Publishing Stabilization Program

A Discussion Paper

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Canada

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Introduction

What a fascinating yet frustrating time to be a publisher. The marketplace is changing dramatically, offering publishers challenges and opportunities at such speed that it is difficult to keep up. The traditional marketplace of bookstores and institutional sales is still present, but shrinking. Yet, as a counterbalance, sales of books on the Internet continue to grow through a multitude of venues, including Amazon or publishers' own websites. Digital books have been talked about for years, but at last there are real opportunities for sales with the development of the Sony Reader, Kindle (unavailable in Canada, but very important in the US market) and the Stanza application for mobile phones. They are reaching larger audiences every day. There are new opportunities, such as Indigo's Shortcovers, to take books and, like music on iTunes, divide the content into pieces. There is a settlement with Google over the Book Search Copyright Class Action Suit that raises unsettling issues but also many opportunities for future revenue streams for content.

Are Canadian publishers positioned to take advantage of these opportunities and meet these challenges? Yes and no. Many publishers are struggling with deficits, low margins, small staff and lack of technical expertise that make it difficult to take advantage of these market changes. They are dealing with today's problems at the cost of tomorrow's revenue streams and markets. Publisher after publisher interviewed for this study outlined the financial challenge they go through each year to meet their obligations, often through no fault of their own. They have deficits, and often there is no cushion of working capital to give them breathing space that would free them to plan strategically for the future health of their company and the health of the Canadian publishing sector over all.

Canadian publishers are supporters of Canadian authors. They have introduced many of the most successful authors to Canadian and international readers — authors such as Jane Urquhart, Lawrence Hill, Elizabeth Hay, David Suzuki, Robert Munsch or Mélanie Watt, to name a few. They take risks on new authors to bring Canadians the books they love to read. But it's hard to take big risks when a publisher is carrying a deficit. The inability to build working capital today makes it even harder to plan for the future and to publish tomorrow's great authors.

Working Capital is defined as the difference between current assets and current liabilities. Working Capital is an indicator of financial health. Without it, there is constant cash-flow trouble and other financial difficulties that stall the growth of any company, whether it is cultural or otherwise.

Publishers as a group are already working together to address many issues. With the assistance of government support, publisher-led programs — such as improving the supply chain (BookNet); technological knowledge (Humber's Gutenburg 2.0 Project); revising master author contracts to include digital rights (Association of Canadian Publishers' sample author contract wiki) and working together on export issues (Association for the Export of Canadian Books) — are meeting these challenges. Ongoing support for these and other programs is crucial in meeting these challenges.

Many of the programs mentioned above, and the support to publishers in the form of the Canada Council's Block Grant, Department of Canadian Heritage's Aid to Publishers program, or Ontario Media Development's Tax Credit Program and Content and Marketing Book Fund provide steady annual operating funding to support the ongoing production and promotion of Canadian-authored books. A missing piece to all this activity is targeted solutions for individual companies who have deficits, financial and/or human, or lack working capital, or who have inadequate in-house technical expertise, whether it is digital, financial and/or marketing. At this moment of change, many publishers might not be able to make the transition to a new marketplace. We need to develop a community-led program that will support those publishers whose structure might not be strong enough but still need to make changes to deal with this new economic reality. This is what we hope to address.

Arts Stabilization programs that work to build both working capital and targeted expertise have been successful worldwide and here in Canada. The key to this success is that the community supports them. The other important factor for success is that, rather then supporting any one global solution, such programs support solutions that are tailored to individual needs for each company that participates. These make for healthier companies that in turn lead to a healthier, flourishing and sustainable sector.

This report is the conclusion of a six-month study into the feasibility of a publishing stabilization program in Canada. The results, as outlined in this report, come with the recommendation that a pilot program be established and that funding be sought to develop the program during the 2009/2010 funding period.

