Economic Impact Study of the Canadian-owned Publishing Industry" ("the Pollara report") – the last time an economic impact analysis of Ontario book publishers was conducted.

A parallel objective was to quantify and describe the impacts of digitization on the sector.

For each stage of economic impact, Nordicity prepared estimates of the total employment (as measured in terms of full-time equivalents [FTEs]), household income and gross domestic product (GDP) attributable to the economic activity stimulated by the Ontario book publishing industry.

1.2 Approach and methodology

The following sub-sections present Nordicity's approach to gathering and analyzing data on Canadian-owned, Ontario-based book publishers, from the survey and survey engagement strategy to the economic impact methodology.

1.2.1 Survey design and engagement strategy

To achieve the study's objectives, Nordicity required a solid base of financial data from a sufficiently large number of book publishers to provide a credible basis for analysis. A web-based survey was therefore designed for this purpose that asked Canadian-owned, Ontario-based book publishers about their publishing activities in 2011. The results of this survey are referred to in this document as the "2011 survey data."

Nordicity distributed the survey in June 2012 to a list of 130 Canadian-owned, Ontario-based book publishers of various sizes. This list was assembled based on online research and the Ontario membership lists of the Organization of Book Publishers of Ontario (OBPO), the Association of Canadian Publishers (ACP) and the Association of Canadian University Presses (ACUP). Based upon this research, Nordicity is confident that the list of 130 Canadian-owned, Ontario-based publishers constitutes a reasonably complete list of such companies. As such, the list can be considered the "universe" of potential survey respondents.

Any survey is only as useful as the responses it generates. Accordingly, Nordicity worked with Castledale to develop and implement a multi-faceted publisher engagement strategy. This strategy included a face-to-face "meet-up" with a dozen Ontario publishers to obtain direct feedback on the design and development of the questionnaire. Publishers' feedback on the draft survey design led Nordicity to adapt survey questions to reflect the current reality of publishing operations, and to map

questions to be consistent with existing applications for the Canada Book Fund and Ontario Book Publishing Tax Credit. Both the study and survey were promoted at book publishing events, publishing-related blogs, and publishing social media outlets attended and read by target recipients throughout June and July of 2012.

By the end of the survey period (August 2012), Nordicity had received useful responses (*i.e.*, ones in which the respondent has provided *at least* the basic financial information) from 38 Canadian-owned, Ontario-based book publishers. Because many of the book publishers surveyed are quite small, the number of companies captured (38 out of 130) does not accurately depict the degree to which the survey responses account for the economic activity associated with book publishing activities in Ontario. Instead, Nordicity used book sales made in Canada to determine how much of Ontario's book publishing industry was reflected in the survey responses. In other words, the survey "universe" (*i.e.*, the entire group of units that is the focus of the study) is the total number of books sold in Canada by Canadian-owned, Ontario-based book publishers.

To estimate the size of this universe, Nordicity drew on 2011 Canadian book sales data as supplied by BookNet. Based on BookNet's assertion that its data reflect 75% of the total sales in Canada in 2011, Nordicity estimates that the survey sample accounts for 62% of the universe of book publishing activity in 2011 (excluding Harlequin Enterprises).

Data from Harlequin Enterprises

Based on the substantial economic activity generated by Harlequin Enterprises (Harlequin), Nordicity concluded that an image of the book publishing industry in Ontario would only be complete were Harlequin included. To obtain the necessary data, Nordicity looked to the non-consolidated financial statements of Harlequin's parent company, Torstar Corporation (Torstar). Any useful data (*e.g.*, revenue and expenditures attributable to Harlequin's North American operations) were added directly to the 2011 survey data and to the recast 2003 Pollara data (see Section 1.2.2).

Readers can refer to the source information cited under each Exhibit in this report to ascertain whether Harlequin is included in the sample. When "Torstar 2011 Annual Report" is cited, Harlequin is included, and where Harlequin's results have *not* been included, the source reference will indicate, "excludes Harlequin Enterprises."

Additional details on how Harlequin's data was included (including assumptions made) can be found in Appendix A.

After adding sales data from Harlequin Enterprises drawn from Torstar's 2011 Annual Report to the 2011 survey data,⁷ Nordicity estimates that the collected data accounts for 94% of all book sales made in Canada in 2011 by Canadian-owned, Ontario-based book publishers. With this level of coverage in

⁷ Torstar is Harlequin Enterprises' parent company.

mind, Nordicity estimates that the absolute economic data presented in this report (*i.e.*, revenue, expenditures, books published, and direct employment) is accurate to within +/- 2.5% (19 times out of 20). Where exhibits refer only to a portion of book publishers which reflect a given characteristic (*e.g.*, company ownership), the data should be treated as indicative, rather than statistically significant.

Nordicity has no reason to believe that the sample collected is affected by any response or selection bias.

1.2.2 Preparing data from 2003

As noted previously, part of the study's mandate is to compare key aspects of Ontario's book publishing industry (*e.g.*, revenue, expenditures, employment and economic impact) between 2003 and 2011. Upon review of the raw data from Pollara's 2003 survey of Canadian-owned, Ontario-based book publishers, Nordicity concluded that the it did not include data from Harlequin, and that significantly different language was used in collecting the 2003 survey data (as compared to the 2011 survey data collected by Nordicity). Additionally, Pollara used a different economic impact methodology; Pollara's economic impact analysis utilized the University of Toronto's FOCUS Model. Nordicity's 2011 economic impact analysis, however, was based on Statistics Canada input-output tables and the derivation of an induced impact multiplier (see additional discussion in Section 1.2.4).

For these reasons, Nordicity determined that it would be necessary to "recast" the 2003 raw data (to match the approach used when Nordicity analyzed the 2011 survey data), in order to compare the two years. For the remainder of this report, Nordicity's analysis of the 2003 raw Pollara data is referred to as the "recast 2003 Pollara data."

Pollara's survey questionnaire did not include any reference to digital sales or costs, which may reflect the pre-digital state of the industry in 2003. As a result, of this particular difference, it is not possible to compare the impact of digital production and/or sales between the two studies.

A list of the assumptions and conversions used to recast the 2003 raw Pollara data can be found in Appendix A.

Key to Data Sets

Throughout this report, Nordicity refers to at least four distinct data sets:

- **The Pollara report:** 2003 findings as reported in the 2004, "Economic Impact Study of the Canadian-owned Publishing Industry;"
- **2011 survey data:** 2011 data largely collected via an online survey of Canadian-owned, Ontario-based book publishers conducted by Nordicity in 2012;
- **2003 raw Pollara data:** 2003 data as collected by Pollara in 2004, and;
- **Recast 2003 Pollara data:** 2003 data as collected by Pollara and recast by Nordicity.

1.2.3 “Grossing-up” the data

While both the 2011 survey data and the recast 2003 Pollara data provide robust data sets, they reflect only a portion of the Canadian-owned book publishing industry in Ontario (in 2011 and 2003 respectively). For this reason, Nordicity took steps to “gross-up” the sets of sample data to reflect the size of the entire Canadian-owned book publishing industry in Ontario in 2003 and 2011. To do so, Nordicity calculated two “gross-up factors” that are applied to the absolute data (*e.g.*, revenue, expenditures, employment) in each year’s data set.

- **For the 2011 survey data**, Nordicity used the BookNet Canadian sales data (as discussed in Section 1.2.1) to estimate the size of Ontario’s Canadian-owned book publishing industry in 2011. As the combination of the 2011 survey data and Harlequin data accounted for 94% of book publishing activity in 2011, Nordicity needed to add a further 6% to the 2011 sample to reflect the industry as a whole. As such, the gross-up factor for the 2011 survey data is 1.06.
- **For the recast 2003 Pollara data**, Nordicity used revenue data from Statistics Canada to estimate the size of Ontario’s Canadian-owned book publishing industry in 2003.⁸ In this case, the combination of the recast 2003 Pollara data and Harlequin data accounted for 93% of the revenue generated by Canadian-owned, Ontario-based book publishers in 2003. As such, Nordicity needed to add a further 7% to the sample, resulting in a gross-up factor for the recast 2003 Pollara data of 1.07.

Additional detail on how these gross-up factors were calculated and applied can be located in Appendix A.

1.2.4 Economic impact analysis and modelling

Stages of economic impact

For the economic impact analysis, Nordicity prepared estimates of the direct, indirect and induced impacts of the Ontario book publishing industry. For each stage of economic impact, Nordicity prepared estimates of the total employment, household income (*i.e.*, wages and salaries) and gross domestic product (GDP) attributable to the economic activity stimulated by the Ontario book publishing industry.

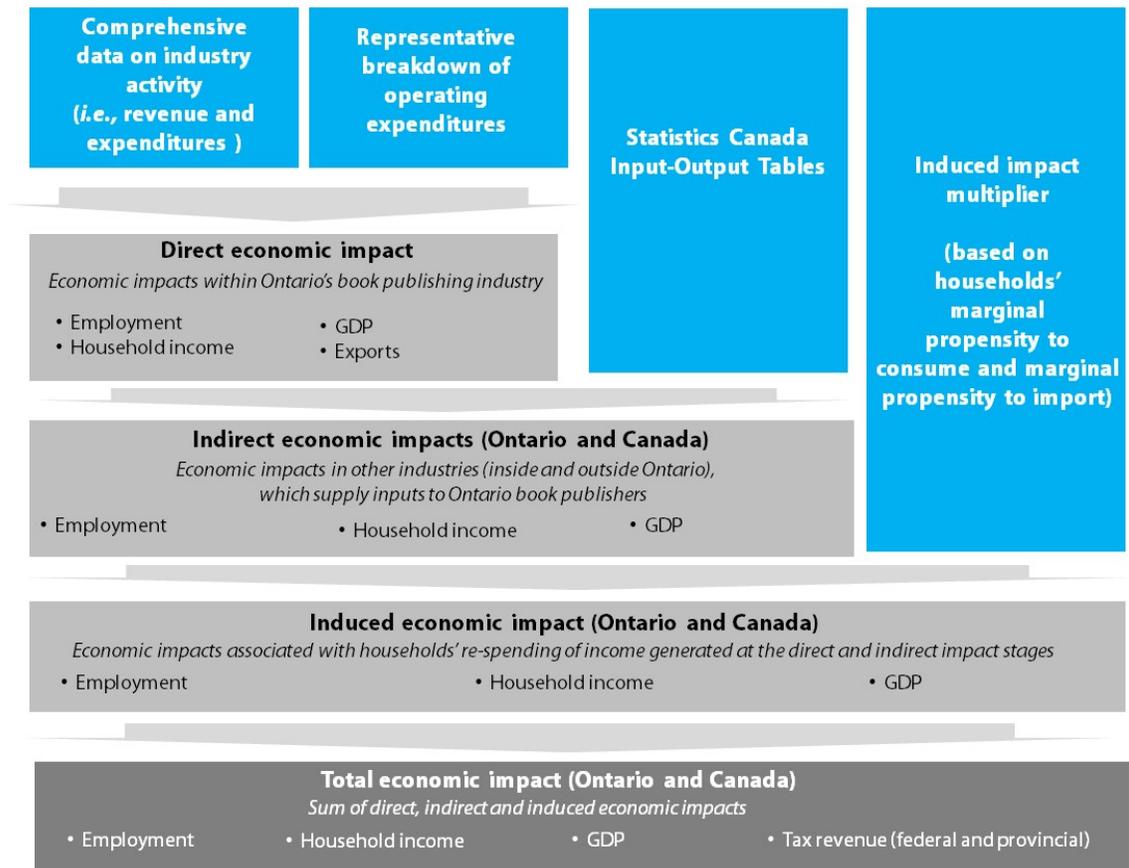
The **direct economic impact** refers to the employment, household income and GDP generated within the book publishing industry itself. This economic impact is largely in the form of wages and salaries paid to book publishers’ employees. It also includes the advances and royalties paid to authors and rights-holders, as well as the operating surplus (*i.e.*, operating profits and sole proprietors’ income) earned by publishing companies. To estimate the direct economic impact Nordicity reviewed statistics on operating expenditures collected through the survey and financial information published by Torstar for its book publishing division, Harlequin. The survey, in particular,

⁸ Namely, Statistics Canada, CANSIM, Table 361-0007.

provided a reliable breakdown of publishing companies' total operating expenditures and estimates of operating surplus.

The **indirect impact** refers to the increase in employment, household income and GDP in the industries that supply inputs to Ontario book publishers (*e.g.*, printers, advertising agencies). These purchases of goods and services increase income and employment at the supplier companies; they also, in turn, increase demand for other upstream suppliers – *i.e.*, the suppliers' suppliers. To estimate the indirect economic impact, Nordicity used the expenditure breakdown obtained from the survey and Torstar's annual report in combination with Statistics Canada's Input-Output (I-O) tables⁹ for the Ontario economy. Nordicity then constructed a model to estimate the employment, household income and GDP created by increased demand in the supplier industries.

Exhibit 1 Economic impact methodology overview



⁹ Statistics Canada, CANSIM tables 381-0012 and 381-0013.

Because the suppliers of goods and services to the Ontario book publishing industry may also be located in other provinces, there is also an indirect impact *outside Ontario*. To model the Ontario book publishing industry's direct impact outside Ontario, we also used Statistics Canada's I-O tables.¹⁰

The **induced economic impact** refers to the increase in employment, household income and GDP that can be attributed to the re-spending of income by Ontario households that earned income at both the direct and indirect stages of the economic impact. Nordicity applied its own induced impact economic multiplier to derive estimates for this analysis. This multiplier is based on Nordicity's estimates of the marginal propensity to consume (MPC) and marginal propensity to import (MPM). The derivation of the MPC and MPM are based on data for provincial-level consumption activity and inter-provincial trade available from Statistics Canada's I-O tables.¹¹

Geographic analysis

There was also a geographic dimension to our economic impact analysis. The majority of Ontario book publishers' economic impact remains within Ontario; however, the operations of Ontario book publishers also generate economic benefits for other provinces in Canada. These Canada-wide interprovincial impacts occur through three key channels.

First, Ontario book publishers publish books written by Canadian authors residing outside of Ontario. The publication of these outside-Ontario authors generates flows of advances and royalties to other provinces.

Second, Ontario book publishers also procure supplies and services from companies based in other provinces. When they do so, Ontario book publishers create an indirect economic benefit in other provinces.

Third, even when Ontario book publishers procure supplies or services from Ontario-based companies, when these companies acquire inputs from other provinces, they generate an economic benefit in other provinces. For example, when an Ontario book publisher engages the services of an Ontario-based printing company, that printing company increases its demand for paper products; these paper products could very well come from another province.

For this economic impact analysis, we also estimate these effects on other provinces. Throughout the analysis, we refer to these effects as the *rest-of-Canada* impact. For both Ontario and the rest of Canada, we estimate direct, indirect and induced economic impacts. The impact experienced by these two geographic groupings can be summed to arrive at an estimate of the total national impact of the Ontario book publishing industry.

1.2.5 Impact of digitization

As noted previously, the Pollara report and survey did not collect information about the impact of digital technology on the book publishing industry. This is not surprising when one considers that the Pollara report was released in 2004 (and based on financial data from 2003), and that Amazon.ca only

¹⁰ Statistics Canada, CANSIM tables 381-0012 and 381-0013.

¹¹ Statistics Canada, CANSIM tables 381-0012 and 381-0013. The induced impact associated with the increase in output in other provinces (*i.e.*, rest of Canada) was modelled on the basis of the MPC and MPM for the Canadian economy.

began selling books online in 2002¹² and did not make the Kindle e-reader and library of e-books available to Canadians until 2009. Kobo, similarly, was founded in 2009 and released its first e-reader in 2010. In 2004, it was not yet possible for book publishers to attempt to quantify the impact of digital sales on their business.¹³ By 2011, however, most if not all Canadian-owned, Ontario-based publishers had experienced at least some impact of digitization and were able to report on the impact to a certain degree.

To prepare a quantitative analysis of the impact of digitization on the Canadian-owned, Ontario-based book publishing industry, Nordicity drew primarily on the responses to its survey and on secondary research (as cited in the “References and Data Sources” section at the end of this report).

Allocating the unique operating costs associated with producing a print and digital edition is an ongoing challenge for publishers. Recognizing this reality, Nordicity consulted publishers in the development of its survey in order to ascertain what types of digital impacts might be possible to measure through publishers’ reporting of 2011 financial activity. Based on publisher feedback, Nordicity’s survey questionnaire asked publishers to estimate three data points:

- The average revenue per copy for each digital and physical sale;
- The average profit margin per digital and physical sale; and
- The percentage of 2011 digital sales that represent the replacement of physical sales.

These data points allowed Nordicity to compare cost and revenue data on a per-copy basis between print and digital sales in 2011.¹⁴ As well, Nordicity was able to compare the profit generated per 2011 physical sale to the profit generated per physical sale in 2003, using recast 2003 Pollara data.¹⁵

The results of this analysis are presented in Section 4, “Impact of Digitization.”

¹² Amazon.com sold its first book in 1995.

¹³ “History and Timeline: International Timeline” Amazon Media Room, retrieved from <http://phx.corporate-ir.net/phoenix.zhtml?c=176060&p=irol-corporateTimeline>

¹⁴ For example, the average profit generated per digital sale was calculated by multiplying the average revenue generated per digital copy by the average profit margin per digital sale.

¹⁵ Importantly, data collected by Nordicity in this area explicitly asked respondents to provide revenue and profit margin estimates on a per-copy basis. Pollara, on the other hand, did not ask an equivalent question. Accordingly, Nordicity calculated per-copy revenue and profit estimates based on the circulation, revenue and expenditure data provided.

2. Industry Snapshot

The 2008 study, “A Strategic Study for the Book Publishing Industry in Ontario,” posits that books and book publishing provide “the essential components of the infrastructure necessary to foster innovation and the production of knowledge.”¹⁶ As such, a healthy book publishing industry is an essential component of a vibrant, knowledge-intensive creative economy. Ontario has long been the centre of Canada’s English-language book publishing industry. It is not only the host province for the Canadian subsidiaries of the leading multinational publishers, but also home to most Canadian-owned book publishers (approximately one-third of Canadian-owned publishers are based in Ontario).¹⁷ In 2010, Ontario’s total publishing industry (Canadian-owned and foreign-owned) accounted for 65% of the total Canadian book publishing industry. The next largest province was Québec, with 30% of the total Canadian industry.¹⁸

Ontario publishers experienced numerous critical and commercial successes in 2011 including, but not limited to, the following examples:

- House of Anansi’s publication of Patrick DeWitt’s *The Sisters Brothers*, winner of the Governor General’s Award for Fiction, and shortlisted for the Man Booker Prize and the Scotiabank Giller Prize;
- *Winter* by Adam Gopnik, which marked 50 years of the Massey Lectures, also sold very well for House of Anansi;
- Thomas Allen Publishers’ success with Esi Edugyan’s *Half-Blood Blues*, winner of the Scotiabank Giller Prize, and shortlisted for the Man Booker Prize and the Governor General’s Award; and
- *Ten Birds*, written and illustrated by Cybèle Young and published by Kids Can Press earned the Governor General’s Literary Award for Children’s Illustration.

According to BookNet, sales for *Half-Blood Blues* surged 479% in the weeks following the Giller Prize win in November 2011.¹⁹ These are just two highlights from a long list of strong performances across a range of genres for Ontario publishers.

In order to place Ontario-based, Canadian-owned publishers in context, it is useful to examine the performance of the *total* book publishing industry (foreign- and Canadian-controlled) since the last economic impact analysis was conducted. Statistics Canada has not released data for the total book publishing industry in 2011. However, Nordicity was able to develop a forecast for Ontario-based book publishers’ 2011 revenue based on previously reported results in Statistics Canada, TorStar’s 2011 annual report and the total units of books sold in Canada in 2011 provided by BookNet. As a result, we can observe that the total book publishing industry in Ontario experienced no growth, with

¹⁶ Castledale Inc. and Nordicity, “A Strategic Study for the Book Publishing Industry in Ontario,” 2008. p. 11.

¹⁷ Nordicity tabulations based on individual online lookups of approximately 300 Canadian-owned, Canadian-based publishers with sales recorded through BookNet in 2011 to determine whether each publisher was based in Ontario.

¹⁸ Statistics Canada, “Summary statistics for the book publishers industry, province and territory, 2008 to 2010” Retrieved from: <http://www.statcan.gc.ca/pub/87f0004x/2012001/t027-eng.htm>

¹⁹ BookNet Canada Media Release, “Sales of *Half-Blood Blues* Skyrocket After Win,” November 18, 2011.

a slightly negative compound annual growth rate (CAGR) of negative 0.7%, between 2003 and 2011 (Exhibit 2).

Exhibit 2 Ontario-based (foreign- and Canadian-controlled) book publishers' total operating revenue, (2003 and 2011)

	2003	2011	CAGR
	\$Millions		%
Total operating revenue	1,318.3	1,286.6	-0.7%

Source: Statistics Canada, Table 361-0007, Catalogue no. 87F0004XWE (2003), TorStar 2011 Annual Report and BookNet 2011 Canadian Sales data.

Over the same period of flat or no growth, the Canadian-owned, Ontario-based book publishing industry experienced numerous mergers and acquisitions, and some publishers shut their doors altogether. A non-exhaustive summary of industry mergers and acquisitions during this period includes:

- In 2003, Firefly acquired The Boston Mills Press;
- In 2005, House of Anansi acquired Groundwood Books;
- Dundurn made a series of acquisitions during this period including Sandcastle Books (2005), Natural Heritage Books (2007), Beach Holme (2007), the English-language imprint of Montreal's XYZ Publishing (2008) and Napoleon and Co. (2011);
- In 2008, Bayard Canada acquired Maple Tree Press; and
- H.B. Fenn, the distributor, acquired Key Porter in 2004. In January of 2011, H.B. Fenn suspended Key Porter's operations and initiated its own bankruptcy proceedings the following month.