Background and Introduction

In 2007 a group of publishers came together to discuss the ongoing issue of financial crisis for literary Canadian publishers. They felt there were opportunities for change and that there were models (See Appendix 1 for a summary of some of those approaches) available that could be, at least partially, used by publishers to improve the way they work and plan and, as a result, build capacity within the industry.

Purpose of the Study

The purpose of this study is to determine parameters, set goals, and explore need (both financial and structural) for a stabilization program for Canadian publishers. We reviewed several models with the view that they could be used to build a strong and vibrant Canadian publishing industry, in a healthy and sustainable environment. The ultimate goal is to empower companies and owners with control over their financial destiny and to provide professional development and expert technical assistance where necessary.

The goal of any cultural stabilization program is to build capacity and sustainability by promoting and assisting good management practices, responsible financial planning and strong strategic planning. With this in mind, we asked the following questions:

1. Which stabilization model or combination of models would best suit publishers' needs?
2. Who are the target publishing companies?
3. What changes and improvements are necessary for long-term health and stability? And, what is the wherewithal of the publishing companies to make changes and improvements towards their long-term health and sustainability?
4. What mechanisms will be used to help publishers accomplish a reduction in their deficit?
5. What is the appetite among government, donors, etc., to fund such a campaign?

These key questions were used as the basis for this study and will help develop an outline of a program that will have broad appeal for publishers.

Methodology and Approach

The consulting team's approach was to conduct primary and secondary research, including reviewing a number of different programs in North America, roundtable discussions with over 25 publishers and associations as well as in-depth interviews with 15 publishers of varying sizes, locations and type. (See Appendix 2 for a complete list of participants of the roundtables). We met with funding bodies including Department of Canadian Heritage, (DCH) Canada Council (CC) and Ontario Media Development Corporation (OMDC) mid-way in the process.

We also interviewed sources outside of the industry (see Appendix 3 for a complete list of organizations and their contacts).

The Business Environment

This is a time of huge economic upheaval. In addition to economic uncertainty, the publishing business model is undergoing a sea change. The most recent sales figures gathered by Statistics Canada, summarized in a report called '*The Book Retail Sector in Canada*' prepared for DCH in September 2007 by Turner-Riggs Workspace, highlighted that sales of books are decreasing overall. Some other important points from the report:

1. The book retail sector is highly concentrated and there has been a shift in market share from independent bookstores to one chain and non-traditional outlets.
2. Supply of books in the Canadian market is growing more quickly then demand.
3. Not all the news is bad in that there are emerging markets.

The table below from the Turner-Riggs study beautifully illustrates the changing market:

Combined Sales of a sample of 11 Canadian literary presses, 2003–2006				
	2003	2004	2005	2006
Chain bookstores	$135,272	$100,722	$94,835	$69,180
Independents	$136,802	$130,169	$110,375	$114,176
Institutional	$86,973	$76,311	$132,776	$107,897
Non-traditional	$7,556	$9,533	$4,124	$8,132
Online	$7,826	$12,163	$7,749	$20,738
Trade wholesale	$15,561	$11,326	$27,880	$5,568
Misc	$5,568	$4,546	$7,954	$119
Total	$395,558	$344,770	$385,693	$325,810

"As this sample illustrates, combined overall sales for these literary presses fell by nearly 18% from 2003 to 2006. Sales to chain bookstores fell by the largest amount, dropping almost 50%. (Chain stores accounted for 34% of combined sales in 2003 but just over 21% in 2006.) In contrast, sales to independent bookstores, while declining somewhat in dollar terms, remained steady in terms of their percentage of combined sales (35%). The table also indicates that the greatest sales growth for this group has come from library wholesalers (a 37% increase) and online retail (+165%)." *page 48 from the Study.*

In the OMDC report '*A Strategic Study for the Book Publishing Industry in Ontario*' prepared by Castledale and Nordicity, the authors found that:

- Traditional retail sales are flat[1] and total sales are expected to grow at a CAGR of 3.3% for the next 5 years – in the trade and educational market segments.[2]
- Publishers' margins are being squeezed from all sides. Median profits in the Canadian-owned sector in 2004 were $9,197 per publisher, compared to $3.6 million for the foreign-controlled book publishers.[3]
- Digital technologies have already had an impact on the book publishing industry, but the trends indicate a growing impact in the future**.** Sales of physical books through online retailers and publishers' own websites continue to grow but still represent only a fractio**n** of most publishers' total sales.

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1. Operating revenues for the country's book publishing industry were down 1.2% to $2.1 billion in 2006… from StatsCan report shows book publishing revenues down in 2006, Q&Q Omni, July 11, 2008.
2 *Global Entertainment and Media Outlook 2008-2012*, a report by PricewaterhouseCoopers, June 2008.
3. Statistics Canada, The Daily, Friday June 30, 2006.

- The distribution and sales of digital books (ebooks) and content are growing but the market is still evolving and it is fragmented. There are not yet standard business models for the sale of ebooks and content, and those that are emerging are often contradictory (e.g., some offer free content while others charge). Pricing ranges from more than the price of the physical book to significantly less. The leaders in the field are large, generally multinational aggregators and distributors — like Google, Sony, Amazon, and Canadian-based Harlequin.
- Publishing companies are looking to exploit growth potential both in traditional markets (e.g., export, institutional sales, special sales); and they are exploring new revenues in the growing digital marketplace where return on investment is, as yet, unknown.
- Print on Demand (POD) technology is evolving and may ultimately offer publishers the ability to do 'just-in-time' manufacturing, which could dramatically reduce or even eliminate the wasteful returns regime under which the industry currently labours. In the shorter term, it offers a cost-effective option for some niche and short-run titles (e.g. academic, course packs).

Against this backdrop of fewer books sales, smaller print runs, tighter margins, there are emerging digital markets, export and print-on-demand. However, publishers are under-capitalized, under-staffed and cannot take advantage of these new markets as quickly as they should to enable them to achieve financial balance and health.

Stabilization Programs

Stabilization programs improve the long-term artistic and financial viability of publishers through three key components – the provision of technical assistance, assistance with deficit retirements, and the establishment of working capital reserves. They operate within a limited timeframe, typically achieving their objectives in five to seven years, and then dissolve.

Participating companies are assisted as they develop realistic long-term strategic plans – including deficit-reductions plans, if necessary – and are able to call upon consultants with expertise in technology, financial systems, marketing or any other area needed. If they have a deficit, they are required to reduce it by half. They receive the remaining half as a grant, allowing them to continue the program deficit-free and in financial balance. For the remaining years of the program, they are required to maintain that balance; if they are successful, they are rewarded with working capital grants that they retain in restricted cash-reserve funds. These reserves provide a permanent buffer against cash-flow fluctuations and unanticipated shortfalls; they also provide the freedom to respond to exciting opportunities.

Throughout the program, participating companies are helped to develop new skills, identify and solve organizational problems, and develop new, more effective ways of working.

Feasibility Study Results

Financial Survey and Analysis

During the study, we reviewed financial and operating information from the most recent audited financial statements of thirteen Canadian publishing companies (fifteen publishers were interviewed; however, only thirteen of the fifteen publishers had submitted their financial statements in time to be included). Their revenues averaged $1.3 million for 2007 and they fell into the following ranges:

Less than $400,000	3
$400,000 to $1 million	5
$1 million to $5 million	5
Over $5 million	0

In reviewing these statements, the object was to seek out areas of financial and operating strengths and weaknesses, and to use available survey data to compare these data with industry figures. Recent industry data are derived from the DCH's 2007-08 *Publishing Measures* report, and areas of concern to the publishers are drawn from the record of two roundtable discussions that were held.

Working capital ratios provide information as to how liquid the companies are or how capable they are of meeting their short-term financial obligations. The ratio of current (short-term realizable) assets to current liabilities – the Current Ratio – provides one measure of this. Another useful measure is the ratio of year-end working capital (the difference between current assets and current liabilities) to the year's total revenues.