Foreign-owned and non-Ontario-based publishers are not immune to consolidation and insolvency either. Late in 2012, Random House Books announced it would acquire Penguin Books from Pearson PLC, joining two long-time competitors under the moniker "Penguin Random House." In February 2013, B.C.-based Harbour Publishing announced its intent to purchase Douglas & McIntyre, an arm of the "financially stressed" Vancouver-based D&M Publishers (Appendix C contains a scan of further regional, Canadian and international book publishing industry results).²⁰

As described in the previous section, new digital technologies have emerged since the Pollara study was published. Where digital trends and e-book devices such as the Kindle were described as "gaining a foothold" in 2008's "A Strategic Study for the Book Publishing Industry in Ontario,"²¹ in the past few years those footholds have grown into near-strongholds. Ontario publishers have been working and evolving to reach and engage audiences across multiple platforms while facing increasing competition for readers' "downtime" from social networks, online videos, video games and

²⁰ Mickleburgh, Rod, "Harbour Publishing buys Douglas & McIntyre," *The Globe and Mail*. February 6, 2013.

²¹ Castledale Inc. and Nordicity, "A Strategic Study for the Book Publishing Industry in Ontario," 2008. p. 23.

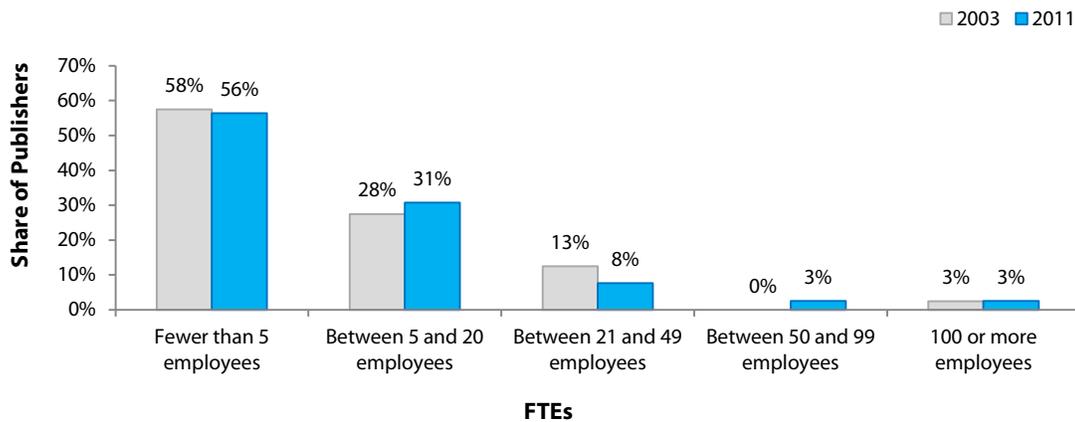
other media and technology. These issues and impacts are discussed in more detail in Section 4, “Impact of Digitization.”

2.1 Types of companies

As described previously, Nordicity received useful survey responses from 38 book publishers and incorporated Harlequin results where possible (based on information in Torstar’s 2011 Annual Report). In select cases, where survey data permits, it is also possible to compare the 2003 and 2011 results to understand how the types of companies in the industry have evolved over that period. As mentioned previously, however, in instances where exhibits refer to the portion of book publishers that may reflect a given characteristic (e.g., company ownership) as below, the data should be treated as indicative, rather than statistically significant.

The following exhibit depicts the share of Canadian-owned, Ontario-based publishers by number of employees.²² In both 2003 and 2011, book publishers were clustered at the smaller end, with 86% of 2003 publishers reporting fewer than 20 employees and 87% in 2011:

Exhibit 3 Size by number of employees, Canadian-owned, Ontario-based book publishers (2003 and 2011)

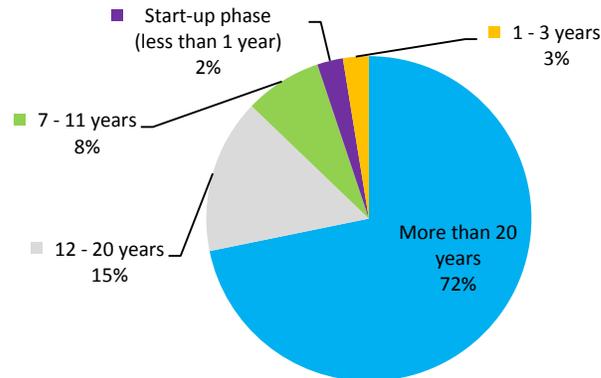


Source: 2011 survey data, Torstar 2011 and 2003 Annual Reports and recast 2003 Pollara data

In 2011, nearly three-quarters (72%) of Canadian-owned, Ontario-based publishers had been in operation for more than 20 years while just 5% of publishers had been in operation less than three years (Exhibit 4).

²² Industry Canada defines micro-firms as those with fewer than five employees, small firms as those with between five and 99 employees, and medium firms as those with between 100 and 499 employees, “Glossary of Terms: Employment Size Category” Retrieved from: http://www.ic.gc.ca/eic/site/cis-sic.nsf/eng/h_00005.html#employers

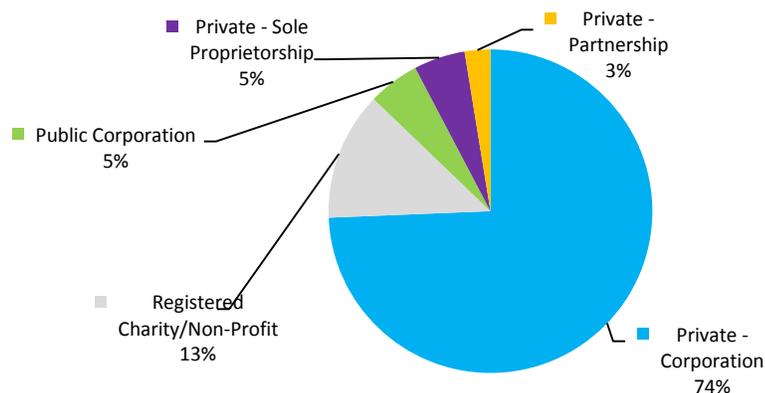
Exhibit 4 Years in operation, Canadian-owned, Ontario-based book publishers (2011)



Source: 2011 survey data and Torstar 2011 Annual Report
n=39

In 2011, three-quarters (74%) of Canadian-owned, Ontario-based publishers were private corporations while another 5% were private, sole proprietorships. Registered charities or not-for-profits account for 13% of Canadian-owned, Ontario-based publishers, while some 5% are publicly held corporations (Exhibit 5).

Exhibit 5 Business structure, Canadian-owned, Ontario-based book publishers (2011)



Source: 2011 survey data and Torstar 2011 Annual Report
n=39

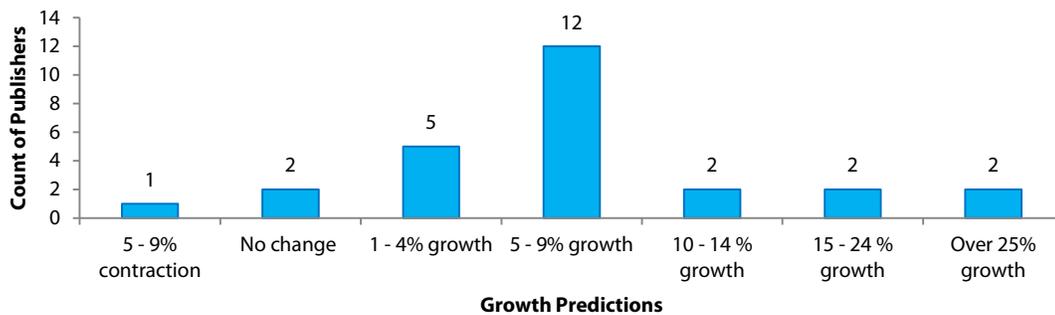
In 2011, the composition of Canadian-owned book publishers based in Ontario consisted of long-established companies, with relatively few new arrivals. That being said, Ontario is home to numerous book industry innovators and start-ups, such as Kobo Books, the LongPen and Wattpad.com. In late 2012, the director of Humber College’s Creative Book Publishing program and former president of Penguin Books Canada, Cynthia Good, predicted a “very creative” future for book publishers, “full of artistic possibilities.” Good observed, for example, that Canadian book publishers were looking to

develop new partnerships with media and games companies as a source of growth.²³ Growth prospects are discussed in the following sub-section.

2.2 Sources of growth

In the Nordicity survey, publishers were asked to predict how their business' revenue would grow and/or contract in the following two years by selecting a single range option from a group of scenarios including contraction, no change and growth. The exhibit below presents the count of publishers that selected a given growth scenario. The majority (89%) predicted at least some growth in the coming one to two years. The greatest number of publishers (46%) predicted between "5-9%" growth, though not all publishers anticipated growth in the near future. Some 11.5% of publishers predicted "no change" or a "5-9%" contraction in business revenue in the coming one to two years (Exhibit 6). To determine the percentages of responses in each category, Nordicity divided the count of publishers that selected that specific range, by the total number of publishers that responded to this question in the survey.

Exhibit 6 Canadian-owned, Ontario-based publishers' growth predictions, 1 to 2 years in the future (2011)



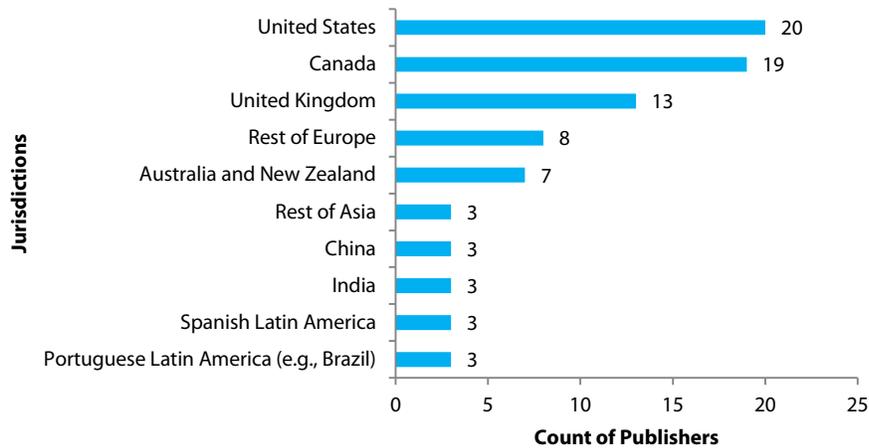
Source: 2011 survey data (excludes Harlequin Enterprises)
n=26

Growth may be derived from, for example, new lines of business as well as from new markets. In the survey, Ontario publishers were asked to identify jurisdictions in which they hoped to increase current business activity and/or initiate new business within two years. The majority of Canadian-owned, Ontario-based publishers reported a focus on pursuing growth in North America, with 83% looking at greater opportunities in the United States and 79% of Ontario publishers aiming to increase activity in Canada (Exhibit 7). Near-term growth opportunities in the United Kingdom (54%), the Rest of Europe (33%), and Australia and New Zealand (29%) followed. Some 13% of Ontario publishers stated that they intend to pursue growth opportunities in China, India, and the rest of Asia, as well as Spanish Latin America and Portuguese Latin America (Exhibit 7). To determine these percentages, Nordicity divided the count of publishers that selected a specific jurisdiction by the total number of publishers that responded to this question in the survey (in this case 24). Because this question permitted

²³ Salinas, Eve, "Turning a page on books: Inside the evolving publishing industry" December 11, 2012. Retrieved <http://business.financialpost.com/2012/12/10/turning-a-page-on-books-inside-the-evolving-publishing-industry/>

respondents to check an unlimited number of jurisdictions, the total of the responses presented below exceeds the number of publishers.

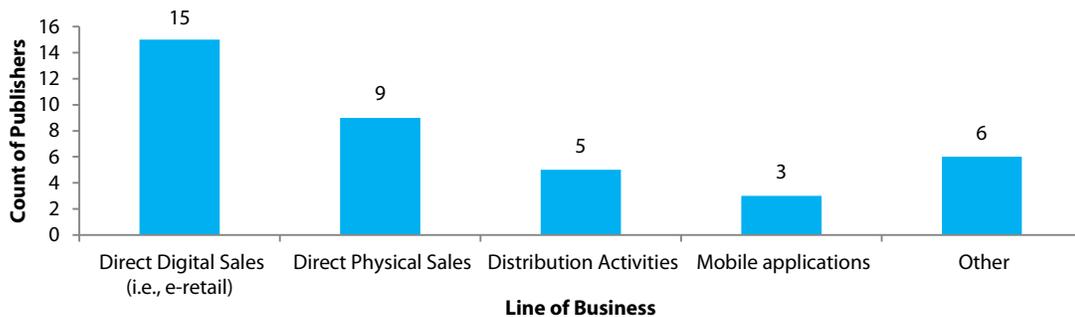
Exhibit 7 Jurisdictions for new and/or increased activity in next one to two years (2011)



Source: 2011 survey data (excludes Harlequin Enterprises)
n=24

Publishers were also asked about what new lines of business they planned to pursue in the coming one to two years. Approximately 65% of Canadian-owned, Ontario-based publishers reported plans to pursue or augment current activities in digital sales and e-retail directly to readers while 39% would be pursuing further opportunities to reach audiences *directly* with physical/print books. Some 22% of Canadian-owned, Ontario-based book publishers were looking to increase distribution activities, while 13% reported considering pursuing mobile application development. To determine these percentages, Nordicity divided the count of publishers that selected a specific line of business by the total number of publishers that responded to this question in the survey, in this case 23. Because this question permitted respondents to check an unlimited number of jurisdictions, the total responses presented below exceeds the number of publishers (Exhibit 8).

Exhibit 8 New lines of business to pursue in next one to two years (2011)



Source: 2011 survey data (excludes Harlequin Enterprises)
n=23

In this instance, the “Other” option allowed publishers to describe additional sources of revenue. Responses focused on new genres such as, “expanded non-fiction list,” “professional publishing” and “new business models for course materials.” One publisher reported that it would focus more on foreign rights in the coming two years while another alluded to the benefits it received from increased investment in digital services from its parent company.

2.3 Barriers to growth

In the survey, publishers were presented with a range of factors related to demand, talent, business structure, financing and the international marketplace, and were asked to rate the factor on a scale from “not at all limiting” to “extremely limiting” in terms of future revenue growth for their business.²⁴ Nordicity assigned each rating a score between one (“not at all limiting”) and five (“extremely limiting”). Nordicity then summed the response ratings for each factor and divided that total by the number of publishers who responded to this question in the survey. The result is an average score out of five for each factor as ranked in the exhibit below.

Exhibit 9 Growth-limiting factors for Canadian-owned, Ontario-based book publishers by average score (2011)



Source: 2011 survey data, excludes Harlequin Enterprises)
n= 26

In reviewing the average score for each factor in Exhibit 9, it is possible to observe the following:

²⁴ The full list of options for respondents included: “Not at all limiting,” “Not very limiting,” “Somewhat limiting,” “Very limiting,” “Extremely limiting” and “Not applicable.” “Not applicable” responses were given a score of zero.

- “Competition from other media for readers’ attention” is perhaps understandably the factor regarded as the most growth-limiting for Ontario publishers and an ongoing challenge for the industry. This issue was followed closely by “Access to affordable capital for expansion or day-to-day operations (*i.e.*, working capital)”, pointing to the vulnerable financial situation for many of Ontario’s Canadian-owned publishers.
- “Relationship to other members of the value chain” and “Changing business and/or revenue models (*e.g.*, changing price per unit)” were rated equally as the next-most limiting concerns. The rise of e-books, online retailers and even self-publishing has disrupted the traditional role of the publisher as well as the linear publishing model. In the new, digital landscape, retailers such as Amazon act occasionally as publishers and both authors and publishers can bypass retailers to reach audiences directly online, which creates major challenges for publishers. This new landscape relates directly to changing revenue models, which will be discussed in more detail in Section 4, “Impact of Digitization.”
- In terms of the *least* limiting concerns, three talent-related factors received the lowest average scores, suggesting publishers perceive a sufficient supply of skilled labour, affordable training programs and internships, and access to mentors and business skills in the industry.

The questionnaire invited publishers to identify additional growth-limiters through an open-ended question. Ten publishers provided several additional growth-limiters ranging from policy concerns to challenges related to succession planning. The responses have been grouped into common themes and are listed unedited below:

- Unfavourable retail and overall landscape: “The disappearance of margins due to escalating discounts and other charges by retailers (online and traditional),” “Threat of retail monopoly,” “General economic conditions affecting business” and “Ability of retailers, media, and other customers to give attention to publishers other than the Big Six and a smattering of others.”
- Decline in education and academic spending: “Reduced school and library budgets for book purchasing,” “Cuts to university/college funding,” and “Cut[s] in institutional school budgets in Canada and US.”
- Unstable support framework: “Instability/unpredictability of government support,” “Access to Tax Credits and Book Funds and Grants” and “Decrease in grants/ funding.”
- Succession planning: “Succession issues” and “Aging and potential retirement of existing ownership.”
- Talent needs: “Better technology expertise.”
- Evolving copyright regime: “Change in copyright regime, both the Supremes’ decision on the K-12 tariff and Bill C-11. Changes in scholarly communication from funding issues (such as those driven by the Open Access movement to those around funding for humanities and social science research in general to the corporatization of the university driven by its being underfunded) to technological changes.”

Based on these survey results, Nordicity would suggest there are three sources of vulnerability at the industry level for Ontario-based publishers:

- 1) The rise of digital reading and its impact on almost every aspect of publishing from production, sales and marketing to profit margins and business models;
- 2) The perception of an unstable policy and funding framework; and
- 3) Consolidation and closures in both the Canadian-owned publishing industry as well as other parts of the value chain such as retailers and distributors.

From a profit perspective, changing business models and audience reading habits are exerting a downward pressure on book prices. Consider that readers are acquiring 75% of all e-books for less than \$10, and according to BookNet Canada, “a huge portion of those are free.”²⁵ Lower retail sales prices and volumes threaten already slim publisher margins. From a policy perspective, changes to the copyright regime coupled with the perception of declining federal support for protecting the Canadian book industry (for example in the decision to allow Amazon to set-up a distribution centre in Canada, thereby overriding foreign ownership rules²⁶) may cause anxiety for publishers as they attempt to plan for the future.

Consolidation may continue to be an ongoing trend as companies look for ways to cut costs, maximize efficiencies, and remain competitive in an increasingly digital and global market. As mentioned earlier, multi-national publishers are also looking for such solutions. Bertelsmann’s chief executive Thomas Rabe suggested that the Penguin/Random House merger exemplified “the international future of the book”²⁷ (Bertelsmann owns Random House). Marjorie Scardino, the then chief executive of Pearson (which owned Penguin) explained:

“This combination with Random House... will greatly enhance its fortunes and its opportunities. Together, the two publishers will be able to share a large part of their costs, to invest more for their author and reader constituencies and to be more adventurous in trying new models in this exciting, fast-moving world of digital books and digital readers”²⁸

Amid global uncertainties, Canadian-owned, Ontario-based publishers are pursuing near-term growth in established and new markets, are constantly looking for opportunities to reinvent themselves, are finding new partners and collaborators, and are striving to reach and engage readers directly in both print and digital formats.

²⁵ BookNet Canada, “Book Prices and Book Value” August 12, 2012. Retrieved from

<http://www.booknetcanada.ca/blog/2012/8/12/book-prices-and-book-value.html#.UTVBRzeczjl>

²⁶ Akkad, Omar Al and Marina Strauss “Amazon given green light to set up shop in Canada” *The Globe and Mail*, August 23, 2012.

²⁷ Pfanner, Eric, “U.S. Regulators Approve Random House Merger With Penguin” *The New York Times* (February 14, 2013).

Retrieved from: http://www.nytimes.com/2013/02/15/business/global/us-regulators-approve-random-house-merger-with-penguin.html?_r=0

²⁸ “Pearson and Bertelsmann agree consumer publishing partnership: Penguin and Random House to combine, creating the world’s leading trade publisher” October 29, 2012. Retrieved from: <http://www.pearson.com/news/2012/october/pearson-and-bertelsmann-agree-consumer-publishing-partnership--p.html>

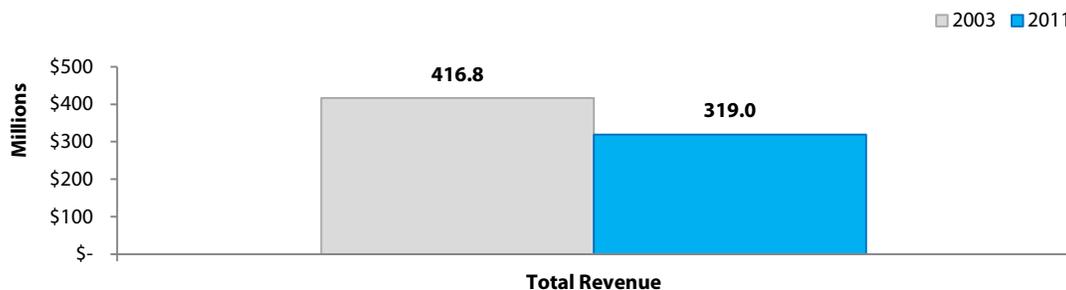
3. Economic Impact in Ontario

In the following section, Nordicity presents the results of the analysis of the economic impact of Canadian-owned, Ontario-based book publishers. The section begins with an analysis of industry revenues and operating expenditures, which is followed by estimates of the overall impact on employment, wages and GDP, including the direct, indirect and induced impact of each of these economic indicators. Results are drawn from survey responses and, in some cases, Torstar Corporation's 2011 and 2003 Annual Reports (inclusion indicated by "Torstar 2011 Annual Report" or "Torstar 2003 Annual Report" in the source reference). As described previously (and in Appendix A) it was possible to draw on Torstar's annual report largely because Torstar reports its book publishing activities separately from its other divisions, and its book publishing activities stem entirely from Harlequin.²⁹

3.1 Revenue

Based on the 2003 and 2011 survey data as well as data collected from Torstar's financial statements, Nordicity estimates that Canadian-owned, Ontario-based book publishers earned \$319.0 million in total revenue in 2011 (Exhibit 10).³⁰ This figure equates to a 23.5% drop of \$97.8 million from the revenues reported in the 2003 Pollara survey responses, or Compound Annual Growth Rate (CAGR) of negative 3.3% between 2003 and 2011.