The average Current Ratio for the thirteen companies is 2.06. That is, their current assets are, on average, twice the magnitude of their current liabilities. This appears to be a satisfactory position. However, averages can disguise the true condition.

Any review of publishers' current assets, which are reported to include cash in the short term, as would normally be required of "current" assets. In order to calculate more properly the real liquidity of this group of publishing companies, inventories should be excluded in reviewing working capital. This exercise yields the following:

Review of Adjusted Working Capital Positions

$	2007 Revenues	Current Assets	Inventory	Current Liabs	Working Capital	Adjusted Net W.C.	% Revs
Totals	**17,137,136**	**12,263,077**	**3,621,844**	**5,968,160**	**6,294,917**	**2,673,073**	**15.6%**

Studies in other areas have determined that a healthy working capital amount is in the order of 20 to 30 percent of annual revenues. This review revealed that eleven of the thirteen companies are functioning with less than 25 percent working capital, and of these, five have negative working capital.

Cash flow and cash management appear to be critical factors for nearly all companies.

Profit Margins

Pre-tax profit is a measure of the sustainability of the publishing enterprise. Therefore, the health of a company can be measured by profitability and contributions to equity over time. This report does not examine these margins over a long period, as these data were not available. However for years ended in 2007, five companies' profits as a percentage of revenues were at breakeven (say 2%) or were losses.

Negative	2
Positive, 2% or less	3
Over 2%	8

Equity-to-Debt (Total Liabilities)

This is a measure of the extent to which ownership resources exceed debt. For for-profit companies, equity is the owners' resources that remain in the company for future needs.

Equity-to-Debt Ratios

	Equity	**Debt**	*Ratio*
Totals	3,682,230	8,751,232	*42.1%*

From this review, it is clear that only two companies have negative equity. Although the remaining ten companies display positive ratios, six of them have debt in excess of their equity. That is, eight of thirteen companies have debt that exceeds the worth of the company.

All companies average a ratio of 0.42, which compares unfavourably with the industry median of 0.78.

Inventory to Total Assets

This is a measure of the investment in inventories, as related to assets held. In general, it is a worthy objective to hold inventories at as low a level (value) as possible, consistent with other business objectives.

The average for all companies in this population for 2007 is 29.1 percent inventory to total assets. The industry median is 31.2 percent.

Operating Expenses

Operating expenses are reported in a wide variety of captions in the companies' audited statements. In the absence of more detailed expense data, only Marketing and Promotion costs are comparable.

The comparison of marketing costs to net revenues excluding grants is 13.0 percent, which compares favourably to industry medians of 14.3 percent

Analysis Summary

It is apparent that the thirteen companies that were reviewed for this study are, in the main, healthy and comparatively sound financially. However, their working capital (liquidity) positions are, with only two exceptions, precarious, and their long-term success may well depend on rectifying this capital need.

In designing a program to assist in the sustainability of these companies, attention to individual situations will be more crucial than community consolidations. In designing a program of assistance it will be desirable to extend the survey and begin to direct more attention to individual company concerns.

Company Interviews

Over the course of the study, the lead consultant along with the change consultant, or members of the steering committee, met with 15 publishers (See Appendix 4 for a complete list). These publishers are from across Canada, of different sizes and working in many different genres, from literary fiction to children's literature. They are well-established companies that have been critical to the establishment of Canadian literary culture. Their revenues ranged from $104,000 – $4,000,000.

The publishing lists ranged from 7 to 60 books a year and many publishers have sizeable backlists, from 90 to 950 books. In all instances, we spoke with the Publisher or Owner of the company. We discussed the study and our ideas for a program, as well as eliciting information about the company's health, structure, strengths and weaknesses. (See Attachments for the Interview Guide).

Operational Issues

Publishers are a frugal lot. This is a small-margin business and they look for opportunities to stretch their dollars. However, they are working in a risky business and many of the publishers spoke about having both a financial and human deficit.

They are lean companies — often too lean. It is a very labour-intensive process, publishing a book, and many of the owner/operators spoke of the need to hire additional people, but because there isn't the money, they make do with less. Alternatively, there is a reliance on interns or junior staff who have to be trained and tend not to stay. Unfortunately, this results in a revolving door of staff that in the long run means more work for the publishing house. And it means mistakes can be made because inexperienced staff are expected to do more then they are capable of. Every single publisher interviewed said that they needed more staff, and if given the opportunity they would prefer to hire more experienced staff, if only they could pay them a competitive wage.

Many publishers felt that there was a lack of people trained in data management, financial systems and in technology working in this industry. It was felt that this was largely because of low wages and long hours.

All publishers have long-term plans for their publishing programs; however, only two publishers spoke of having, or were about to review, their long-term financial and strategic plans. Some publishers felt they were more agile without a written strategic plan, saying this gave them an advantage in a shifting marketplace. Others felt that planning documents, which are required for their yearly grant renewals, are enough. Some publishers indicated that they just didn't have the resources or the time to plan. One publisher commented that he was jealous of authors as they had the luxury of time to plan their books, yet he did not have this luxury, given the numerous tasks he had to accomplish in any given day.

Many publishers spoke of their frustration with this situation and their desire to change. They felt that if given the right tools and more staff — which would lead to more available time — they could work to create and follow strategic plans. In turn, this would help them to eliminate the stress of constantly dealing with crises. Many felt this would make them more competitive.

All publishers felt that with enough working capital they could surmount a number of these issues. They could hire more experienced staff, streamline their businesses and look for higher margin business opportunities.

Response to the Program Proposal

At both roundtables and during interviews, publishers were keen on a program that would:

1) Support Canadian literature.
2) Work as a collective.
3) Supply technical assistance, both on a single-company basis and in industry-wide workshops.
4) Retire deficits.

5) Supply low-cost loans or working capital.

Many publishers and funders were very interested in the Creative Trust model and felt that a stabilization program, given the present economic situation, would give them a platform from which they could develop and grow their business. This was especially important for a number of publishers who are thinking about retiring. They would be more likely to find interested parties if their companies were stable.

Publishing Working Capital Program
Proposed Financial Plans

A program designed to address the observed needs of these companies should be designed for those with the greatest capacity to benefit from the program's assistance. Of the thirteen companies, two are in a very strong financial position and three are too small (with revenues of less than $400,000) to participate fully in the program's requirements. Thus, a budget has been formulated to address only eight of the companies in this survey.

A program that addresses the critical needs of these companies should be designed to provide at least two essential components: professional assistance in addressing each company's strategic and management needs, and working capital awards to strengthen its long-term financial viability.

A budget for such program should include three elements:

1) Working Capital Awards:

Such funds should be awarded over time in amounts sufficient to raise each company's working capital to a level of at least 25 percent of its revenues. These funds should be retained by each company and only expended for short-term returns.

There are two possibilities, depending on the resources that are available. Each company could be eligible for a total award equal to 25 percent of its base year's revenues (a program cost of $3.3 million). Alternatively, sufficient funding would be provided to raise each company to the 25% level (at a cost of $2.6 million).

2) Technical Assistance:

To address the particular needs of each company and provide professional assistance as and where required, a sum of $30,000 per company should be allocated.

3) Program Administration:

To manage the program during the years of its operation, a sum of 15 percent of the program's costs should be allocated.

The total cost of a pilot program to ensure a stable future for these publishers:

1) Working Capital Awards 25% of the companies revenues	**3,281,718**
2) Technical Assistance at $30,000 per company	240,000
3) Program Administration at 15% of total costs	528,258
Total Program Budget	**4,049,976**

Recommendations

Introduction

The results of this study indicate that the publishers who were interviewed are very supportive of a publishing stabilization program that would give them the opportunity to:

1) Stabilize their company's finances.
2) Maintain their core creative goals.
3) Develop technical knowledge, whether it is digital (internal and external), financial and/or marketing.
4) Work together as a sector to develop best practices.