Exhibit 10 Canadian-owned, Ontario-based book publishing industry revenue (2003 and 2011)



Source: 2011 survey data, Torstar 2011 Annual Report, recast 2003 Pollara data and Torstar 2003 Annual Report

Between 2003 and 2011, the largest entity in Canadian-owned book publishing, Harlequin, also experienced a decline in both its North American and global operations. Harlequin's North American operating revenue fell from \$309.1 million in 2003 to \$248.1 million in 2011 (Exhibit 11).

²⁹ Torstar 2011 Annual Report, p. 10.

³⁰ On the survey, respondents were asked to report their financial results for their fiscal year ending in 2011. In this report, we refer to all financial and economic impact data as pertaining to 2011.

Exhibit 11 Harlequin operating revenue (2003 and 2011)

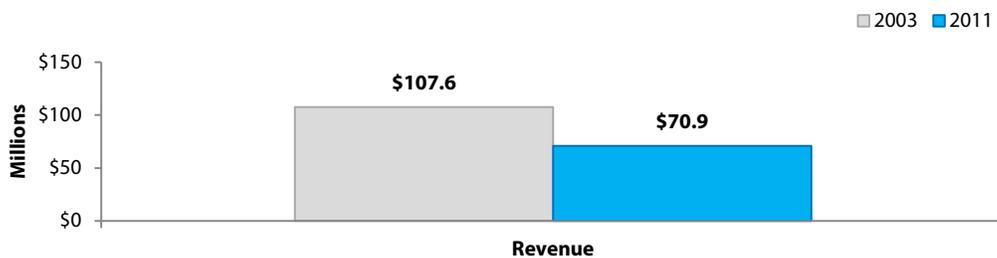
	2003	2011	CAGR
	\$ Millions		%
North American Operations: Operating Revenue	309.1	248.1	-2.7%
Total Operating Revenue	584.9	459.4	-3.0%

Source: Torstar Annual Reports 2003 and 2011

Indeed, in the Torstar 2011 Annual Report, Harlequin reported that, looking ahead, it continues to “face uncertainty around the relationship between digital revenue growth and retail print revenue declines” and does not expect 2012 results to be as strong as 2011.³¹

When Harlequin data is excluded from the total Canadian-owned, Ontario-based revenue results presented in Exhibit 10, one can observe that industry revenue dropped by roughly one-third between 2003 and 2011 (Exhibit 12).

Exhibit 12 Canadian-owned, Ontario-based book publishing industry revenue (excluding Harlequin) (2003 and 2011)

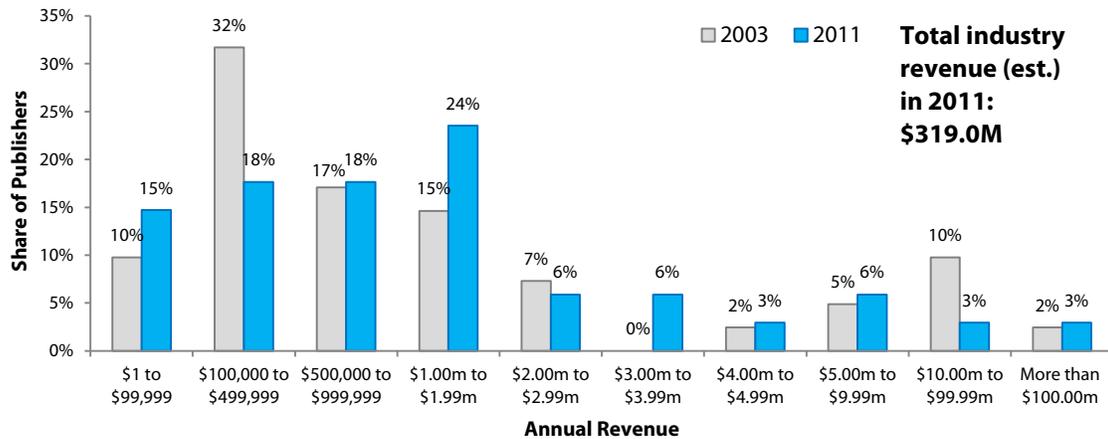


Source: 2011 survey data and recast 2003 Pollara data (excludes Harlequin Enterprises)

Returning to the survey data, it is clear that Canadian-owned, Ontario-based book publishers vary widely in size. While 6% of book publishers reported 2011 revenue of more than \$10 million, the remaining 94% of companies were distributed right across the revenue-size spectrum. That being said, the majority of companies may be considered small, with half of companies (50%) reporting that their 2011 revenue was under \$1 million (Exhibit 13). A similar distribution was evident in 2003, as depicted in the exhibit below, although some 59% of companies reported revenue of under \$1 million (Exhibit 13).

³¹ Torstar Annual Reports 2011, p. 24.

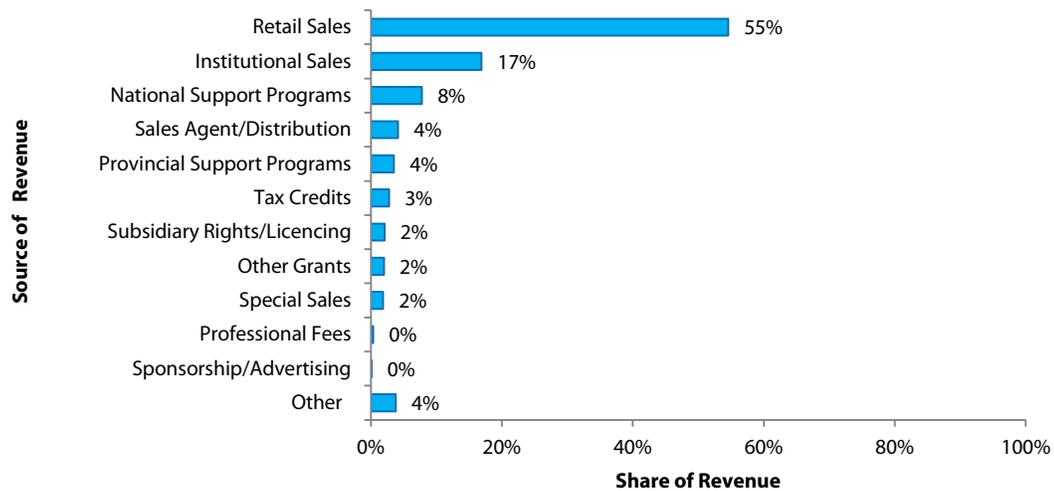
Exhibit 13 Canadian-owned, Ontario-based book publishers by revenue (2003 vs. 2011)



Source: 2011 survey data, Torstar 2011 Annual Report, recast 2003 Pollara data and Torstar 2003 Annual Report
2003 n: 41, 2011 n: 34

Retail sales accounted for 55% of Ontario book publishers' total revenue in 2011 (Exhibit 14). Other significant sources of revenue included institutional sales and national support programs.³²

Exhibit 14 Sources of revenue (2011)

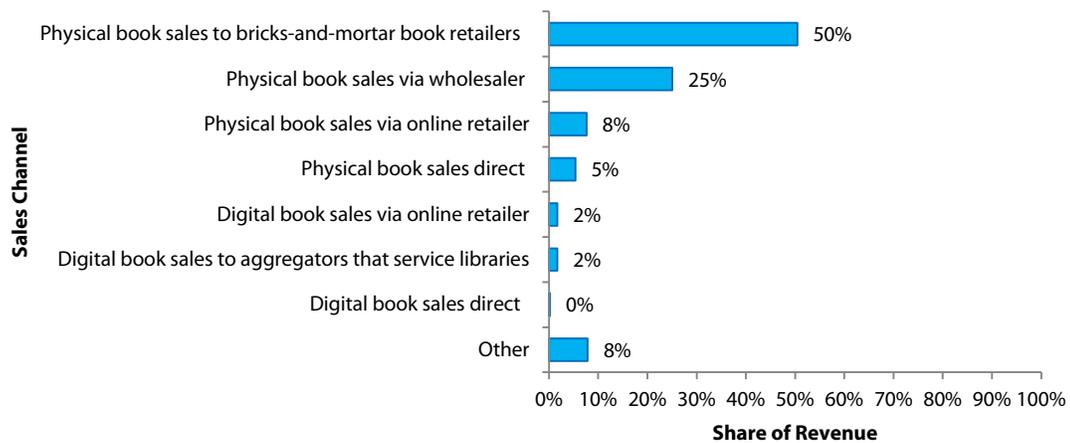


Source: 2011 survey data (excludes Harlequin Enterprises)
Note: Some totals may not sum due to rounding.

³² As tax credits are disbursed as cheques to book publishers (by CRA) – and there are no restrictions on how it is to be spent – they are to be treated as revenue.

Physical book sale channels continued to represent the vast majority of Ontario book publishers' revenue in 2011. In fact, physical book sales through bricks-and-mortar retailers accounted for 50% of 2011 revenue (Exhibit 15). Wholesalers, online retailers and direct sales were also important channels for physical sales. Overall, physical book sales accounted for 89% of Ontario book publishers' revenue in 2011 (Exhibit 15).

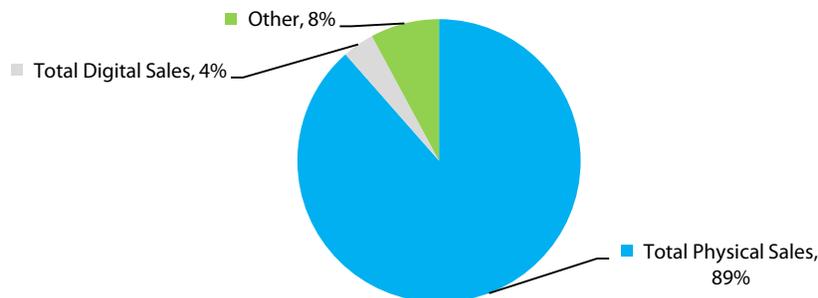
Exhibit 15 Sources of revenue, by sales channel (2011)



Source: 2011 survey data (excludes Harlequin Enterprises)
 Note: Some totals may not sum due to rounding.

Excluding Harlequin, digital sales channels accounted for 4% of 2011 sales (Exhibit 16). This area is one where Harlequin's results are markedly different from the rest of the Canadian-owned, Ontario-based book publishers. In 2011, Harlequin's global digital revenues were approximately 16% of total sales, up from 8% in 2010.³³

Exhibit 16 Sources of revenue, physical vs. digital (2011)

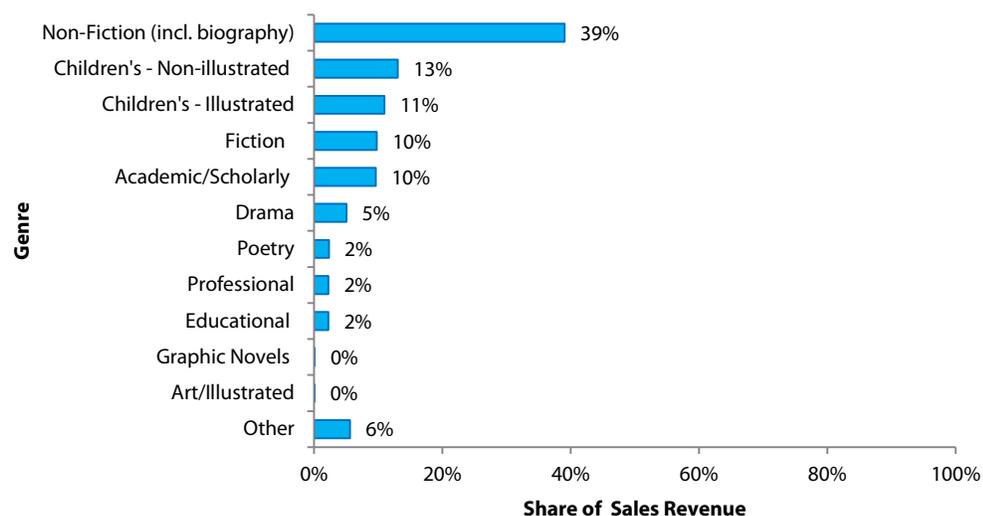


Source: 2011 survey data (excludes Harlequin Enterprises)
 Note: Some totals may not sum due to rounding.

³³ Torstar Corporation 2011 Annual Report." p. 18.

Non-fiction was the largest single genre of publishing for Ontario book publishers in 2011, accounting for 39% of total revenue in 2011 (Exhibit 17). Children’s books (illustrated and non-illustrated) were also important, accounting for 24% of 2011 revenue. Sales of fiction titles accounted for 10% of total revenue in 2011, as did titles in the academic/scholarly genre.

Exhibit 17 Sources of revenue by genre of publication (2011)



Source: 2011 survey data (excludes Harlequin Enterprises)

The genres identified in the 2003 and 2011 surveys differed slightly but Exhibit 18 presents a comparison of the two years as much as possible. In 2011, the “Non-Fiction” category has become even more important to publishers while “Educational” titles have experienced a drop in share of total revenue since 2003. “Fiction” (including “Drama”) and “Children’s” titles experienced very slight declines between 2003 and 2011.

Exhibit 18 Sources of revenue by genre of publication (2003 and 2011)

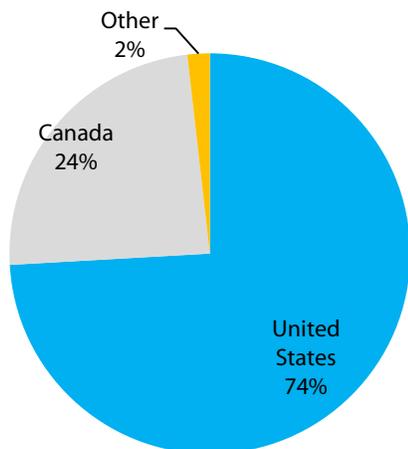
Genres	2003 (%)	2011 (%)
Non-Fiction	29%	39%
Children’s (includes Illustrated and Non-illustrated)	25%	24%
Educational (includes Academic/Scholarly, Professional)	23%	14%
Fiction (includes Drama)	16%	15%
Poetry	5%	2%
Other (includes Graphic Novels, Art/Illustrated)	3%	6%

Source: 2011 survey data, recast 2003 Pollara data (excludes Harlequin Enterprises)

Note: Some totals may not sum due to rounding.

Source of revenue by region is another area where Harlequin’s results differ significantly from the rest of the Ontario publishers. If we first look at the total results *including* Harlequin, the U.S. was the dominant market for Canadian publishers in 2011 and contributed nearly three-quarters of all revenue by region. Domestic revenue accounted for 24% or \$76.8 million in 2011, meaning that Canada is the second-largest market by revenue for Ontario publishers (Exhibit 19).

Exhibit 19 Sources of revenue, by region (including Harlequin) (2011)



Other	%
Rest of Europe	1%
United Kingdom	<1%
Rest of Asia	<1%
Australia and New Zealand	<1%
India	<1%
Rest of the World	<1%
Portuguese Latin America	<1%
Spanish Latin America	<1%
China	<1%

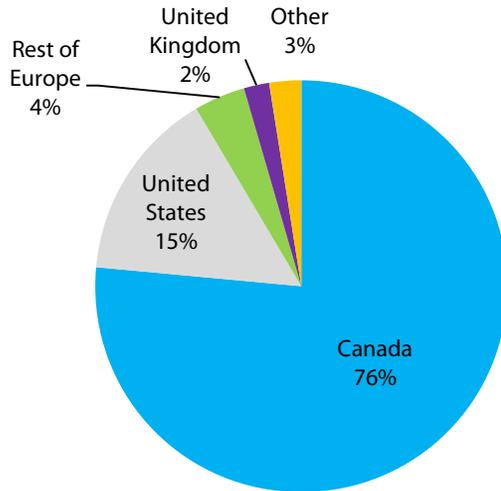
Source: 2011 survey data and Torstar 2011 Annual Report

As Exhibit 19 shows, the U.S. and Europe (including the U.K.) were the largest export markets in 2011 for Ontario book publishers, with \$233 million and \$76 million in export revenue, respectively (Exhibit 19).³⁴ It should be noted that the vast majority of U.S. export revenue in 2011 was generated by Harlequin.

When Nordicity excluded Harlequin North America, however, a different picture emerged. The domestic market accounted for approximately 76% of publisher revenue, suggesting much of the U.S. market share in Exhibit 19 can be attributed to Harlequin. Export revenue; *i.e.*, revenue originating from outside Canada, accounted for approximately 24% of total revenue for Ontario publishers (excluding Harlequin).

³⁴ Export revenue figures are estimated by multiplying the average percent of revenue generated per jurisdiction in each revenue category (as expressed in Exhibit 13) by the total revenue generated by book publishers in that revenue category, and then summing the results for each jurisdiction.

Exhibit 20 Sources of revenue, by region (excluding Harlequin) (2011)

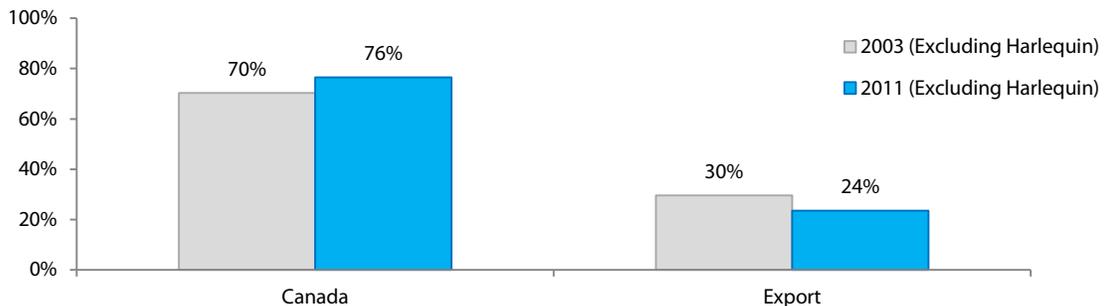


Other	%
Rest of Asia	1%
Australia and New Zealand	1%
India	<1%
Rest of the World	<1%
Portuguese Latin America	<1%
Spanish Latin America	<1%
China	<1%

Source: 2011 survey data (excludes Harlequin)

A comparison of 2003 and 2011 sources of revenue by region reveals that the domestic market share has grown in importance for publishers, while international sales have experienced a slight decline.

Exhibit 21 Sources of revenue, by region (excluding Harlequin) (2003 and 2011)



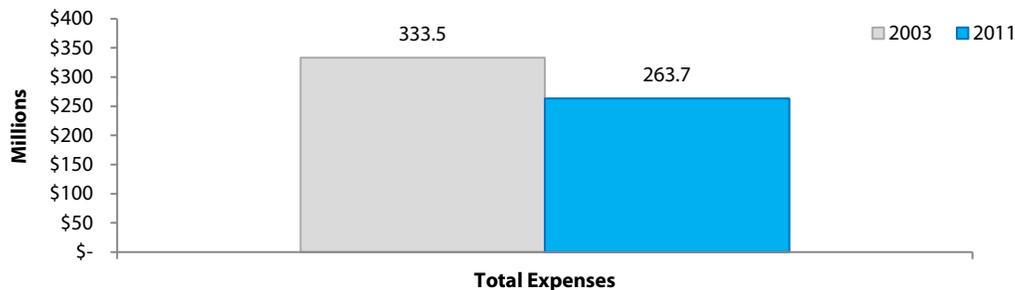
Source: 2011 survey data, recast 2003 Pollara data (excludes Harlequin Enterprises)

3.2 Expenditures

From the survey and the estimated Harlequin data, we constructed a profile of Ontario book publishers' operating expenditures. This profile included a breakdown of expenditures by key category (*i.e.*, wages and benefits, printing and production, etc.) and a breakdown by location of expenditure (*i.e.*, inside or outside Ontario). These breakdowns permitted us to isolate the impact on the Ontario economy.

In total, Ontario book publishers' operating expenditures amounted to \$263.7 million in 2011, down 20.9% from \$333.5 million in 2003, or a CAGR of negative 2.9% between 2003 and 2011 (Exhibit 22).

Exhibit 22 Operating Expenditures (2003 and 2011)



Source: 2011 survey data, Torstar Annual Report 2011 and 2003, recast 2003 Pollara survey data

Of the 2011 total, \$116.8 million, or 44%, was spent in Ontario, while the balance, \$146.9 million, was spent on the acquisition of services and supplies from outside the province.

Employee wages and benefits were the largest single category of operating expenditures. Ontario book publishers spent an estimated \$73.6 million on wages and benefits in 2011; the vast majority of these wages and benefits (\$58.8 million) were paid inside Ontario. Other significant expenditure categories included rental costs, printing and production, advances and royalties, sales and distribution costs, and marketing and promotion.

Exhibit 23 Operating expenditures (\$) (2011)

	Inside Ontario	Outside Ontario	Total
Wages and Benefits	58,814,948	14,792,529	73,607,476
Printing and Production	9,719,417	39,760,376	49,479,793
Advances and Royalties	7,201,024	24,234,395	31,435,418
Sales and Distribution	5,192,386	18,399,153	23,591,538
Marketing and Promotion			
Advertising services (<i>i.e.</i> , fees paid to an outside agency)	992,282	3,811,865	4,804,147
Promotional tour costs (<i>i.e.</i> , travel expenses for authors)	341,382	1,311,422	1,652,804
Other	<u>2,434,887</u>	<u>9,353,648</u>	<u>11,788,535</u>
Total - Marketing and Promotion	3,768,551	14,476,935	18,245,486
Overhead			
Rental costs	7,462,691	1,943,420	9,406,111
Utilities (<i>e.g.</i> , electricity, telecoms, etc.)	1,700,684	442,889	2,143,573
Computer equipment maintenance and upkeep	1,150,308	299,561	1,449,870
Computer software licences	508,729	132,482	641,211
Office supplies	1,123,131	292,484	1,415,615
Other	<u>534,543</u>	<u>139,205</u>	<u>673,747</u>
Total overhead	12,480,087	3,250,040	15,730,128
Design - freelancers	1,843,071	10,968,421	12,811,492
Transportation and Travel	5,573,176	4,612,445	10,185,621
Design - companies	1,099,027	6,587,959	7,686,986
Other Professional Services	3,830,380	1,144,446	4,974,827
Banking Fees and Insurance	2,231,789	568,633	2,800,423
Legal and Accounting	2,175,611	601,137	2,776,748
Digital Conversion	1,788,020	785,792	2,573,812
Professional Development and Training	116,406	24,795	141,201
Other	<u>965,067</u>	<u>6,648,073</u>	<u>7,613,141</u>
Total	116,798,960	146,855,130	263,654,090

Source: Nordicity analysis based on data from 2011 survey and Torstar 2011 Annual Report

3.3 Employment

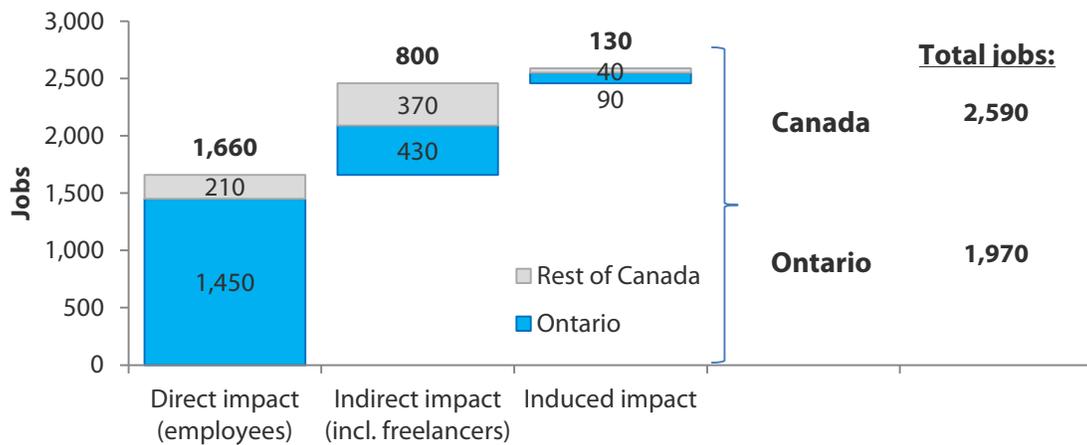
The Canadian-owned, Ontario-based book publishing industry generated an estimated 1,970 FTEs in Ontario in 2011. Across Canada (including Ontario), the economic impact of Canadian-owned, Ontario-based book publishers led to the creation of 2,590 FTEs (Exhibit 24).

- According to the data from the survey and the estimated Harlequin numbers, Canadian-owned, Ontario-based book publishers employed approximately 1,460 persons in Ontario in 2011 (Exhibit 25). This total included approximately 1,440 full-time employees and 20 part-time employees. These 1,460 employees were equivalent to 1,450 full-time employees.
- The industry's **direct** impact on employment in the rest of Canada was an additional 210 FTEs, bringing the total direct employment impact to 1,660 FTEs.
- In addition to the workers directly employed by Canadian-owned, Ontario-based book publishing companies, Nordicity estimates that the **indirect** impact of the industry generated an additional 800 FTEs in Canada in 2011, including 430 FTEs in Ontario and 370 FTEs in the rest of Canada. These 800 FTEs included freelancers working directly for

publishing companies as well as the employees of companies that directly provide services and supplies to Canadian-owned, Ontario-based book publishing companies (e.g., printing companies), as well as other companies in the supplier companies' supply chain (e.g., paper producers, forestry companies).³⁵

- As both direct and indirect workers re-spent their household income in the Ontario economy, they generated economic activity (**induced** impact) that supported a further 90 FTEs in Ontario and 40 FTEs in the rest of Canada, bringing the total induced impact on employment across Canada to 130 FTEs.

Exhibit 24 Employment impact (2011)



Source: Nordicity estimates based on 2011 survey data; Torstar 2011 Annual Report; Statistics Canada, CANSIM tables 281-0027, 381-0012 and 381-0013; Canada Revenue Agency.

The direct and total impacts on employment have fallen in comparison to 2003. In 2003, the Canadian-owned, Ontario-based book publishing industry generated 1,560 FTEs of direct employment in Ontario.³⁶ The total impact on employment (direct + indirect + induced) in Ontario and Canada was also higher in 2003 compared to 2011. For 2003, the total employment impact was an estimated 2,390 FTEs for Ontario and 3,360 FTEs across Canada. These figures are higher than the 2011 results (Exhibit 24, above).

³⁵ See sub-section 1.2.4 "Economic impact analysis and modelling" for an explanation of Nordicity's economic impact approach and methodology.

³⁶ See sub-section 1.2.2 "Preparing data from 2003" and Appendix A for explanations of Nordicity's approach and methodology with respect to 2003 survey data and data for Harlequin.

Exhibit 25 Employment (FTE) impact statistics (2003 and 2011)

Economic indicator	2003	2011
Direct impact on employment in Ontario	1,560	1,450
Total employment impact (direct + indirect + induced) - Ontario	2,390	1,970
Total employment impact (direct + indirect + induced) - Canada	3,360	2,590

Source: Nordicity estimates based on data from 2011 survey; recast 2003 Pollara data; Torstar 2003 Annual Report; Torstar 2011 Annual Report, Statistics Canada, CANSIM tables 281-0027, 381-0012 and 381-0013; Canada Revenue Agency.

3.4 Household income

The employment created by the Canadian-owned, Ontario-based book publishing industry also generates significant amounts of household income for Ontario residents and residents in other provinces. This household income largely comprises the wages earned by the employees of publishing companies, and the freelancers and workers whose employment is associated with the indirect and the induced impacts. The household income generated by the Canadian-owned, Ontario-based book publishing industry also includes advances and royalties paid to authors and other rights holders.³⁷

As shown in Exhibit 26, in total, the Canadian-owned, Ontario-based book publishing industry generated an estimated \$117.5 million in household income across Canada in 2011, including \$90.3 million for Ontario residents and \$27.2 million for residents in other provinces. Approximately 65.1% of the impact in Ontario was due to wages and benefits paid to employees of Canadian-owned Ontario-based book publishing companies; 8.0% was due to advances and royalties paid to Ontario residents. The balance of the household income, 26.9%, was associated with the indirect and induced impacts.

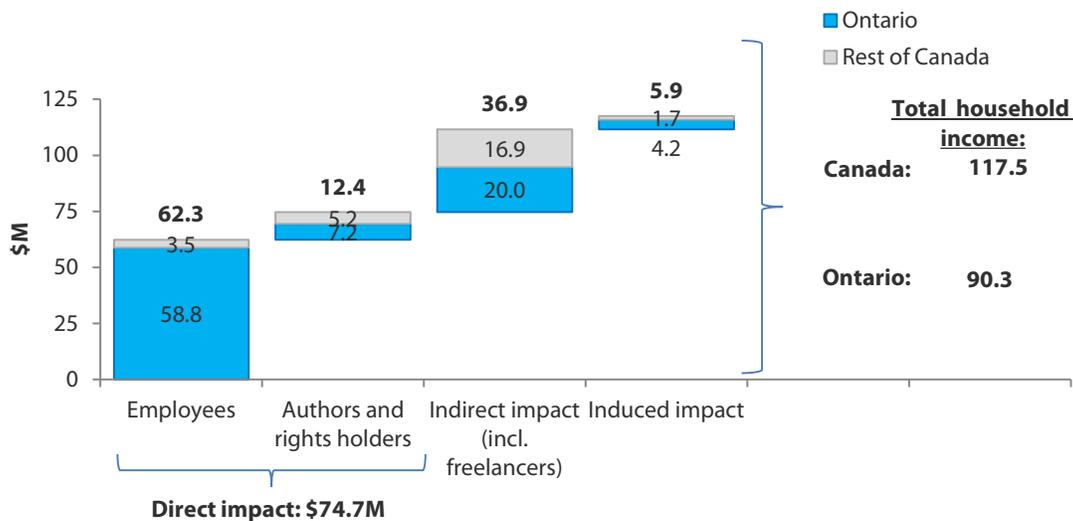
- The **direct** impact on household income comprises employee wages, and payments to authors and other rights holders. The survey data indicate that the Ontario-resident employees of Canadian-owned, Ontario-based book publishing companies earned an estimated \$58.8 million in wages³⁸ in 2011. Added to this amount was an estimated \$3.5 million in wages for employees in other provinces. Canadian-owned, Ontario-based book publishers also paid an estimated \$7.2 million in advances and royalties to authors and other rights-holders resident in Ontario, and a further \$5.2 million to authors and rights holders in other provinces. Summing the amounts for employee wages and advances and royalties, we arrive at an estimate of \$74.7 million for the direct impact of the Canadian-owned, Ontario-

³⁷ Freelance authors and rights holders fall within NAICS 71151 *Independent artists, writers and performers*, which is separate from the publishing industry's NAICS code, NAICS 51113 *Book publishers*. However, because authors and many other rights holders' economic activity is inextricably linked to that of book publishers, we have combined these two NAICS codes to represent the direct economic impact.

³⁸ We use the term "wages" to refer to the total value of employment compensation received by employees within a given industry. This total employment compensation includes the value of any employee benefits, pension plans or payroll taxes.

based book publishing industry in terms of household income in Ontario and other provinces.

Exhibit 26 Household income of Ontario residents (2011)



Source: Nordicity estimates based on 2011 survey data; Torstar 2011 Annual Report, Statistics Canada, CANSIM tables 381-0012 and 381-0013.

Note: Some totals may not sum due to rounding.

- The **indirect** impact on household income in the province consists of the earnings of freelancers and the wages of employees of supplier companies. The indirect impact on household income was an estimated \$20.0 million in Ontario in 2011; the indirect impact on household income in other provinces was \$16.9 million.
- The **induced** impact on household income was an estimated \$4.2 million in Ontario and \$1.7 million in rest of Canada. The total induced impact on household income was \$5.9 million.

The Pollara 2004 study reported household income in terms of *payments to persons*. Pollara defined payments to persons as including (i) wages and salaries of in-house staff at Canadian-owned, Ontario-based book publishers, (ii) expenditures on outside staff, and (iii) payments to authors and agents.³⁹ Payments to persons is analogous to the direct household income reported in Nordicity's analysis, with the exception that the latter excludes expenditures on outside staff (e.g., freelance designers); these expenditures are included in indirect household income.

After adding Harlequin to the 2003 data set, Nordicity estimated payments to persons in Ontario in 2003 at \$72.4 million; the comparable amount for 2011 was \$66.0 million. Therefore, between 2003 and 2011, payments to persons in Ontario dropped by 9%.

³⁹ Pollara *Economic Impact Study of the Canadian-Owned Book Publishing Industry*, 2004, p. 13.

This drop in payments to persons included a 10% decrease in wages and salaries of in-house employees in Ontario, but no change in payments to authors and agents. The total household income impact (direct + indirect + induced) of the Canadian-owned, Ontario-based book publishing industry in Ontario decreased 14%, from \$104.4 million in 2003 to \$90.3 million in 2011.

Payments to persons across Canada includes all payments to persons in Ontario, plus payments to any employees, outside workers or authors and agents in other provinces. Again, after recasting the raw Pollara data set, Nordicity found that payments to persons across Canada was \$81.3 million in 2003; in 2011, payments to persons across Canada (*i.e.*, direct household income in Canada) was \$74.7 million. Therefore, between 2003 and 2011, payments to persons in Canada dropped by 8%.

Wages and salaries of in-house employees across Canada decreased by 10% between 2003 and 2011, while payments to authors and agents increased only slightly from \$12.3 million to \$12.4 million over the same period. The total household income impact (direct + indirect + induced) across Canada of the Canadian-owned, Ontario-based book publishing industry decreased 18%, from \$143.6 million in 2003 to \$117.5 million in 2011.

Exhibit 27 Household income statistics (2003 and 2011) (\$M)

Economic indicator	2003	2011
Ontario		
Payments to persons (<i>i.e.</i> , direct household income)	72.4	66.0
Wages and salaries of in-house employees	65.2	58.8
Payments to authors/agents	7.2	7.2
Total household income impact (direct + indirect + induced)	104.4	90.3
Canada		
Payments to persons (<i>i.e.</i> , direct household income)	81.3	74.7
Wages and salaries of in-house employees	69.1	62.3
Payments to authors/agents	12.3	12.4
Total household income impact (direct + indirect + induced)	143.6	117.5

Source: Nordicity estimates based on data from 2011 survey; recast 2003 Pollara data; Torstar 2003 Annual Report; Torstar 2011 Annual Report, Statistics Canada, CANSIM tables 381-0012 and 381-0013.

3.5 Gross domestic product

Gross domestic product (GDP) captures the full economic value associated with economic activity in the Canadian-owned, Ontario-based book publishing industry. It includes not only the value of household income generated by the industry, but also advances and royalties (*i.e.*, returns to rights holders) and the operating surplus (*i.e.*, income of sole proprietors and the operating profits of publishing companies).

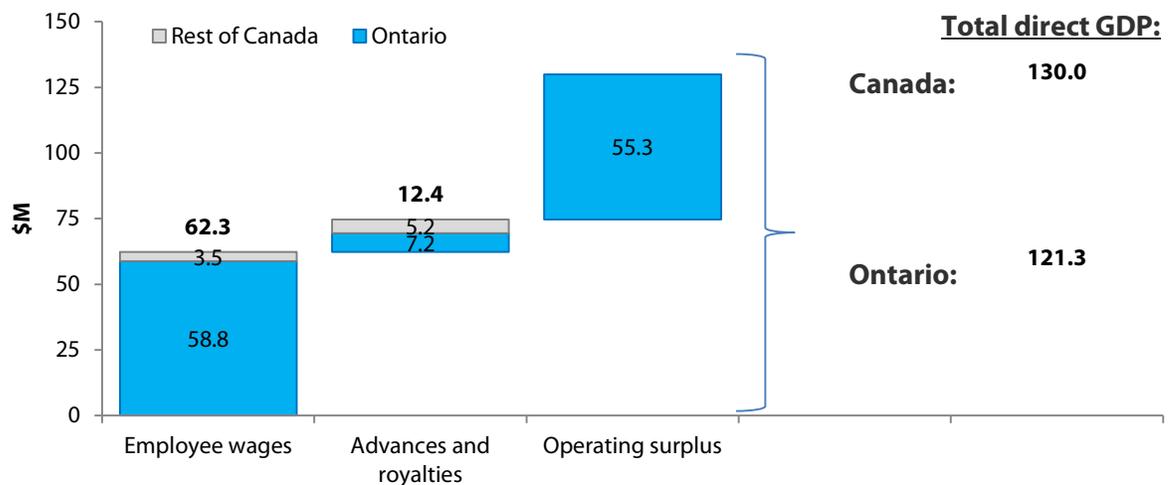
To estimate direct impact on GDP in Ontario (*i.e.*, GDP generated within the Canadian-owned, Ontario-based book publishing industry) we add the value of employee wages (\$58.8 million), advances, and royalties (\$7.2 million) to our estimate of operating surplus. Based on the survey, we estimate that Canadian-owned, Ontario-based book publishers earned \$55.3 million in operating surplus in 2011. Of the total operating surplus, the vast majority, \$46.5 million, was attributable to

Harlequin's North American operations; the balance, \$8.8 million, was attributable to other Canadian-owned, Ontario-based book publishers.

In total, therefore, the Canadian-owned, Ontario-based book publishing industry generated an estimated \$121.3 million in direct GDP in 2011.

Taking into account the employee wages, and payments to authors and other rights holders in other provinces, we estimate that the direct impact of the Canadian-owned, Ontario-based book publishing industry on Canada's GDP was \$130.0 million in 2011.

Exhibit 28 Direct impact on gross domestic product (2011)

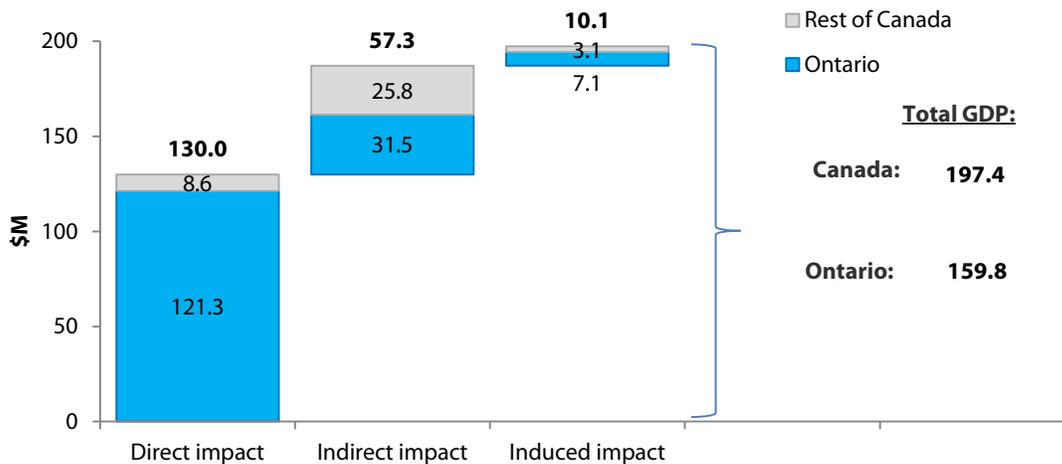


Source: Nordicity estimates based on data from 2011 survey; Torstar 2011 Annual Report, Statistics Canada, CANSIM tables 381-0012 and 381-0013.

We add the value of the indirect and induced GDP impacts to the estimate of direct impact on GDP to arrive at an estimate of the total GDP impact of the Canadian-owned, Ontario-based book publishing industry. In total, the Canadian-owned, Ontario-based book publishing industry generated an estimated \$197.4 million in GDP across Canada in 2011, including \$159.8 million of GDP in the Ontario economy (Exhibit 29).

- The **direct** GDP impact (Exhibit 27) was \$121.3 million in Ontario and \$8.7 million in the rest of Canada. The total direct GDP impact was \$130.0 million across Canada;
- The **indirect** GDP generated in Ontario by Canadian-owned, Ontario-based book publishers was an estimated \$31.5 million in 2011 (Exhibit 29). This amount included the value of freelancers' earnings, but excluded the value of any supplies or services acquired from companies located outside of Ontario. The indirect impact of the Canadian-owned, Ontario-based book publishing industry in the rest of Canada was an estimated \$25.8 million in 2011, bringing the indirect impact on national GDP to \$57.3 million; and
- The **induced** impact on GDP was an estimated \$7.1 million in Ontario in 2011, and \$3.1 million in the rest of Canada. The total value of the induced impact on national GDP was therefore \$10.1 million in 2011.

Exhibit 29 Total impact on gross domestic product (2011)



Source: Nordicity estimates based on 2011 survey, Torstar 2011 Annual Report, Statistics Canada, CANSIM tables 381-0012 and 381-0013.

Note: Some totals may not sum due to rounding.

The results of the Nordicity analysis point to lower direct GDP in Ontario in 2011 (\$121.3 million) than in 2003 (\$155.6 million) (Exhibit 29). The total GDP impact (direct + indirect + induced) for Ontario was also lower in 2011 (\$159.8 million) than 2003 (\$205.3 million). Similarly, the total GDP impact for Canada was lower in 2011 (\$197.4 million) than in 2003 (\$257.6 million).

Exhibit 30 GDP impact statistics (2003 and 2011) (\$M)

Economic indicator	2003	2011
Direct impact on GDP in Ontario	155.6	121.3
Total GDP impact in Ontario (direct + indirect + induced)	205.3	159.8
Total GDP impact in Canada (direct + indirect + induced)	257.6	197.4

Source: Nordicity estimates based on 2011 survey; recast 2003 Pollara data, Torstar 2003 Annual Report, Torstar 2011 Annual Report, Statistics Canada, CANSIM tables 381-0012 and 381-0013.

3.6 Fiscal impact

For the fiscal impact analysis, we developed a simple model based on the effective average tax rates (*i.e.*, tax ratios) prevailing in 2009 (the last year for which data was published by Statistics Canada) for the Ontario economy and across the Canadian economy.

To derive a tax ratio for Ontario personal income tax, we compared the amount of personal income tax collected by the Ontario government to the total value of wages in the Ontario economy. To calculate tax ratios for provincial corporation income tax, consumption tax (*e.g.*, sales tax and fuel tax), and property tax, we compared the amounts collected by the Province to its total GDP. We used a similar process to derive tax ratios for federal government taxes and for provincial taxes in other provinces. The data used to calculate these tax ratios can be found in Exhibit 31 (below).

Exhibit 31 Calculation of tax ratios for fiscal impact analysis (annual average: 2006-2009)

	Ontario tax revenue (\$M)	Base amount (\$M)	Tax ratio
Personal income tax	27,441	318,766 [†]	8.6%
Corporate income tax	8,983	578,303 ^{††}	1.6%
Consumption tax	24,486	578,303 ^{††}	4.2%
Property and related taxes	23,918	578,303 ^{††}	4.1%

Source: Nordicity calculations based on data from Statistics Canada CANSIM tables 384-0001, and 385-0001.