We therefore recommend that the Steering Committee move to the next step of the project, the development phase of a Publishing Stabilization Program. This would include the development of an organization, financial support and program structure.

We point out, however, that while this initiative is essential to providing publishers the means to build and create stability, it has to be in addition to the currently existing components necessary for financial and organizational health, including steady annual operating funding and initiatives through the various programs currently in place via the federal Government of Canada (through the Department of Canadian Heritage and the Canada Council), and provincial- and city-level funding programs throughout Canada.

Recommended Program Model

A range of programs was reviewed and it is decided to develop a pilot program that would be for publishers in Ontario. When fully developed, it could be transferred to different areas of the country as well as to different sectors. There are three reasons to embark only a pilot program rather then rolling out a fully developed national program:

1) More adaptable to participants' needs.
2) Local, and therefore reduces costs.
3) The ability to work with Federal as well as Provincial funders.

There will be three main components to the program:
1) Provision of expert technical assistance.
2) Deficit retirement.
3) Establishment of working capital reserves in a disciplined process of achieving a series of financial goals.

We would partner with publishers to develop their planning, financial and technological skills and to acquire and maintain a fund of working capital.

Eligibility

1. Canadian-owned book publisher as defined by Canada Council as per their Block grant application and;

2. Do not carry an accumulated deficit in excess of 25% of average annual operating revenues over their most recent three-year period.

3. Have revenues between $400,000 and $4,000,000.

4. For the pilot program, be based in Ontario.

5. Be in good standing, and not in any contractual default, with any of the funding bodies or authors.

Selection Criteria

1. The ability to benefit from the program as indicated by professional management;
2. Evidence of long-term financial commitment to the publisher by granting organizations;
3. Demonstrable potential for sustainability in the current and future environment;
4. Evidence that there are no significant artistic, financial or operating problems that will prevent the publisher from fully participating in the process; and
5. Willingness of the management to enter into a program that requires sustained work and which may lead to fundamental organizational change.

Program

Each press will work with consultants to develop a three-to-five-year strategic plan to address their goals and issues. The plan will include goals with a timeline.

Each press will commit to fulfilling the program requirements, which may include:
1. Achieving an operating surplus during each year of participation;
2. Eliminating 50% of any accumulated operating deficit within 24 months of admittance to the program;

3. Fulfilling the goals set out in the approved strategic plan;
4. Undertaking a potentially fundamental process of organizational change;
5. Providing complete and verifiable information on all aspects of their operations;
6. Dedicating time necessary to complete the plan.

Program Structure

The proposed program allows each publisher to be as free as possible to define its own needs, yet it is rigorous enough in its expectations of responsible and effective financial and organizational management to ensure real organizational, attitudinal and behavioural change.

The program is expected to have a life of approximately five to seven years. This should be enough time for eligible companies to retire accumulated deficits and receive working capital contributions. The budget is based on building working capital reserves equal to 25% of total operating revenues.

The program acknowledges that some companies may face financial setbacks during the course of the program, but provides continuous support to help them get back on track.

Technical Assistance

Each company will receive a maximum of $30,000 for technical assistance. This includes specialize training especially for digitization, both internally and externally, strategic planning and marketing. Publishers will also receive continuous monitoring and mentoring.

The program will also work with other organizations and associations to present roundtables and seminars to facilitate shared learning and group problem solving.

Anticipated Goals and Results

Objectives

1) Offering a means to achieve sound financial footing so that publishers can focus on developing their publishing program and transitioning through this period of market upheaval.
2) Encouraging and sharing of best practices amongst participants.
3) Providing publishers with financial, strategic and technical assistance.
4) Rewarding excellence by requiring publishers to reduce their accumulated deficits over the period of the program.
5) Providing publishers with working capital reserves.

Goals

1) Continued growth and diversity of the Canadian publishing sector, which can be measured by financial indicators such as revenues and margins and by size and diversity of the lists of publishers who take part in the program.

2) Solid, sustainable financial health for Canadian publishers that would allow them to address the changes and new developments in the publishing sector, which can be measure by retirement of deficits and increase of sales and margins.
3) Assisting publishers so that they are able to transition through this time of market upheaval.
4) Healthy companies that will attract future publishing entrepreneurs that can be measured by the development of written succession plans.
5) Healthy companies that will in turn contribute to a healthy sector.

6) Conclusion and Next Steps

Nine years ago, the Donner Report[1] highlighted the issues facing the Canadian book publishing industry due to inadequate capitalization. Not much has changed. However, this discussion paper offers a program that will be a solution to stabilizing the Canadian publishing industry through technical support and capitalization contributions. This paper should be used as a guide for further development of a program. The next step is to have this report presented to the industry and funders for review. It is imperative that the steering committee (the members are listed on page 22) develop this program further, especially given the upheaval and changes taking place in the publishing sector and in the economy overall. Without a Publisher Stabilization program, a number of publishers will not be able to meet these challenges, given their present situation of deficits and little or no working capital and few human resources. They have no platform from which to build and meet new challenges.

The following points should be discussed and developed more fully:

1) Structure of an organization to administer the program. It is recommended that the organization be a separate entity from any of the existing publishing associations. Where possible, resources should be shared and initiatives developed together. However, this is a temporary program, with a particular goal that can be met only by an independent organization.
2) Development of a pilot program: the structure; the applications; the measurements; and all other aspects of a program, such as a business plan.
3) Acquisition of funding.

Seismic change to the publishing industry is happening now, as evident by new developments presented at recent conferences held by O'Reilly, South by Southwest and BookNet Canada. Moving directly to a development phase for this pilot program over the next six to eight months is imperative to meet the needs of publishers during this time of change and opportunity.

[1] **The Competitive Challenges Facing Book Publishers In Canada** by Arthur Donner Consultants Inc. Lazar and Associates prepared for The Department of Canadian Heritage Cultural Industries Branch.

Appendix 1

Review of Different Funding and Stabilization Models

The following is a summary of different approaches to working capital programs across different sectors. Some of these approaches are for-profit groups while others concentrate on non-profit groups. The approaches use different tools, such as grants and loans, as well as expert services that are offered for free or on a cost-return basis. All of them are an interesting starting point for the discussion of sustainable financing for publishing.

While this document describes briefly the different approaches, more details can be found at the websites, where available, included in the descriptions.

Literary Ventures Fund (LVF)
www.literaryventuresfund.org
Founded: 2005
Funding: Initial investment from founder Jim Bildner, but the goal is to become self-sustaining.
Clients: English-language literary publishers from around the world**.**

LVF is a non-profit private foundation, which uses a venture-capital model to invest in and support the publication of books. They serve as a "partner-in-risk" providing supplementary support to literary authors and publishers both with services and money. It does so by offering them, for a specific title, the foundation's resources and publishing ties to bookstores, media outlets, and publicity assistance, as well as innovative marketing and sales programs, and direct cash investments, if warranted. If the book is successful, there is a mechanism built into the agreement with the publisher that the investment into the book is paid back (without affecting the author's royalties).

LVF supports individual works to ensure that exceptional works of fiction, literary non-fiction, and poetry reach the widest possible readership and remain in print for years to come. They are "need blind and merit based."

LVF also presents public programs that generate discussion about the broader literary landscape, the role of publishing in serving literary writers, and how more readers can become engaged with literature.

Creative Capital Foundation
www.creative-capital.org
Founded: 1999
Funding: Over $17 million was raised from individual and institutional donors such as the Andy Warhol Foundation for the Visual Arts, The Rockerfeller Foundation & The H & M Fund to create an endowment fund.
Clients: Artists from a number of different disciplines including: film, visual arts, publishing and performing arts.