[†] Total wages in the Ontario economy

^{††} Total GDP in the Ontario economy

To estimate the provincial tax revenues generated by the Canadian-owned, Ontario-based book publishing industry, we multiplied the tax ratios by the appropriate base amount. For personal income tax, we multiplied the tax ratio by the total amount of household income (direct + indirect + induced) generated by the Ontario book publishing industry in 2011. For the corporation, consumption and property taxes, we multiplied the tax ratios by the total GDP impact (direct + indirect + induced) generated by the Canadian-owned, Ontario-based book publishing industry in 2011. The estimates of the provincial, federal and local tax revenue generated by the economic impact in Ontario are summarized in Exhibit 32.

The economic impact of the Canadian-owned, Ontario-based book publishing industry led to an estimated \$17.0 million in tax revenue for the Ontario government. The economic impact in Ontario also created \$20.9 million in federal tax revenue and \$6.9 million in local government tax revenue.

Exhibit 32 Estimate of tax revenues associated with economic impacts on Ontario (2011) (\$M unless indicated otherwise)

	Provincial			Federal			Local		
	Tax ratio	Base amount	Tax revenue	Tax ratio	Base amount	Tax revenue	Tax ratio	Base amount	Tax revenue
Personal income tax	9.0%	90.3 [†]	8.1	14.0%	90.3 [†]	12.7	--	--	--
Corporate income tax	1.2%	159.8 ^{††}	1.9	2.2%	159.8 ^{††}	3.5	--	--	--
Consumption tax	4.4%	159.8 ^{††}	7.0	3.0%	159.8 ^{††}	4.7	--	--	0.0
Property and related tax	--	--	--	--	--	--	4.3%	159.8 ^{††}	6.9
Total	--	--	17.0	--	--	20.9	--	--	6.9

Source: Nordicity estimates based on data from 2011 survey; Torstar 2011 Annual Report, Statistics Canada, CANSIM tables 381-0012, 381-0013, 384-0001 and 385-0001.

[†] Total household income impact

^{††} Total GDP impact

The economic impact of the Canadian-owned, Ontario-based book publishing industry in the rest of Canada created \$4.8 million in tax revenue for other provincial governments, \$5.7 million in federal tax revenue and \$1.3 million in local government tax revenue (Exhibit 33).

Exhibit 33 Estimate of tax revenues associated with economic impacts in the rest of Canada (2011) (\$M unless indicated otherwise)

	Provincial (excludes Ontario)			Federal			Local		
	Tax ratio	Base amount	Tax revenue	Tax ratio	Base amount	Tax revenue	Tax ratio	Base amount	Tax revenue
Personal income tax	9.3%	27.2 [†]	2.5	14.0%	27.2 [†]	3.8	--	--	--
Corporate income tax	1.4%	37.6 ^{††}	0.5	2.2%	37.6 ^{††}	0.8	--	--	--
Consumption tax	4.6%	37.6 ^{††}	1.7	3.0%	37.6 ^{††}	1.1	--	--	--
Property and related tax	--	--	--	--	--	--	3.5%	37.6 ^{††}	1.3
Total	--	--	4.8	--	--	5.7	--	--	1.3

Source: Nordicity estimates based on data from 2011 survey; Torstar 2011 Annual Report, Statistics Canada, CANSIM tables 381-0012, 381-0013, 384-0001 and 385-0001.

Note: Some totals may not sum due to rounding

† Total household income impact

†† Total GDP impact

Overall, the economic impact of the Canadian-owned, Ontario-based book publishing industry led to an estimated \$44.8 million in tax revenue for all levels of government in 2011 (Exhibit 34). The impact in the rest of Canada was \$11.9 million. For provincial governments across Canada, the industry generated \$21.8 million in tax revenue; for the federal government, it generated \$26.6 million in tax revenue; and for local governments in Canada, the industry generated \$8.2 million in tax revenue.

Exhibit 34 Summary of fiscal impact (2011) (\$M)

	Provincial tax	Federal tax	Local tax	Total
Ontario	17.0	20.9	6.9	44.8
Rest of Canada	4.8	5.7	1.3	11.9
Total Canada	21.8	26.6	8.2	56.6

Source: Nordicity estimates based on data 2011 survey data; Torstar 2011 Annual Report, Statistics Canada, CANSIM tables 381-0012, 381-0013, 384-0001 and 385-0001.

Note: Some totals may not sum due to rounding

The fiscal impact in 2011 was lower than the impact derived with Nordicity's fiscal impact model for 2003 (Exhibit 35). The lower fiscal impact in 2011 was largely a function of the lower total GDP impact also produced in 2011 (Exhibit 30).

Exhibit 35 Fiscal impact indicators (2003 and 2011) (\$M)

Economic indicator	2003	2011
Provincial government revenue - Ontario	20.8	17.0
Provincial government revenue - Canada	27.6	21.8
Federal government revenue - Ontario	25.2	20.9
Federal government revenue - Canada	33.4	26.6
Local government revenue - Ontario	8.8	6.9
Local government revenue - Canada	10.6	8.2

Source: Nordicity estimates based on data from 2011 survey data; recast 2003 Pollara data, Torstar 2003 Annual Report; Torstar 2011 Annual Report, Statistics Canada, CANSIM tables 381-0012, 381-0013, 384-0001 and 385-0001.

3.7 Summary of economic impact

The economic activity stimulated by the Canadian-owned, Ontario-based book publishing industry generated 1,970 FTEs in Ontario in 2011, including 1,450 FTEs directly in the book publishing industry (Exhibit 36). The economic activity stimulated by the industry also generated \$90.3 million in household income for Ontario residents and \$159.8 million in GDP for the Ontario economy.

The results of this economic impact analysis indicate that for every \$10 million of revenue, the Canadian-owned, Ontario-based book publishing industry generated:

- 61.8 FTEs of employment in the Ontario economy;
- \$2.8 million of household income for Ontario residents;
- \$5.0 million of GDP for the Ontario economy; and
- \$700,000 of provincial and local tax revenue for the Ontario government.

Exhibit 36 Summary of total economic impact in Ontario (2011)

	Direct impact	Indirect impact	Induced impact	Total	Impact per \$10M of industry revenue
Employment (FTEs)	1,450	430	90	1,970	61.8
Household income (\$M)	66.0	20.0	4.2	90.3	2.8
GDP (\$M)	121.3	31.5	7.1	159.8	5.0
Provincial and local tax revenue (\$M)	--	--	--	23.9	0.7

Source: Nordicity estimates based on data from 2011 survey; Torstar 2011 Annual Report, Statistics Canada, CANSIM tables 281-0027, 381-0012, 381-0013, 384-0001 and 385-0001; Canada Revenue Agency.

On a Canada-wide basis, the economic activity stimulated by the Canadian-owned, Ontario-based book publishing industry generated an estimated 2,600 FTEs of employment in 2011, including 1,670 FTEs directly in the book publishing industry (Exhibit 37). The economic activity stimulated by the Canadian-owned, Ontario-based book publishing industry also generated \$117.0 million in household income for Canadians and \$197.0 million in GDP for the Canadian economy.

For every \$10 million of revenue, the Canadian-owned, Ontario-based book publishing industry generated:

- 81.2 FTEs of employment throughout the Canadian economy;
- \$3.7 million in household income for Canadian residents;
- \$6.2 million in GDP for the Canadian economy; and
- \$1.8 million in tax revenue for federal, provincial and local governments in Canada.

Exhibit 37 Summary of total economic impact in Canada (2011)

	Direct impact	Indirect impact	Induced impact	Total	Impact per \$10M of industry revenue
Employment (FTEs)	1,660	800	130	2,590	81.2
Household income (\$M)	74.7	36.9	5.9	117.5	3.7
GDP (\$M)	130.0	57.3	10.1	197.0	6.2
Federal, provincial and local tax revenue (\$M)	--	--	--	56.6	1.8

Source: Nordicity estimates based on data from 2011 online survey; Torstar 2011 Annual Report, Statistics Canada, CANSIM tables 281-0027, 381-0012, 381-0013, 384-0001 and 385-0001; Canada Revenue Agency

When the results of this economic impact analysis are compared to the recast results of Pollara's 2003 survey of the book publishing industry, we observe that the industry's economic and fiscal impacts fell between 2003 and 2011 in much the same way as the industry's revenue dropped.

Direct industry employment in Ontario was down by 7%, from 1,560 FTEs to 1,450 FTEs. The total employment impact (direct + indirect + induced) in Ontario was down by even more; it dropped by 18%, from 2,390 FTEs to 1,970 FTEs. Similarly, the total Canada-wide employment impact (direct + indirect + induced) fell by 23%, from 3,360 FTEs to 2,590 FTEs.

The drop in employment between 2003 and 2011 also led to a drop in household income. Total household income in Ontario (including employees, authors, freelancers and indirect and induced impact workers) dropped by 14%, from \$104.4 million in 2003 to \$90.3 million in 2011 (Exhibit 27). On a Canada-wide basis, the total household income impact dropped by 18%, from \$143.6 million in 2003 to \$117.5 million in 2011 (Exhibit 37).

The book publishing industry's total GDP impact (direct + indirect + induced) in Ontario fell by 22%, from \$205.3 million in 2003 to \$159.8 million in 2011 (Exhibit 30). Canada-wide total GDP (direct + indirect + induced) fell by 23%, from \$257.6 million in 2003 to \$197.4 million in 2011 (Exhibit 30).

4. Impact of Digitization

Nordicity has drawn primarily on 2011 survey data and some secondary research to prepare an analysis of the impact that digitization has had on the Ontario book publishing industry. After providing the context of digitization in the book publishing industry, Nordicity quantifies the impact of digitization on the Ontario book publishing industry's operating revenues, profit margins and average profit per sale.

4.1 Context of digitization

The book publishing industry has undergone various transformations since the publication of the Pollara study in 2004. Over the last eight years, the publishing value chain has experienced the impact of digitization as new technologies change consumer buying and reading habits. The rise of e-books has forced publishers to evolve their abilities to reach and engage audiences on multiple platforms. As "24/7" connectivity has become a reality, publishers have also faced increased competition for readers' time and attention from social networks, online video, video and mobile gaming and other media and technology (indeed, as reported earlier, "Competition from other media for readers' attention" was the number one barrier to growth cited by publishers that responded to the survey).

The challenges for publishers of a multi-platform market include: ramping-up time devoted to building digital skill-sets in-house, keeping ahead of the latest digital pricing models and formats, as well as new contractual obligations. Simultaneously, publishers find themselves in a defensive position regarding the value they add to the print and digital publishing processes as some authors weigh the benefits of self-publishing.⁴⁰

At the global level, one of the central discussions unfolding now relates to the concept of value and, in turn, price. Consumers, publishers, authors and retailers can each perceive the value of printed books versus e-books in different ways. While consumers may embrace the downward pressure on e-book prices, publishers are anxious for readers to understand that the value of the book is not solely related to the printed object. Instead, the value is derived from the content itself, and from a publisher's perspective, the work required to create that content is roughly comparable, regardless of the format in which it is delivered.⁴¹

In the U.S. and the U.K., certain publishers have been reprimanded for working with Apple's iBookstore in an "agency model" for pricing e-books rather than the traditional "wholesale model" (e.g., The U.S. Department of Justice accused Apple and five publishers of "conspiring to raise e-book prices"⁴²). In the agency model, publishers set the price of an e-book across all e-retailers. In the wholesale model, the publisher sets a suggested retail price but the retailer can discount the books as

⁴⁰ Bridle, James, "Why Self-Publishing is No Longer a Vanity Project," www.guardian.co.uk/books/2012/aug/26/self-publishing-vanity-project-penguin, August 26, 2012, and Alison Flood, "Four self-published authors on New York Times ebook bestseller list," www.guardian.co.uk/books/2012/aug/02/self-published-authors-bestseller-ebooks, August 2, 2012.

⁴¹ Sherman, Erik. "The New Yorker's Ken Auletta Needs a Calculator, not an E-Book Reader" *CBS News*. http://www.cbsnews.com/8301-505124_162-43443489/the-new-yorkers-ken-auletta-needs-a-calculator-not-an-e-book-reader, April 21, 2010.

⁴² Catan, Thomas, Jeffrey A. Trachtenberg and Chad Bray, "U.S. Alleges E-Book Scheme." *The Wall Street Journal*, April 12, 2012. <http://online.wsj.com/article/SB10001424052702304444604577337573054615152.html>

deeply as it chooses.⁴³ The benefit of having control over pricing has led some publishers to favour the agency model despite the fact that it can mean lower publisher margins and lower sales volumes. Ultimately, with the power to set a higher price, publishers could attempt to preserve the value associated with the e-book:

“At the heart of the e-book pricing debate is the industry's ongoing concerns about Amazon.com. Publishers see the “agency model” as their best, short-term hope against preventing the online retailer from dominating the e-book market and driving down the price of books to a level unsustainable for publishers and booksellers.

Since launching the Kindle in 2007, Amazon has made a point of offering best-sellers for \$9.99. The discount is so deep from list prices of \$20 and more that it's widely believed Amazon is selling the e-books at a loss as a way of attracting more customers and forcing competitors to lower their prices.”⁴⁴

While these debates are taking place predominantly in the U.S. and Europe, the results of the United States Department of Justice's lawsuit will likely have an impact on e-book prices and price acceptance in Canada, too. That the publishing industry is still working to comprehend and resolve these issues and has not yet settled into a “new normal” is somewhat more understandable when considering that digitization has only begun to have a material impact over the past three or four years. It was not until recent generations of e-readers such as Amazon's Kindle were released in the US in 2007 and in international markets in 2009, that e-books achieved the “long-awaited breakthrough that finally succeeded in luring readers away from paper and ink.”⁴⁵

4.2 Operating revenue impact

Nordicity has drawn on 2003 and 2011 survey responses to quantify the impact that digitization, and the necessity of producing books in both print and digital formats, is having on publishers' operating revenue.

Earlier in the report, Nordicity stated that digital sales (excluding Harlequin) accounted for just 4% of publishers' 2011 revenue.⁴⁶ Publishers' survey responses also revealed that 65% plan, within the next two years, to pursue or augment activities in digital sales and e-retail to reach readers directly - suggesting that digital sales, as a share of total sales, are set to grow.

In terms of average revenue per sale on digital vs. physical sales, Ontario publishers reported higher revenues on physical or print editions than on digital or e-books (Exhibit 37). On average, in 2011, e-book revenue per unit is approximately 88% of that of a print sale. The average revenue per sale of a physical book has also increased by 14% since 2003 when it was \$10.97 per unit.

⁴³Owen, Laura Hazard, “Everything you need to know about the e-book lawsuit in one post”

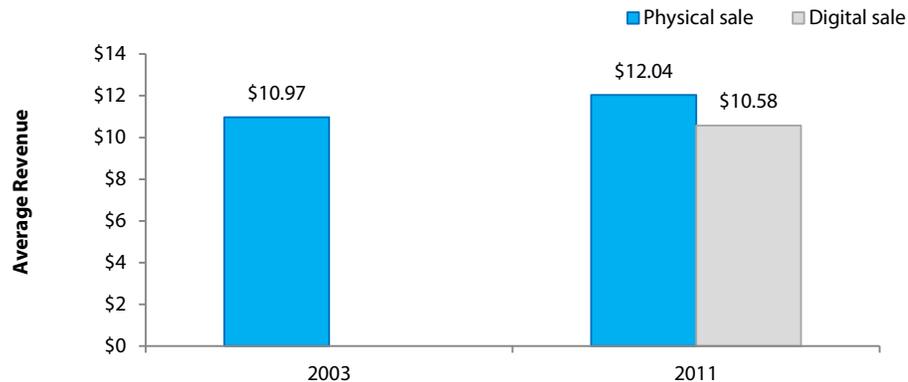
<http://paidcontent.org/2012/04/11/everything-you-need-to-know-about-e-book-doj-lawsuit-in-one-post/>

⁴⁴ Bartz, Diane, “U.S. sues Apple, publishers on e-book 'agency model' price-fixing” *The Globe and Mail*, April 11, 2012.

⁴⁵ PWC, “Turning the Page: The Future of eBooks,” p. 3.

⁴⁶ These results exclude Harlequin. Harlequin's global digital revenues were 15.5% of its total revenue in 2011, up from 7.7% in 2010. Source: “Torstar Corporation 2011 Annual Report,” p. 18.

Exhibit 38 Average revenue per sale (2003 and 2011)



Source: 2011 survey data, recast 2003 Pollara data (excludes Harlequin Enterprises)

As downward pressure in the form of massive discounting on e-book prices continues, the gap between print and digital revenue could begin to widen significantly.

Though difficult to measure, Nordicity also asked publishers to quantify what percentage of their 2011 digital sales they believed replaced physical sales. In other words, Nordicity asked publishers to consider the amount of digital book sales they estimate would previously (before the proliferation of e-books and e-readers) have been physical books sales. The average of the responses from publishers suggested that 7% of digital book sales in 2011 were estimated to have displaced print book sales. In other words, publishers consider that over 90% of digital book sales were perceived as incremental sales (bearing in mind digital book sales accounted for just 4% of total sales).

At BookNet's 2012 BNC Technology Forum, Evan Schnittman, the Managing Director at Bloomsbury Publishing, posited that, for publishers to survive, "E and P must thrive" (meaning e-books and print formats). Digital book sales are on the rise, but, for the near future, publishers are operating in a multi-platform reality, wherein print and digital editions co-exist.

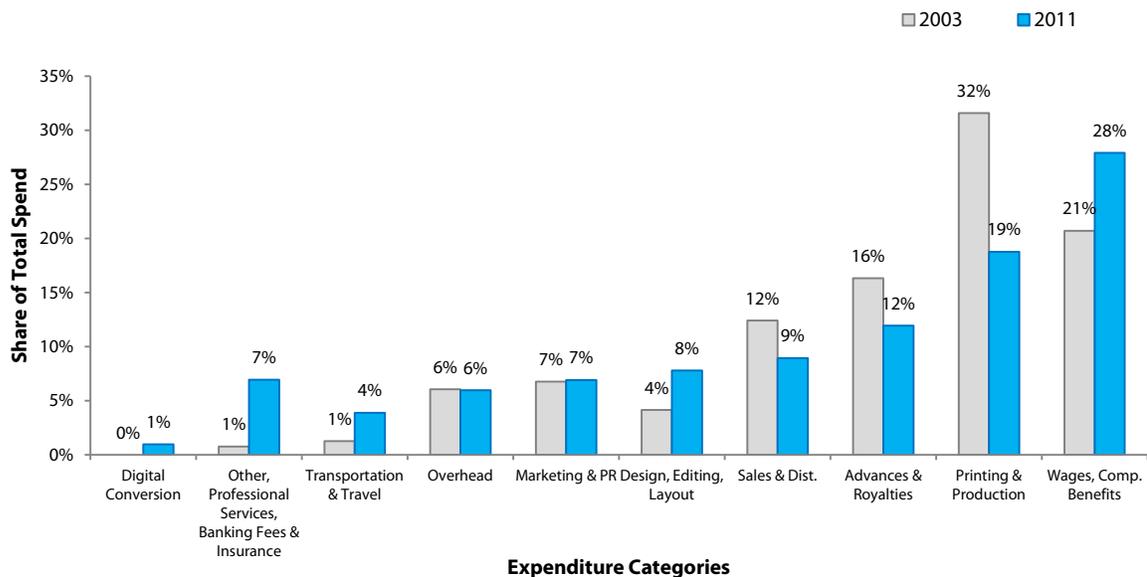
4.3 Operating cost impact

Publishers' direct survey feedback in 2011 was that it is difficult (if not impossible) to isolate the incremental costs related to creating and distributing e-books. For example, while it is clear that printing costs have declined as a share of overall expenditures, for publishers, the time, effort and majority of expenses are equivalent whether preparing a book for the print or e-book market. One cannot easily break down the time and effort involved in editing a manuscript, negotiating a rights agreement or launching a marketing campaign between the print and e-formats. An industry standard does not exist for allocating overheads, wages and professional services costs between print and e-books. In addition, e-books can require increased spending in the form of anti-piracy software, digital warehousing, unique legal guidance, more frequent upgrading of skills and investment in training as well as programming and technical support to adapt each title for various platforms and

formats.⁴⁷ Indeed in the survey to publishers, the sole *purely* digital cost possible to isolate in the expenditure categories (as per Exhibit 38) was the cost of digital conversions. At this stage, digital conversion costs account for approximately 1% of total expenditures.

With these challenges in mind, it is nonetheless possible to observe some shifts in operating cost breakdowns between 2003 and 2011. The exhibit below presents a comparison of expenditures by cost categories, as a share of total expenditures in 2003 and 2011 (*i.e.*, shares of total expenditures, not actual dollar figure spending). Nordicity constructed the 2003 and 2011 category breakdowns drawing on survey data and Torstar’s annual reports. Nordicity cautions against drawing any definitive conclusions from only two data observation points, however these results provide a useful initial snapshot of how the industry is evolving.

Exhibit 39 Operating cost breakdown (2003 and 2011)



Source: 2011 survey data, Torstar 2003 and 2011 Annual Reports and recast 2003 Pollara data

In the context of digitization in the book publishing industry, a few observations are immediately evident in the exhibit above. On the “cost-saving” front between 2003 and 2011, we note:

- The 13 percentage-point drop in printing and production costs as a share of total expenditures. Printing and production costs have dropped from publishers’ highest spending category in 2003 to the second-highest category behind wages, compensation and benefits in 2011;
- A three percentage-point drop in the share of sales and distribution expenditures; and

⁴⁷ Broida, Rick. “Burning Question: Why Do Ebooks Cost So Much?” *Wired Magazine*. August 20, 2010. http://www.wired.com/magazine/2010/08/pr_burningquestion_ebooks/

- A four percentage-point drop in the share of advances and royalties.

Again, to be clear, these results do not indicate that publishers are spending less in total on author advances than in 2003. Rather they suggest that author advances and royalties have declined as a share of publishers' total spend. Conversely, with respect to relative cost increases, we can observe:

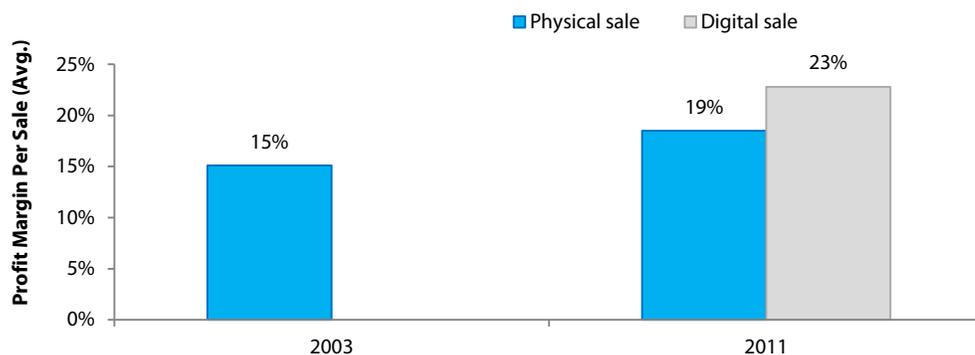
- A one percentage-point increase in digital conversion costs and a four percentage-point increase in share of design, editing and layout costs;
- The seven percentage-point increase in wages, compensation and benefits; and
- A three percentage-point increase in spend on travel and transportation.

As suggested in the earlier discussion of pricing and formats, publishers want to demonstrate to consumers that they should not expect drastically lower book prices when they purchase e-books because the cost structure for producing either format is roughly comparable.

4.4 Operating margin impact

Survey respondents were asked to report, on average, the profit margin they earned on digital and physical sales. As noted above, the average revenue per digital sale was just 88% of that of a print sale. The average profit margin per digital sale, however, is slightly higher than in print at 23% on digital versus 19% on print or physical editions (Exhibit 40). Profit margin per print (physical) sale increased slightly in 2011 from 2003, as depicted in the exhibit below.

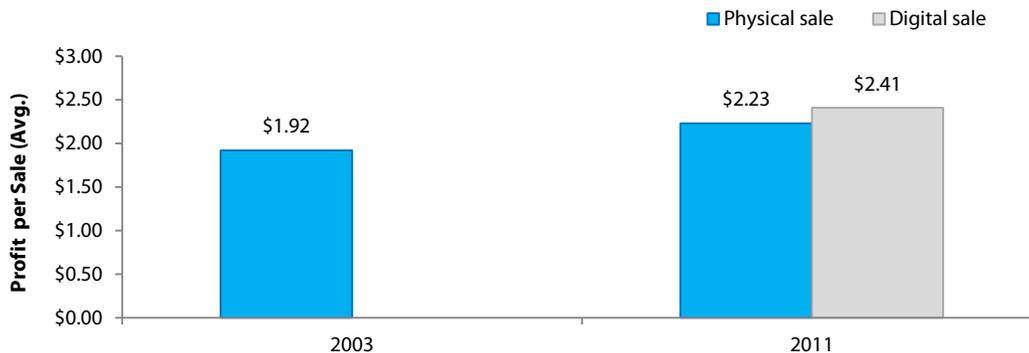
Exhibit 40 Average profit margin per sale (2003 and 2011)



Source: 2011 survey data, recast 2003 Pollara data (excludes Harlequin Enterprises)

The average revenue per sale, alongside the average profit margin per sale, allows us to determine the average profit per sale by format, as depicted in the exhibit below.

Exhibit 41 Average profit per sale (2003 and 2011)



Source: 2011 survey data, recast 2003 Pollara data (excludes Harlequin Enterprises)

In 2011, Ontario publishers reported an average per-sale profit of \$2.41 in digital and \$2.23 in print (Exhibit 41). In other words, as with profit margins, the average profit on a digital sale in 2011 was approximately 8% higher than on a print edition. Similarly, the average profit per physical sale rose from \$1.92 profit per sale in 2003 to \$2.23 in 2011. This higher profit result may be due in part to the ongoing challenge of allocating costs between print and digital editions.

In terms of both growth since 2003 and the balancing of physical and digital publishing in 2011, Ontario publishers are poised to succeed in the digital arena and have managed to successfully preserve and enhance profit margins in the face of new technology. This observation is made in a context, however, where physical book sales, even through bricks-and-mortar channels, still dominate Ontario book publishers' revenues. Further, in 2011, Ontario publishers, on average, do not yet appear to be witnessing a major displacement of physical sales in favour of digital. These two dynamics may carry more of an impact in the future. As a result, ongoing monitoring of publishers' average revenue, margin and profit per sale in digital and print formats will be important, particularly as the debates surrounding e-book pricing online continue to unfold.

5. Conclusions

Canadian-owned, Ontario-based publishers are in a period of extended flux in terms of changing business models, reader behaviour and new digital technology. In 2011, Nordicity estimates that Ontario book publishers earned \$319.0 million in total revenue, down from \$416.8 million in 2003. This drop amounted to a decrease of 23.5% or a CAGR of negative 3.3% between 2003 and 2011. Over the same period, the total industry (foreign- and Canadian-controlled) experienced flat or no revenue growth, according to Statistics Canada and Nordicity tabulations.

Although expenses have also declined by 20.9% (or a CAGR of negative 2.9%) between 2003 and 2011, these “savings” are not necessarily encouraging for Canadian-owned, Ontario-based publishers. The growing popularity of e-books has forced publishers to evolve their abilities to reach and engage audiences on multiple platforms. Yet publishers must simultaneously support their established print businesses, which as of 2011, still formed the vast majority of revenue as compared to their digital offerings. As a result, publishers are investing heavily in exploring new technologies, distribution models, formats and consumer behaviours, before they are truly able to realize material revenue from digital sources.

Contributing to the industry’s uncertainty between 2003 and 2011 were a series of significant mergers and closures of Canadian-owned book publishers. This trend was most recently apparent in the January 2012 transfer of McClelland & Stewart to Random House Canada. Amid these challenges, however, the Canadian-owned, Ontario-based book publishing industry continued to stimulate significant levels of economic activity and job creation in 2011 in Ontario. This economic activity generated an estimated:

- 1,970 FTEs of employment in Ontario in 2011, including 1,450 FTEs directly in the book publishing industry;
- \$90.3 million in household income for Ontario residents; and
- \$159.8 million in GDP for the Ontario economy.

For every \$10 million of revenue, the Canadian-owned, Ontario-based book publishing industry created 61.8 FTEs of employment, \$2.8 million in household income, \$5.0 million in GDP in Ontario, and \$0.7 million in provincial and local tax revenue for the Ontario government.

A comparison of the results of the 2011 economic impact analysis to results of a recast 2003 economic impact analysis indicates that the industry’s economic and fiscal impact fell between 2003 and 2011 in much the same way as the industry’s revenue dropped. For example, Nordicity’s analysis indicates that the Canadian-owned, Ontario-based book publishing industry’s total GDP impact in Ontario fell by 22%, from \$205.3 million in 2003 to \$159.8 million in 2011.

Looking ahead, however, we note that the majority (89%) of Canadian-owned, Ontario-based book publishers that responded to the Nordicity survey predicted at least some growth in the coming one to two years, with about half of publishers predicting “5 to 9%” growth. Though digital captured a relatively small share of 2011 revenue (approximately 4%, excluding Harlequin), the average profit per digital sale in 2011 was approximately 8% higher than on a print edition. At 22%, the average profit margin per digital sale was also slightly higher than on print or physical editions, at 19%. Further, average profit per unit and profit margins for physical editions have actually remained relatively steady between 2003 and 2011. Thus far, it appears as though Ontario publishers have managed to



preserve profit margins in the face of new technology and amid the challenge of maintaining two business models. Publishers have also reported that they predict their future growth may come from increased digital activities and sales. Canadian-owned, Ontario-based publishers reported that they are looking for new ways to reach audiences directly, despite the challenges and financial pressure they face. However, while the debate surrounding e-book pricing continues to unfold, it will be important to monitor publishers' average revenue, margin and profit per sale in digital and print formats on an ongoing basis.

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Appendix A: Methodological Notes and Considerations

This appendix will serve as a guide to the various methodologies used to interpret and analyze the data presented in the full report, “An Economic Impact Study of the Ontario Book Publishing Industry.” It explains how Nordicity collected the data represented in the report and how that data was subsequently translated into estimates of the size and activity of the Canadian-owned, Ontario-based book publishing industry. This appendix also details how those estimates were further analyzed to estimate the economic impact of Ontario’s Canadian-owned book publishing industry.

In explaining the methodologies, the following sections refer to the collection and use of four distinct sets of data:

- **The Pollara report:** 2003 findings as reported in the 2004 report, “Economic Impact Study of the Canadian-owned Publishing Industry;”
- **2003 raw Pollara data:** 2003 data as collected by Pollara in 2004;
- **Recast 2003 Pollara data:** 2003 data as collected by Pollara and recast by Nordicity; and
- **2011 survey data:** 2011 data largely collected via an online survey of Canadian-owned, Ontario-based book publishers conducted by Nordicity in 2012.

This appendix also includes a discussion of how data from Harlequin Enterprises (“Harlequin”) was incorporated into both the 2011 survey data and the recast 2003 Pollara data.

A.1 Recast 2003 Pollara Data

As explained in Section 1.2.2, due to the methodological differences between the two studies, Nordicity recast the 2003 raw Pollara data in order to compare 2003 and 2011 data. To facilitate this process, Pollara and the OMDC made the raw 2003 survey results available to Nordicity. Nordicity then re-analyzed the 2003 raw Pollara data, using the same approach and assumptions used to analyze the 2011 survey data.

In recasting the 2003 raw Pollara data, Nordicity noted that the context of and terminology used in the two survey questionnaires were significantly different. As a result, some assumptions and conversions needed to be made when preparing the 2003 raw Pollara data for analysis. These steps are listed below:

- A total revenue figure was derived from Pollara’s “Canadian sales,” “export sales,” “agency sales,” and public funding data (*i.e.*, the data labelled “Funding – Federal,” “Funding – Provincial,” and “Tax Credits”);
- All labour costs in the Pollara data were amalgamated into a single “Wages, salaries and benefits” line (to match Nordicity’s approach);
- Other expenditure lines were converted and combined into Nordicity categories. For example, “Rent,” “Utilities,” “Communications,” “Office Supplies” and “Property Taxes” were combined into “Overhead.” Where no equivalent category was found in the Nordicity approach, Pollara expense categories were added to the “Other” category;
- Part-time workers were assumed to have worked 20 hours per week (*i.e.*, ½ of a standard work week); and

- Average salaries were not asked by Pollara and so were calculated by dividing the total wage spend by the number of FTEs observed.

Furthermore, Pollara's survey questionnaire did not include any reference to digital sales or costs, which may reflect the pre-digital state of the industry in 2003. As a result, of this particular difference, it is not possible to compare the impact of digital production and/or sales between the two studies.

For the remainder of this appendix, the data set resulting from this recasting exercise is referred to as "recast 2003 Pollara data."

A.2 Treatment of Harlequin Enterprises

In order to include data from Harlequin in the analysis of Ontario's book publishing industry in both the 2011 and 2003 data sets, Nordicity necessarily made some assumptions with regard to Harlequin's expenditures (*e.g.*, whether the location of spending was in or outside of Ontario). Because of Harlequin's size and share of the industry (for example, the company reported total revenues of \$459 million in 2011 across all its business units) even minor adjustments to these assumptions can have a material impact on the results of the impact analysis.

Adding Harlequin Data to 2011 Survey Data

The key observations and assumptions used to include Harlequin in the 2011 data set (drawn from the 2012 Nordicity survey of Canadian-owned, Ontario-based book publishers) are summarized below:

- All Torstar's book publishing activities stem from the sale of Harlequin books "around the world in a variety of genres and formats, including digital;"⁴⁸
- Harlequin is comprised of two principal divisions: North America and Overseas (U.K.). The North American division accounts for approximately 54% of the \$459 million generated by book publishing activities in Torstar's 2011 fiscal year, or approximately \$248 million;⁴⁹
- Given that Harlequin's principal North American operations are in Toronto (and that they are owned by a Canadian public corporation), Nordicity deemed the revenue generated and expenditures incurred by Harlequin's North American operations to be eligible for this economic impact analysis;
- In order to calculate the total expenditures incurred in Harlequin's Toronto operations, Nordicity used the same assumption as used for revenues (*i.e.*, that North American expenditures can be attributed to Harlequin's Toronto operations);
- While Torstar does provide some detail on expenditures (*e.g.*, on salaries and benefits), most categories of costs are aggregated into an "Other operating costs" line item in Torstar's 2011

⁴⁸ Torstar 2011 Annual Report, p. 10.

⁴⁹ *Ibid*, pp 17-18.

Annual Report. Accordingly, Nordicity applied the average distribution of expenditures observed in other Canadian-owned, Ontario-based book publishers in 2011;⁵⁰ and

- Other assumptions regarding whether these expenditures occurred within or outside of Ontario were made based on the best available data. For example, based on the relative sizes of the Canadian and U.S. markets, it was assumed that 90% of sales activity by Harlequin's North American business unit occurred in the U.S. It was further assumed that 90% of related sales costs were also incurred in the U.S.

It should also be noted that sales data attributed to Harlequin (for 2011) was obtained from BookNet, not from the 2011 Torstar Annual Report.

Adding Harlequin Data to Recast 2003 Pollara Data

Upon inspection, the 2003 raw Pollara data (as provided by Pollara and OMD) did not include data from Harlequin Enterprises. This conclusion was reached because no single entry in the (anonymized) data presented was of sufficient scale to represent Harlequin. As a result, Nordicity added Harlequin data, drawn from data presented in Torstar's 2003 Annual Report.

When adding Harlequin data to the recast 2003 Pollara data, Nordicity used a very similar approach to that employed with the 2011 survey data. Once the 2003 Pollara data was converted into a format matching Nordicity's 2011 survey data (see A.1 for details), Nordicity added data from the 2003 Torstar Annual Report where possible.

The key observations and assumptions used to add this Harlequin data (to the recast 2003 Pollara data) are summarized below:

- Similar to 2011, Harlequin's North American operations accounted for 53% of the approximately \$585 million generated by Harlequin's global operations (or approximately \$310 million) in 2003;⁵¹ Again, Nordicity attributed that \$310 million of North American revenue to Harlequin's Toronto operations;
- Unlike the 2011 Torstar Annual Report, the 2003 Torstar Annual Report did not provide expenditure data separated by business unit. Accordingly, total expenditures were estimated by subtracting the operating profit amount (\$124 million) for Harlequin in 2003 from the stated revenue amount in that year (\$585 million);⁵²
- The resulting total expenditure estimate (\$461 million) was deemed to have been incurred by Harlequin's global operations in 2003.
- To arrive at an estimate, Nordicity assumed that the ratio of revenues to expenditures did not significantly differ between Harlequin's global operations (for which expenditure data can be inferred) and its North American operations (for which revenue data is available);

⁵⁰ The average distribution of expenditures was weighted by the overall expenditure levels of respondent firms.

⁵¹ Torstar 2003 Annual Report, p. 29.

⁵² Ibid, p 40.

- Following these assumptions, Nordicity estimated that Harlequin’s Canadian operations incurred approximately \$244 million of expenditures in 2003;⁵³
- The 2003 Torstar Annual Report did not provide a breakdown of the distribution of expenditures. Accordingly, Nordicity allocated the estimated expenditures incurred by Harlequin’s Canadian operations according to the average distribution of expenditures observed in other Canadian-owned, Ontario-based book publishers in 2003.
- Nordicity then used the same assumptions regarding whether these expenditures occurred within or outside of Ontario as were used in the analysis of 2011 Harlequin data.

A.3 Sample Limitations and Gross-up Methodologies

2011 Survey Data

Nordicity drew on BookNet’s 2011 sales data (*i.e.*, units sold) to establish the universe of economic activity associated with Ontario book publishers (*i.e.*, the survey population).

Based on BookNet’s assertion that their data covers 75% of the survey population (including Harlequin), Nordicity estimates that the 2011 survey data accounted for an estimated 62% of the economic activity among Canadian-owned, Ontario-based book publishers. When sales data from Harlequin Enterprises (from the 2011 Torstar Annual Report) are added, Nordicity estimates that the sample collected accounts for 94% of all book sales made in Canada by Canadian-owned, Ontario-based book publishers in 2011. With this level of coverage in mind, Nordicity estimates that the absolute economic data presented in this report (*i.e.*, revenue, expenditures, books published and direct employment) is accurate to within +/- 2.5% (19 times out of 20).

In order to “gross-up” the survey sample to estimate the size of the book publishing industry in Ontario, Nordicity made the assumption that unit sales in Canada are a reasonable indicator of overall economic activity among book publishers. In other words, it was assumed that sales made in Canada are proportional to total sales (including export sales).

As described above, the combination of sales data from the survey sample and Harlequin sales data (from the 2011 Torstar Annual Report) accounts for approximately 94% of all books sold by Canadian owned, Ontario-based book publishers in Canada in 2011. As such, the gross-up rate for data collected by Nordicity about the 2011 fiscal year was 1.06.⁵⁴

Where data exhibits refer to the portion of book publishers that may reflect a given characteristic (*e.g.*, company ownership), the data should be treated as indicative, rather than statistically significant.

Recast 2003 Pollara Data

The gross-up used to recast 2003 raw Pollara numbers was based on Statistics Canada data from 2004.⁵⁵ These data indicated that the overall book publishing industry in Ontario (including foreign-

⁵³ [\$461 million (calculated global expenditure estimate) * .53 (percentage of Harlequin’s global operations in North America)] = \$244 million (estimated Harlequin expenditures in Canada).

⁵⁴ 4,180,408 (estimate of all book sales in Canada by Canadian-owned, Ontario-based book publishers) / [2,609,187 (sales in Canada represented in 2011 survey data) + 1,318,341 (estimate of Harlequin’s sales in Canada)] = 1.06 (2011 gross-up factor).

⁵⁵ Namely, Statistics Canada, CANSIM, Table 361-0007.

owned publishers) generated \$1.32 billion in revenue in 2004. The same year, foreign-owned publishers generated \$949 million in revenue.

Based on an assumption that 95% of those foreign-owned publishers (by revenue) were situated in Ontario,⁵⁶ Nordicity estimates that the Canadian-owned portion of the industry in Ontario generated \$416.8 million in revenue in 2004. As the combination of 2003 Pollara data plus revenue data from Harlequin Enterprises (drawn from the 2003 Torstar Annual Report) totaled \$388.5 million in revenue, a gross-up factor of 1.07 was used when re-analyzing Pollara's data.⁵⁷

A.4 2011 Economic Impact Analysis

A.4.1 Overview

The 2011 economic impact analysis considered the impact of the Canadian-owned, Ontario-based book publishing industry on the **Ontario** economy as well as the economy in the **rest of Canada** (*i.e.*, other provinces and territories). For both geographic jurisdictions, Nordicity estimated the three stages of economic impact:

- (i) direct impact;
- (ii) indirect impact; and
- (iii) induced impact.

Together, these three stages of economic impact comprised the **total** economic impact. For each stage of economic impact, Nordicity prepared estimates of employment, household income (*i.e.*, labour income) and gross domestic product (GDP).

A.4.2 Geographic allocation of operating expenditures

Before embarking on the three stages of the economic impact analysis, Nordicity allocated the operating expenditures of Canadian-owned, Ontario-based book publishers into two categories: (i) Ontario and (ii) rest of Canada. The former category included Canadian-owned, Ontario-based book publishers' payments to labour, rights holders and suppliers resident in Ontario. The latter category included their payments to labour, rights holders and suppliers located in the rest of Canada.

This geographic allocation of operating expenditures was made on the basis of the 2011 survey data. The survey included the following question related to the geographic composition of operating expenditures:

"Please indicate what percentage of your business' expenditure categories were incurred in Ontario and outside of Ontario."

While this survey question did not make a distinction between expenditures made inside Canada (but in other provinces or territories) and outside Canada, we assumed that all expenditures outside of

⁵⁶ This assumption is based on manual desk research of foreign-owned book publishers operating in Ontario in 2004. While the project team did not find any instances of foreign-owned book publishers operating outside of Ontario, the 95% assumption allows for the possibility that some revenue by such companies was generated outside of Ontario.

⁵⁷ \$416.8 million (estimated revenue generated by Canadian-owned, Ontario-based book publishers) / \$388.5 million ([(\$79.4 million (recast 2003 Pollara data)] + [\$309.1 million (Harlequin data)]) = 1.07 (2003 gross-up factor).

Ontario were made in other provinces or territories, rather than in other countries. We also reviewed the geographic information in the Torstar 2011 Annual Report in order to arrive at a geographic allocation of Harlequin’s operating expenditures (see discussion in Section A.2).

On the basis of the survey responses and our review of the Torstar 2011 Annual Report, we derived assumptions for Ontario’s share of operating expenditures in book publishers’ various cost categories (Figure II). These assumptions were then applied to our estimates of the total value of Canadian-owned, Ontario-based book publishers’ operating expenditures in each expenditure category to estimate the levels of expenditures in **Ontario**. The balance of operating expenditures was assigned to the **rest of Canada**. The operating expenditures inside Ontario provided the basis for the estimation of the economic impact in Ontario.

Figure II Assumptions for share of expenditures in Ontario (2011)

Expenditure category	Ontario share
Employee wages, compensation and benefits	94.4%
Advances and royalties paid to authors/agents	58.4%
Design, editing and layout services - from freelancers	41.7%
Printing and production costs	58.1%
Transportation and travel expenses	87.3%
Overhead costs (e.g., rent, utilities, etc.)	95.6%
Sales and distribution	61.5%
Marketing and promotion (incl. author travel)	59.6%
Banking fees and insurance premiums	94.3%
Other	45.1%

Source: Nordicity 2011 survey; Torstar 2011 Annual Report; “Harlequin,” Torstar Corporation, accessed April 26, 2013, <http://www.torstar.com/html/our-business/Harlequin/index.cfm>; and “About Harlequin,” Harlequin, accessed April 26, 2013, <http://www.harlequin.com/articlepage.html;jsessionid=4153036E37EFF73B0514EB4EF1D5F0A5?articleId=36&chapter=0>

A.4.3 Impact in Ontario

As noted in the overview, above, the economic impact in Ontario consisted of three stages: (i) direct impact; (ii) indirect impact; and (iii) induced impact.

(i) Direct impact

Employment: The number of full-time equivalents (FTEs) in Ontario (1,450 FTEs) was obtained from the grossed-up survey results, which incorporated the operations of Harlequin.

Household income: Through the 2011 survey, Nordicity collected data on the breakdown of operating expenditures at Canadian-owned book publishers in Ontario. These breakdowns were applied to the estimates of total operating expenditure (including Harlequin and other Canadian-owned book publishers in Ontario) to produce estimates of total wages and benefits paid to Ontario-based employees of Canadian-owned, Ontario-based book publishers (\$58.8 million). The expenditure breakdown also permitted us to estimate the amount paid to authors and rights holders in Ontario (\$7.2 million). We summed these two amounts to arrive at an estimate of direct household income of \$66.0 million.

GDP: The data from the 2011 survey and from Harlequin allowed us to estimate overall operating expenditure for Canadian-owned, Ontario-based book publishers (\$263.7 million). We subtracted these overall operating expenditures from total revenue earned by Canadian-owned, Ontario-based book publishers (\$319.0 million) to arrive at an estimate of operating profit (*i.e.*, operating surplus) earned by Canadian-owned, Ontario-based book publishers (\$55.3 million). Note that total expenditures in Ontario and in the rest of Canada was taken into account when estimating the operating profit attributable to Canadian-owned, Ontario-based book publishers. The estimate of operating surplus (\$55.3 million) was added to the estimate of direct household income in Ontario (\$66.0 million) to arrive at an estimate of the direct GDP in Ontario of \$121.3 million.

(ii) Indirect impact

The indirect impact in Ontario arises from payments made to suppliers located in Ontario. Through the survey, Nordicity collected data on the breakdown of operating expenditures at Canadian-owned, Ontario-based book publishers. We also collected data through the survey that permitted us to estimate the portion of each category of operating expenditure that was paid to suppliers in Ontario.

With these two data sets, we estimated the value of purchases from suppliers located in Ontario (*i.e.*, “non-labour expenditures”). An indirect-impact model based on Statistics Canada’s 2008 provincial input-output tables⁵⁸ was applied to these non-labour expenditures in order to derive estimates of indirect GDP and household income in Ontario.

The number of indirect FTEs employed in Ontario was derived by summing two separate estimates:

- First, the value of household income generated by the indirect impact model was divided by an average salary of \$47,000 to estimate the number of indirect FTEs (387). The derivation of this average salary is outlined in Exhibit A - 2.
- Second, the total value of payments to freelancers inside Ontario (\$1,843,071) was divided by an average salary of \$40,339 (from the 2011 survey data) to estimate the number of freelance FTEs (46).

These two amounts were summed to arrive at total indirect employment of 433 FTEs, or approximately 430 FTEs.

Figure III Derivation of average FTE cost for Ontario (2011)

Row	Category	Amount
A	Average weekly earnings in Ontario, 2011 (\$)	894.71
B	Number of weeks	49
C	Annual earnings (\$) [=A×B]	43,841
D	Employer Canada Pension Plan (CPP) contribution rate	4.95%
E	Employer Employment Insurance (EI) contribution rate	2.49%
F	Adjusted FTE cost (\$) [=B×(1+D+E)]	47,107
G	Rounded FTE cost (\$)	47,000

Source: Average weekly earnings from Statistics Canada, CANSIM table 281-0027; employer CPP and EI contribution rates from Canada Revenue Agency.

⁵⁸ Statistics Canada CANSIM tables 381-0012 and 381-0013.

(iii) Induced impact

An induced-impact model based on Nordicity's estimates of the marginal propensity to consume (MPC) and marginal propensity to import (MPM) for Ontario was applied to the sum of direct and indirect household income in order to derive estimates of induced household income and GDP. Nordicity calculated the MPC and MPM on the basis of data from Statistics Canada's input-output tables.⁵⁹ The number of induced FTEs employed in Ontario was derived by dividing our estimate of induced household income in Ontario by an average annual FTE cost of \$47,000.

Figure IV Inside-Ontario impact (2011)

	Direct impact	Indirect impact	Induced impact	Total impact
Employment (FTEs)	1,450	430	90	1,970
Household income (\$M)	66.0	20.0	4.2	90.3
GDP (\$M)	121.3	31.5	7.1	159.8

Source: Nordicity 2011 survey; Torstar 2011 Annual Report; "Harlequin," Torstar Corporation, accessed April 26, 2013, <http://www.torstar.com/html/our-business/Harlequin/index.cfm>; and "About Harlequin," Harlequin, accessed April 26, 2013, <http://www.harlequin.com/articlepage.html;jsessionid=4153036E37EFF73B0514EB4EF1D5F0A5?articleId=36&chapter=0>

A.4.4 Impact on the Rest of Canada

There are two elements to the impact of the Canadian-owned, Ontario-based book publishing industry on the **rest of Canada**.

- First, Canadian-owned, Ontario-based book publishers' payments to labour, rights holders and suppliers in the rest of Canada generate an economic impact. We refer to this as the **outside-Ontario** impact.
- Second, Canadian-owned, Ontario-based book publishers' payments to labour, rights holders and suppliers *inside* Ontario also has an impact on the rest of Canada, as Ontario-resident businesses purchase inputs from businesses in the rest of Canada. We refer to this as the **interprovincial** impact.

$$\text{Rest-of-Canada Impact} = \text{Outside-Ontario Impact} + \text{Interprovincial Impact}$$

(i) Direct impact

In the context of the impact on the rest of Canada, only the outside-Ontario impact generates a direct economic impact. Since the interprovincial impact is based entirely on supplier purchases, it has no direct economic impact in Ontario or in other parts of Canada.

Employment: The number of FTEs was estimated by dividing the total value of household income (see below) by an average FTE cost of \$40,600. The average FTE cost was obtained from the 2011 survey data.

Household income: The 2011 survey data provided Nordicity with data on Canadian-owned, Ontario-based book publishers' expenditures outside of Ontario. These data (which include Harlequin

⁵⁹ Statistics Canada CANSIM tables 381-0012 and 381-0013.

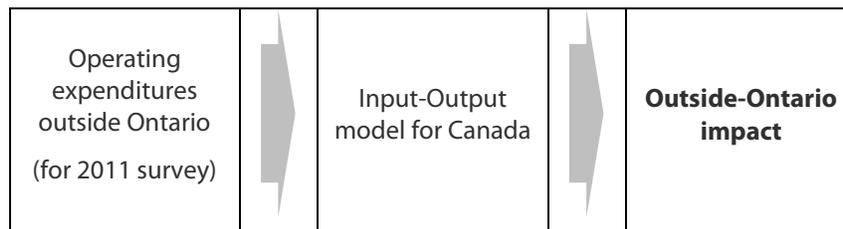
and other book publishers) indicated that Canadian-owned, Ontario-based book publishers paid \$3.5 million in total wages and benefits to employees based outside of Ontario in 2011. These expenditure data also indicated that Canadian-owned, Ontario-based book publishers paid \$5.1 million to authors and rights holders outside of Ontario in 2011. We summed these two amounts to arrive at direct household income of \$8.6 million.

GDP: Given that 100% of Canadian-owned, Ontario-based book publishers' operating surplus was assigned to Ontario, direct GDP was equal to the household income of \$8.6 million.

(ii) Indirect impact

Nordicity estimated the indirect impact **outside Ontario** by following a procedure similar to that used to estimate the indirect impact in Ontario (see Section A.4.3). In this case, the estimates and modelling were conducted on the basis of the operating expenditures allocated to the rest of Canada. The indirect impact for the non-labour expenditures was modelled, however, on the basis of Statistics Canada's national input-output tables,⁶⁰ rather than the provincial input-output tables used for the for the analysis of the impact in Ontario (Figure V).

Figure V Overview of modelling of outside-Ontario impact



To estimate the interprovincial impact, Nordicity applied a model based on the *national* input-output tables for Canada⁶¹ to the operating expenditures incurred by Canadian-owned, Ontario-based book publishers in Ontario. This exercise allowed Nordicity to derive the indirect impact of these expenditures on the overall Canadian economy (*i.e.*, Canada-wide impact). This result was then compared to the estimates of the indirect impact in Ontario, which were based on *Ontario-specific* input-output tables (see Section A.4.3). The difference between the results of these two modelling exercises was deemed to represent the **interprovincial** impact (Figure VI).

⁶⁰ The input-output tables for Canada can also be sourced from Statistics Canada, CANSIM tables 381-0012 and 381-0013.

⁶¹ Statistics Canada, CANSIM tables 381-0012 and 381-0013.

Figure VI Overview of modelling of interprovincial impact

Operating expenditures inside Ontario		Input-Output model for Canada		Impact of operating expenditures inside Ontario on Canadian economy
Less:				Impact of operating expenditures inside Ontario on Ontario economy
Equals:				Interprovincial impact (i.e., impact of operating expenditures inside Ontario on the rest of Canada)

The employment created by the indirect impact for the rest of Canada was calculated in a similar manner to the employment impact attributable to the Ontario indirect impact: that is, the estimate of the indirect household income impact was divided by the average FTE cost to arrive at an estimate of the employment impact. However, for the impact in the **rest of Canada**, we used an average FTE cost of \$46,000 (Figure VII), which reflects national wage rates, rather than only the wage rates in Ontario.

Figure VII Derivation of average FTE cost for Canada (2011)

Row	Category	Amount
A	Average weekly earnings in Ontario, 2011 (\$)	874.31
B	Number of weeks	49
C	Annual earnings (\$) [=A×B]	42,841
D	Employer Canada Pension Plan (CPP) contribution rate	4.95%
E	Employer Employment Insurance (EI) contribution rate	2.49%
F	Adjusted FTE cost (\$) [=B×(1+D+E)]	46,029
G	Rounded FTE cost (\$)	46,000

Source: Average weekly earnings from Statistics Canada, CANSIM table 281-0027; employer CPP and EI contribution rates from Canada Revenue Agency.

(iii) Induced impact

An induced-impact model based on Nordicity's estimates of the MPC and MPM for Canada was applied to the sum of direct and indirect household income in order to derive estimates of induced GDP and household income. Nordicity's estimates of MPC and MPM were derived on the basis of data from Statistics Canada's input-output tables.⁶² The number of induced FTEs employed in other provinces was derived by dividing induced household income in other provinces by an average annual FTE cost of \$46,000.

⁶² Statistics Canada CANSIM tables 381-0012 and 381-0013.

Figure VIII Rest-of-Canada impact* (2011)

	Direct impact	Indirect impact	Induced impact	Total impact
Employment (FTEs)	210	370	40	620
Household income (\$M)	8.6	16.9	1.7	27.2
GDP (\$M)	8.6	25.8	3.1	37.6

Source: Nordicity analysis based on 2011 survey data; Torstar 2011 Annual Report; "Harlequin," Torstar Corporation, accessed April 26, 2013, <http://www.torstar.com/html/our-business/Harlequin/index.cfm>; and "About Harlequin," Harlequin, accessed April 26, 2013, <http://www.harlequin.com/articlepage.html;jsessionid=4153036E37EFF73B0514EB4EF1D5F0A5?articleId=36&chapter=0>

*Includes the outside-Ontario and interprovincial impacts.

A.4.5 Summary of total economic impact in Canada

Figure IX Total economic impact in Canada, 2011 (includes both inside-Ontario and rest-of-Canada impacts)

	Direct impact	Indirect impact	Induced impact	Total impact
Employment (FTEs)	1,660	800	130	2,590
Household income (\$M)	74.7	36.9	5.9	117.5
GDP (\$M)	130.0	57.3	10.1	197.4

Source: Nordicity analysis based on 2011 survey data; Torstar 2011 Annual Report; "Harlequin," Torstar Corporation, accessed April 26, 2013, <http://www.torstar.com/html/our-business/Harlequin/index.cfm>; and "About Harlequin," Harlequin, accessed April 26, 2013, <http://www.harlequin.com/articlepage.html;jsessionid=4153036E37EFF73B0514EB4EF1D5F0A5?articleId=36&chapter=0>

A.5 Recasting of 2003 Economic Impact Analysis

A.5.1 Overview

The recast 2003 economic impact analysis was conducted using a model based on Statistics Canada's input-output tables and an induced impact multiplier; whereas, the original Pollara economic impact analysis was based on the University of Toronto's FOCUS Model.

The recast 2003 economic impact analysis was conducted in a similar manner to the 2011 economic impact analysis outlined in Section A.4.

- The recast 2003 economic impact analysis also considered the impact of the Canadian-owned, Ontario-based book publishing industry on the **Ontario** economy as well as the economy in the **rest of Canada**.
- For both geographic jurisdictions, Nordicity analyzed the three stages of economic impact: (i) direct impact, (ii) indirect impact, and (iii) induced impact. The sum of these three stages of economic impact comprised the total economic impact.
- For each stage of economic impact analysis, Nordicity prepared estimates of employment, household income and GDP.

A.5.2 Geographic allocation of operating expenditures

The recast and grossed-up Pollara survey data from 2003 were divided into expenditures for **Ontario** and the **rest of Canada** by applying the same ratios as those that were obtained through the survey of 2011 industry operations (see Figure II in Section A.4.2). The implicit assumption underlying this

approach is that the geographic profile of Ontario book publishing companies' operating expenditures was similar in 2003 and 2011. No information was available from the 2003 Pollara data set to conclude otherwise.

A.5.3 Impact in Ontario

(i) Direct impact

Employment: The number of direct FTEs in Ontario (1,560) was obtained by summing the recast Pollara 2003 data for *employee wages, compensation and benefits* (\$65.2 million), and *advances and royalties paid to authors/agents* (\$7.2 million), and dividing it by an average salary of \$46,400. This average salary was obtained from the 2003 raw Pollara data.

Household income: The recast 2003 Pollara data for *employee wages, compensation and benefits* (\$65.2 million), and *advances and royalties paid to authors/agents* (\$7.2 million) were summed to arrive at an estimate of direct household income of \$72.4 million.

GDP: The recast 2003 Pollara data for total expenditures (\$333.5 million) was subtracted from total revenue (\$416.8 million) to arrive at an estimate of the operating surplus earned by Canadian-owned, Ontario-based book publishers (\$83.3 million). This amount was added to the estimate of direct household income (\$72.4 million) to arrive at an estimate of the direct GDP in Ontario of \$155.6 million.

(ii) Indirect impact

The indirect impact was estimated using the same approach as that used for the 2011 economic impact analysis (see Section A.4.3). For the analysis of the recasting of the 2003 economic impact analysis, however, the number of indirect FTEs employed in Ontario was derived by dividing total indirect household income in Ontario by an average annual FTE cost of \$38,000.

Figure X Derivation of average FTE cost for Ontario (2003)

Row	Category	Amount
A	Average weekly earnings, Ontario, 2003 (\$)	728.23
B	Number of weeks	49
C	Annual earnings (\$) [=A×B]	35,683
D	Employer Canada Pension Plan (CPP) contribution rate	4.95%
E	Employer Employment Insurance (EI) contribution rate	2.94%
F	Adjusted FTE cost (\$) [=B×(1+D+E)]	38,499
G	Rounded FTE cost (\$)	38,000

Source: Average weekly earnings from Statistics Canada, CANSIM table 281-0027; employer CPP and EI contribution rates from Canada Revenue Agency.

(iii) Induced impact

The induced impact was estimated using the same approach as that used for the 2011 economic impact analysis (see Section A.4.3). For the recasting of the 2003 economic impact analysis, however, the number of induced FTEs employed in Ontario was derived by dividing induced household income in Ontario by an average annual FTE cost of \$38,000.

Figure XI Inside-Ontario impact (2003)

	Direct impact	Indirect impact	Induced impact	Total impact
Employment (FTEs)	1,560	700	130	2,390
Household income (\$M)	72.4	27.1	4.9	104.4
GDP (\$M)	155.6	41.5	8.2	205.3

Source: Nordicity analysis based on 2011 survey data; recast 2003 Pollara data; Torstar 2003 Annual Report; "Harlequin," Torstar Corporation, accessed April 26, 2013, <http://www.torstar.com/html/our-business/Harlequin/index.cfm>; and "About Harlequin," Harlequin, accessed April 26, 2013, <http://www.harlequin.com/articlepage.html;jsessionid=4153036E37EFF73B0514EB4EF1D5F0A5?articleId=36&chapter=0>

A.5.4 Impact on Rest of Canada

The analysis of the impact of the Canadian-owned, Ontario-based book publishing industry on the rest of Canada was conducted in the same manner as the 2011 economic impact analysis (see Section A.4.4). In that regard, the impact on the rest of Canada consisted of an outside-Ontario impact and an interprovincial impact.

Rest-of-Canada Impact = Outside-Ontario Impact + Interprovincial Impact

(i) Direct impact

As was the case with the 2011 analysis, in the context of the economic impact of the Canadian-owned, Ontario-based book publishing industry on the rest of Canada, only the outside-Ontario impact generates a direct economic impact. Since the interprovincial impact is based entirely on supplier purchases, it has no direct economic impact in Ontario or the rest of Canada.

Employment: The number of FTEs was estimated by dividing the total value of direct household income (see below) by an average FTE cost of \$46,400. The average FTE cost was obtained from the 2003 raw Pollara data.

Household income: The recast 2003 Pollara data indicated that Canadian-owned, Ontario-based book publishers spent \$3.9 million on *employee wages, compensation and benefits* outside Ontario and remitted \$5.1 million in *advances and royalties paid to authors/agents* outside of Ontario. We summed these two amounts to arrive total direct household income of \$9.0 million.

GDP: Given that 100% of Canadian-owned, Ontario-based book publishers' operating surplus was assigned to Ontario, direct GDP was equal to the direct household income of \$9.0 million.

(ii) Indirect impact

The indirect impact was estimated using the same approach as that used for the 2011 economic impact analysis (see Section A.4.4). For the recasting of the 2003 economic impact analysis, however, the number of indirect FTEs employed in the rest of Canada was derived by dividing total indirect household income by an average annual FTE cost of \$37,000.

Figure XII Derivation of average FTE cost for Canada (2003)

Row	Category	Amount
A	Average weekly earnings in Ontario, 2003 (\$)	690.64
B	Number of weeks	49
C	Annual earnings (\$) [=A×B]	33,841
D	Employer Canada Pension Plan (CPP) contribution rate	4.95%
E	Employer Employment Insurance (EI) contribution rate	2.94%
F	Adjusted FTE cost (\$) [=B×(1+D+E)]	36,511
G	Rounded FTE cost (\$)	37,000

Source: Average weekly earnings from Statistics Canada, CANSIM table 281-0027; employer CPP and EI contribution rates from Canada Revenue Agency.

(iii) Induced impact

The induced impact was estimated using the same approach as that used for the 2011 economic impact analysis (see Section A.4.4). For the recasting of the 2003 economic impact analysis, however, the number of induced FTEs was derived by dividing total induced household income by an average annual FTE cost of \$37,000.

Figure XIII Rest-of-Canada impact*, 2003

	Direct impact	Indirect impact	Induced impact	Total impact
Employment (FTEs)	190	720	60	970
Household income (\$M)	9.0	27.8	2.4	39.2
GDP (\$M)	9.0	39.0	4.3	52.3

Source: Nordicity analysis based on 2011 survey data; recast 2003 Pollara data; Torstar 2003 Annual Report; "Harlequin," Torstar Corporation, accessed April 26, 2013, <http://www.torstar.com/html/our-business/Harlequin/index.cfm>; and "About Harlequin," Harlequin, accessed April 26, 2013, <http://www.harlequin.com/articlepage.html;jsessionid=4153036E37EFF73B0514EB4EF1D5F0A5?articleId=36&chapter=0>

*Includes the outside-Ontario and interprovincial impacts.

A.5.5 Summary of total economic impact in Canada

Figure XIV Total economic impact in Canada, 2003 (includes both inside-Ontario and rest-of-Canada impacts)

	Direct impact	Indirect impact	Induced impact	Total impact
Employment (FTEs)	1,750	1,420	190	3,360
Household Income (\$M)	81.3	55.0	7.3	143.6
GDP (\$M)	164.6	80.6	12.5	257.6

Source: Nordicity analysis based on 2011 survey data; recast 2003 Pollara data; Torstar 2003 Annual Report; "Harlequin," Torstar Corporation, accessed April 26, 2013, <http://www.torstar.com/html/our-business/Harlequin/index.cfm>; and "About Harlequin," Harlequin, accessed April 26, 2013, <http://www.harlequin.com/articlepage.html;jsessionid=4153036E37EFF73B0514EB4EF1D5F0A5?articleId=36&chapter=0>

Appendix B: Survey Questionnaire

B.1 Basic Information

- Company name
- Respondent name
- Email address
- Postal code (first three digits)

B.2 Industry Identification

In which of the following genres is your business active?

By "active" we mean that you have earned some revenue from books you published in these genres this year or in the past. Select all that apply to your business.

- Fiction (excl. children's, drama)
- Non-Fiction (incl. biography)
- Poetry
- Children's - Illustrated
- Children's - Non-illustrated (incl. Young Adult)
- Drama
- Educational (*e.g.*, K-12 textbooks, post-secondary textbooks)
- Academic/Scholarly
- Professional
- Art/Illustrated
- Graphic Novels
- Other (please specify) _____

B.3 Corporate Profile

Which of the following best describes the structure of your business?

- Private - Sole Proprietorship (i.e. it's only you)
- Private - Partnership
- Private - Corporation
- Public Corporation
- Registered Charity/Non-Profit

Which of the following best describes the ownership and control of your company?

- Ontario-owned and controlled
- Canadian-owned and controlled (*i.e.*, outside of Ontario)
- Ontario or Canadian-controlled, but foreign-owned
- Foreign-owned and controlled



For how many years has your company been in operation and where was it established?

Number of Years in Operation:

- Start-up phase (less than 1 year)
- 1 - 3 years
- 4 - 6 years
- 7 - 11 years
- 12 - 20 years
- More than 20 years

Established (City, Province):

B.4 Financial Profile and Sales Data

For the fiscal year ending in 2011, what was your business' total revenue?

Total Revenue 2011

- \$1 to \$49,999
- \$50,000 to \$99,999
- \$100,000 to \$149,999
- \$150,000 to \$199,999
- \$200,000 to \$249,999
- \$250,000 to \$299,999
- \$300,000 to \$399,999
- \$400,000 to \$499,999
- \$500,000 to \$749,999
- \$750,000 to \$999,999
- \$1.00 million to \$1.49 million
- \$1.50 million to \$1.74 million
- \$1.75 million to \$1.99 million
- \$2.00 million to \$2.49 million
- \$2.50 million to \$2.99 million
- \$3.00 million to \$3.49 million
- \$3.50 million to \$3.99 million
- \$4.00 million to \$4.99 million
- \$5.00 million to \$7.49 million
- \$7.50 million to \$9.99 million
- More than \$10.00 million

In the fiscal year ending in 2011, what was the approximate breakdown of your business's revenue?

% of total revenue

- Retail sales revenue (both physical and digital retailers)
- Special sales revenue
- Institutional sales revenue (*e.g.*, educational and library)
- Subsidiary rights and licencing revenue (*e.g.*, anthology, movie, audiobooks, etc., incl. export revenue)
- Sales agent/Distribution revenue (*e.g.*, by acting as a distributor for another publisher):
- Professional fees received from other companies:
- Sponsorship and advertising revenue:
- National support programs (*e.g.*, Canada Book Fund, Canada Council):
- Provincial/Territorial support programs (*e.g.* OMDC Book Fund, etc.):
- Other grants and direct public funding (excluding tax credits):
- Tax credits (*e.g.*, Ontario Book Publishing Tax Credit):
- Other

In the fiscal year ending in 2011, what percentage of your company's total retail sales (domestic and international) was generated by each of the following sales channels?

% of 2011 sales

- Digital book sales via online retailer (*e.g.* Amazon, iTunes)
- Digital book sales direct (*e.g.*, from company website)
- Digital book sales to aggregators that service libraries (*e.g.*, Canadian Electronic Library).
- Physical book sales to bricks-and-mortar book retailers (*e.g.*, ChaptersIndigo)
- Physical book sales via online retailer (*e.g.*, Amazon)
- Physical book sales via wholesaler (incl. to libraries)
- Physical book sales direct (*e.g.*, from company website)
- Other

Based on all projects completed in the fiscal year ending in 2011, what percentage of your business' total annual revenue was generated by each of the following genres?

% of Annual Revenue

- Fiction (excl. children's, drama)
- Non-Fiction (incl. biography)
- Poetry
- Children's - Illustrated
- Children's - Non-illustrated (incl. Young Adult)
- Drama

- Educational (e.g., K-12 textbooks, post-secondary textbooks)
- Academic/Scholarly
- Professional
- Art/Illustrated
- Graphic Novels
- Other

In the fiscal year ending in 2011, what percentage of your business' retail and subsidiary rights revenue came from each of the following regions?

% of Revenue by Territory

- Canada
- United States
- Portuguese Latin America (e.g., Brazil)
- Spanish Latin America
- United Kingdom
- Rest of Europe
- India
- China
- Rest of Asia
- Australia and New Zealand
- Rest of the World

For the fiscal year ending in 2011, what were your business' total expenses?

Total Expenses 2011

- \$1 to \$49,999
- \$50,000 to \$99,999
- \$100,000 to \$149,999
- \$150,000 to \$199,999
- \$200,000 to \$249,999
- \$250,000 to \$299,999
- \$300,000 to \$399,999
- \$400,000 to \$499,999
- \$500,000 to \$749,999
- \$750,000 to \$999,999
- \$1.00 million to \$1.49 million
- \$1.50 million to \$1.74 million
- \$1.75 million to \$1.99 million
- \$2.00 million to \$2.49 million
- \$2.50 million to \$2.99 million
- \$3.00 million to \$3.49 million
- \$3.50 million to \$3.99 million
- \$4.00 million to \$4.99 million
- \$5.00 million to \$7.49 million

- \$7.50 million to \$9.99 million
- More than \$10.00 million

In the fiscal year ending in 2011, what was the approximate breakdown of your business' expenses?

% of total expenses

- Employee wages, compensation and benefits (permanent, non-project-related staff only):
- Advances and royalties paid to authors/agents (e.g., permissions):
- Design, editing and layout services - from companies:
- Design, editing and layout services - from freelancers:
- Digital transfer/conversion costs (e.g., creating e-formats for frontlist titles and converting backlist titles to ebook formats):
- Printing and production costs (e.g., binding, assembling):
- Transportation and travel expenses:
- Overhead costs (e.g., rent, utilities, etc.):
- Sales and distribution (e.g., 3rd party warehousing costs):
- Marketing and promotion (incl. author travel):
- Banking fees and insurance premiums:
- Legal/Accounting fees:
- Professional development and training costs:
- Other business/professional services from non-employees:
- Other

Please indicate what percentage of your business' expenditure categories were incurred in Ontario and outside of Ontario.

- Employee wages, compensation and benefits (permanent, non-project-related staff only)
- Advances and royalties paid to authors/agents (e.g., permissions)
- Design, editing and layout services - from companies
- Design, editing and layout services - from freelancers
- Digital transfer/conversion costs (e.g., creating e-formats for frontlist titles and converting backlist titles to ebook formats)
- Printing and production costs (e.g., binding, assembling)
- Transportation and travel expenses
- Overhead costs (e.g., rent, utilities, etc.)
- Sales and distribution (e.g., 3rd party warehousing costs)
- Marketing and promotion (incl. author travel)
- Banking fees and insurance premiums
- Legal/Accounting fees
- Professional development and training costs
- Other business/professional services from non-employees
- Other

Of your company's overhead costs, please provide a breakdown in terms of the following categories.

% of Overhead costs

- Rental costs
- Utilities (*e.g.*, electricity, telecoms, etc.)
- Computer equipment maintenance and upkeep
- Computer software licences
- Office supplies
- Other

Of your company's marketing and promotions costs, please provide a breakdown in terms of the following categories.

% of Marketing and Promotions costs

- Advertising services (*i.e.*, fees paid to an outside agency)
- Promotional tour costs (*i.e.*, travel expenses for authors)
- Other

B.5 Activities

For the fiscal year that ended in 2011, how many titles did your company publish in each genre, how many copies were shipped, and what percentage of those copies shipped were returned?

- Fiction (excl. children's, drama)
- Non-Fiction (incl. biography)
- Poetry
- Children's - Illustrated
- Children's - Non-illustrated (incl. Young Adult)
- Drama
- Educational (*e.g.*, K-12 textbooks, post-secondary textbooks)
- Academic/Scholarly
- Professional
- Art/Illustrated
- Graphic Novels
- Other

For the fiscal years that ended in 2010 and 2011, how many active ISBNs (incl. print books, ebooks, audiobooks, etc.) did your company have available? How many are you anticipating having available as of the end of the fiscal year ending in 2012?

In your estimation, what percentage of your company's digital sales in 2011 represent the replacement of physical sales?

All things considered (e.g., returns, production costs), what is the average net revenue per copy for each digital and physical sale?

- Digital sale
- Physical sale

On average, what is the profit margin that your company earns on digital and physical sales?

- Digital sale
- Physical sale

B.6 Employment

How many people did your business employ directly in the fiscal year ending in 2011?

Please provide the estimated average numbers of employees in each category (Junior-level, Intermediate-level, Senior-level, Full-time employees)

- Part-time employees
- Contract/freelance employees
- Paid interns (excl. honoraria)
- Interns (incl. honoraria) and volunteers

What is the average annual salary of your business' full time employees?

- \$0
- \$1-\$9,999
- \$10,000 - \$19,999
- \$20,000 - \$29,999
- \$30,000 - \$39,999
- \$40,000 - \$49,999
- \$50,000 - \$59,999
- \$60,000 - \$69,999
- \$70,000 - \$79,999
- \$80,000 - \$89,999
- \$90,000 - \$99,999
- \$100,000-\$119,999
- \$120,000-\$140,000
- More than \$140,000

As of the end of the 2011 fiscal year, how many individual authors did your company have under contract?

On average, how many hours per week are worked by your company's full time employees?

B.7 Future Outlook

Over the next 1-2 years, how do you think your business' revenue will grow/contract?

- Over 25% growth
- 15 - 24 % growth
- 10 - 14 % growth
- 5 - 9% growth
- 1 - 4% growth
- No change
- 1 - 4% contraction
- 5 - 9% contraction
- 10 - 14% contraction
- 15 - 24% contraction
- Over 25% contraction

What new lines of business does your company plan to pursue over the next 1-2 years?

- Direct Physical Sales
- Direct Digital Sales (*i.e.*, e-retail)
- Distribution Activities
- Mobile applications
- Other, please specify... _____

In which of the following jurisdictions does your business plan to initiate new business over the next 1-2 years?

- Canada
- United States
- Portuguese Latin America (*e.g.*, Brazil)
- Spanish Latin America
- United Kingdom
- Rest of Europe
- India
- China
- Rest of Asia



- Australia and New Zealand
- Rest of the World
- Other, please specify

What are the factors that are limiting growth for your business?

Not at all limiting, Not very limiting, Somewhat limiting, Very limiting, Extremely limiting, Not applicable

- Demand for your content or related services
- Competition from other media for readers' attention
- Supply of skilled labour (to hire)
- Changing business and/or revenue models (*e.g.*, changing price per unit)
- Relationship to other members of the value chain (*e.g.*, distributors, retailers, etc.)
- Availability/affordability of effective training programs
- Availability of mentorship and/or internship opportunities
- International competition
- Access to affordable capital for expansion or day-to-day operations (*i.e.*, working capital)
- Access to the traditional financial institutions (*e.g.*, banks)
- Access to foreign markets
- Availability of business (*i.e.*, management, marketing and/or sales) expertise
- Cost of operating in Ontario
- Value of the Canadian dollar

What other issues might impede your business' growth potential?

-End-

Appendix C: Regional and International Book Publishing Industry Results

The focus of the present study is the Ontario-based, Canadian-owned book publishers. However, the results of the study should be considered in the context of book publishing activity across Canada and around the world.

Data to Compare: Ontario-based, Canadian-owned book publishers

Based on the 2003 and 2011 survey data as well as data collected from Torstar's financial statements, Nordicity estimates that Canadian-owned, Ontario-based book publishers earned **\$319.0 million** in total revenue in 2011. This figure equates to a **23.5%** drop of \$97.8 million from the revenues reported in the recast 2003 Pollara data. The Compound Annual Growth Rate (CAGR) between 2003 and 2011 was **negative 3.3%**.

C.1 Data limitations

This appendix highlights a selection of available data from the book publishing industry from various sources. There are a number of limitations to keep in mind when reviewing these results:

1. The data presented below is not directly comparable to the results presented in Nordicity's study of Ontario-based, Canadian-owned book publishers:
 - a. Statistics Canada data includes revenue data for foreign-owned book publishers;
 - b. BookNet data only records Canadian book sales and so excludes other sources of revenue and book sales made outside of Canada;
 - c. Consumer spending data refers to the size of the books market in a given jurisdiction rather than the size the book publishing industry in that market.
2. Data from different sources presented in this appendix are also not directly comparable, due to differences in scope and methodology between data sources;
3. In some cases, data collection methodologies for a given source have changed over the period in question, for example:
 - a. Statistics Canada's survey methodology changed beginning with the 2005 reporting year; these changes make it impossible to compare the post-2004 data to the pre-2005 data published by Statistics Canada.
 - b. PricewaterhouseCoopers methodology changed between 2006 and 2007.
4. Data was not available for all years under consideration from all sources cited in this appendix.

Despite these limitations, the following data provide some additional, global trends regarding the book publishing industry. It thereby situates the data developed and presented by Nordicity (for Ontario) in the context of these trends.

C.2 Other Canadian book industry data

In this section, we present data from various sources on the performance of the Canadian book publishing industry. The figure below, for example, shows how the book publishing industry has changed in various Canadian jurisdictions between 2004 and 2010, along with the compound annual growth rate (CAGR) over that period.

Figure XV Total book publishing revenue growth rate by province, 2004 to 2010

Province	% Change	CAGR
All of Canada	-0.1%	-0.5%
Québec	10.1%	1.6%
Ontario	0.25%	0.03%
British Columbia	-48.9%	-10.6%
Prairies	-44.2%	-9.3%
Maritimes	-9%	-1.6%

Source: Statistics Canada (www.statcan.gc.ca), Book Publishers, Catalogue no.: 87F0004XWE

Note: Statistics Canada data for 2011 was not available. A significant methodological change in Statistics Canada's data collection process occurred in 2005, therefore direct comparisons between data before and after this date are not possible. Rates of growth or decline are also representative of general trends and not absolute.

From the data presented in the table above, we can observe:

- Book publishing revenue is flat (Ontario) or down (rest of Canada) in all predominantly English-speaking jurisdictions across Canada over the reference period;
- Ontario's book publishing revenue, including the foreign-owned publishers, has not significantly changed between 2004 and 2010;
- The rate of contraction is greatest in Western Canada, with both BC and the Prairie provinces seeing large declines in publisher revenue.

It should be noted that the figures presented above include all book publishing activities, accounting for both Canadian- and foreign-controlled companies operating in Canada, whereas the segment examined in this report represents the Canadian-owned, Ontario-based sector. Over a similar period of time, the Canadian-owned segment of the book publishing industry in Ontario contracted by 23.5% (at a CAGR of negative 3.3%). Accordingly, the above figures suggest that the contraction of the Canadian-owned segment has been offset by moderate growth in the foreign-owned segment of Ontario's book publishing industry.

It may be useful to situate the contraction in the Canadian-owned, Ontario-based book publishing industry alongside Statistics Canada data showing contractions for British Columbia, the Prairie provinces and the Maritimes. Although Statistics Canada includes foreign-controlled publishers in their data, the largest multinational publishers operating in Canada are overwhelmingly located in

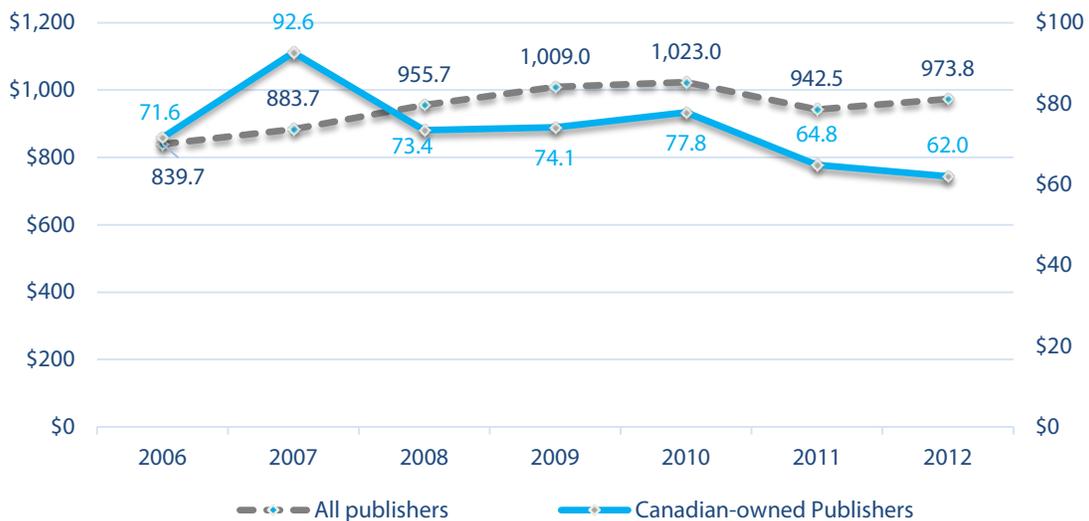
Ontario (e.g. HarperCollins, Penguin-Random House, Simon & Schuster). The domestic publishing industry in Ontario resembles that of the predominantly English-speaking Canadian provinces in composition, in that their book publishing industries comprise mostly domestic firms. Compared in this light, the performance of the Canadian-owned Ontario industry in recent years is actually substantially healthier than that of British Columbia or Alberta.

The books industry in Canada, however, is larger than publishers alone. It also includes other industry segments such as large and small retailers, technology companies such as Kobo, literary agents and other members of the value chain.

Taking the larger ecosystem into account, there are indicators of industry performance beyond revenues that can be useful to examine. Indeed, book sales are another measure of book industry growth in Canada. The figure below compares book sales made in Canada (from any publisher) with book sales made in Canada from *Canadian-owned* publishers between 2006 and 2012.

Again, the book sales as reported here are not equivalent or comparable to publishers' revenue.

Figure XVI Book sales in Canada as reported by BookNet Canada, Canadian-owned publishers vs. total marketplace 2006 – 2012 (\$ millions)



Source: BookNet Canada, *The Canadian Book Market* 2006, 2007, 2008, 2011, 2012.

Over the period of time illustrated above, book sales (from all publishers) grew by 16.0% at a CAGR of 2.5%, while Canadian book sales by Canadian-owned publishers decreased by 13.4% at a CAGR of negative 2.4%.

From the data presented in the figure above, we can observe:

- Book sales (from all publishers) in Canada peaked at \$1.023 billion in 2010, though no clear trend exists going forward;
- Book sales in Canada from Canadian-owned publishers peaked in 2007, with the single biggest drop occurring in 2008. One cause of the spike in 2007 and decline in 2008 may be

related to the “Harry Potter effect.” According to BookNet Canada sales data, in 2007, the Canadian-owned, Vancouver based, Raincoast Book Distribution had three Harry Potter books in print, one of which captured the 2nd top-selling hardcover among all publishers that year;

- Book sales in Canada from Canadian-owned publishers have declined in each of the last two years, and in three of the last five years. Despite a few peaks, these sales exhibit a downward trend.

C.3 Selected international book publishing revenue

While there is no single resource available to Nordicity that pulls together global publishing revenue, data is available from a number of English-speaking jurisdictions that can be examined in order to provide context. To make the comparison (to Ontario’s book publishing industry) as meaningful as possible, Nordicity selected other English-speaking jurisdictions located in the developed world, namely the United States and Australia.

United States

Perhaps the most accessible international comparison is to the United States (US). Between 2002 and 2011, the revenue generated by the US book publishing industry declined by approximately **2.7%** at a CAGR of negative 0.29%.⁶³ However, it should be noted this figure includes both domestic US sales, as well as export sales. In 2012, US-based book publishers generated over \$800 million from export sales, a figure up 7.2% over 2011.⁶⁴ As such, US-based book publishers seem to be taking advantage of the growing global consumer market for books. This finding is consistent with a shrinking US book market (see Figure XVII).

Australia

Although we cannot present figures for Australia’s book publishing industry, a recent scan of Australian industry trade news sources showed that the industry there was growing through the 1990s and 2000s, but has more recently experienced declines.

Industry sources cited several factors in the decline, including:

- The recent parity of the Australian dollar to the US dollar;
- Dominance of online retailers; discounted e-book pricing by major online retailers; bricks-and-mortar retail closures; and
- Australian offices of multinational publishers downsizing and/or merging.

These issues mirror those found in Ontario’s book publishing industry.

⁶³ This figure combines data from the US Census, with recently reported data published by BookStats.

⁶⁴ Source: American Association of Publishers, Press Release, June 27, 2013: <http://www.publishers.org/press/111/>

C.4 Global consumer spending on books

Turning to the global books market, the table below presents the percent change in consumer spending on books globally, and in selected territories, between 2003 and 2011.

Again, these figures are not comparable to publisher revenue. Instead, they indicate the size of the market for books in each jurisdiction (as indicated by consumer spending).

Figure XVII Changes in book consumer spending by territory, 2003 to 2012

Territory	% Change	CAGR
Global	14.1%	1.5%
USA	-11.2%	-1.2%
Canada	22.3%	2.0%
UK	-24.9%	-24.9%
China	52.4%	4.8%
India	143.0%	9.3%
South Africa	73.6%	5.7%

Source: PricewaterhouseCoopers, *Global Entertainment and Media Outlook 2008-2012, 2009-2013, 2010-2014, 2011-2015, 2012-2016*.

A significant methodological change in PricewaterhouseCoopers' data analysis methodology occurred in 2006, therefore direct comparisons between data before and after this date are not possible. Rates of growth or decline are also representative of general trends and not absolute.

From the data presented in the figure above, we can observe:

- The global market for books has grown over the reference period by around 14%;
- Canadian consumer spending growth reflects increased sales in Canada by foreign-owned publishers (see Figure XVI).
- Much of this growth appears to have originated in emerging economies, where rising literacy rates (for example, in India and South Africa)⁶⁵ and the growth of the middle class have combined to stimulate the demand for books.

⁶⁵ According to UNESCO, literacy rates in Brazil grew from 86.4% in 2000 to 90.4% in 2010; in China from 90.9% in 2000 to 95.1% in 2010; in South Africa from 88.7% in 2007 to 93.0% in 2011; and in India from 61.0% in 2001 to 74.0% in 2011).