Creative Capital supports artists in four different ways:

1. Support the project. Supply up to three different grants to the artist, including an initial grant of $10,000, Strategic Financial Support of $5,000 to assist with the purchase of capital assets or hiring assistants, and finally Special Opportunities funding of $2,500 to be used by artists to travel to conferences or exhibitions.
2. Support the person: These are educational tools offered to the artists to ensure that they can develop proficiency in strategic planning, fundraising, and public relations.
3. Nurture the Community of Artists: Creative Capital holds a retreat for all artists who are part of their program. The retreat offers grantees an opportunity to network, present their work, and consult with arts professionals.
4. Engage the public: Creative Capital uses print and online resources to promote the work of all grantees.

Creative Capital follows a venture-capitalist model of support for artists. If a project becomes profitable, a percentage of the proceeds from the project will be returned to Creative Capital until their investment has been recouped. After that point, Creative Capital's percentage becomes halved for all future receipts from the project. This money is reinvested into grants for projects by other new artists.

Creative Trust: Working Capital for the Arts
www.creativetrust.ca
Founded: 2002
Funding: Government grants, foundations, corporations and individual supporters
Clients: Non-profit music, theatre and dance companies based in Toronto with annual budgets of $400,000 to $4 million dollars. Thirty smaller companies are involved in the learning activities through an Outreach Program.
Structure: Registered charity; the board is equally divided between arts professionals and community members.

Creative Trust is an arts stabilization program designed to support and strengthen Toronto's mid-size performing arts companies by assisting them in developing their planning and financial skills, achieving organizational and financial balance, and acquiring and maintaining a fund of working capital. It combines an intensive working process – in which participating companies are given technical assistance with strategic planning, financial management, fundraising, or any other area of need – with deficit reduction grants and working capital awards. Creative Trust works with such companies as Opera Atelier, Buddies in Bad Times Theatre, Toronto Dance Theatre, Tarragon Theatre, and Tafelmusik Baroque Orchestra and Chamber Choir and has committed to working with these, and other companies, over a six-year period. Since 2005 Creative Trust has awarded over $2.65 million dollars in matching deficit reduction and working capital awards to its 21 member companies. This is in addition to the thousands of individual hours of consultations, roundtables, and company review meetings that they provide.

There were similar programs in other provinces such at BC, Saskatchewan and PEI which have been wrapped up. New Brunswick's arts stabilization program is still running and this is the website: www.nbfa-fanb.ca/programs.php.

Farm Credit Canada (FCC)
www.fcc-fac.ca

Founded: Incorporated as a Crown Corporation in 1959, but grew out of the Canadian Farm Loan Board that began in1927.
Funding: Self-sustaining crown corporation.
Clients: Farming community including farmers and other agriproducers.

FCC is Canada's largest provider of business and financial services to farms and agribusiness. It has not received any direct funding from the Government of Canada for over 15 years.

Operating out of 100 offices located primarily in rural Canada, it services over 80,000 customers. It has a portfolio of more than $15 billion that has grown for 15 consecutive years.

From one product at one rate in 1959, FCC has grown to offer the farming community a wide range of customized financial and business solutions. Including Transition Loans (www.fcc-fac.ca/en/products/lending/transition_loan_e.asp) specifically geared to retiring farmers who want to sell their farm to a family member or a neighbour.

Cash Flow Optimizer Loan
http://www.fcc-fac.ca/en/products/lending/cash_flow_optimizer_loan_e.asp

AdvancerPlus is a new working capital loan product (www.fcc-fac.ca/en/products/lending/advancerplus_e.asp).

Most loans are secured on real estate.

In addition to loans, FCC offers a number of services geared to the farming community such as software programs (for which there is a charge), trend watch journals, forums, workshops (such as succession planning), and a farmland valuation service for which there is no charge if you are a customer.

Loan Loss Reserve Fund for Publishers (LLRF)

LLRF was created in 1998 by Department of Canadian Heritage (DCH) working jointly with Royal Bank of Canada (RBC) and lasted until January 2002 when DCH stopped accepting applications. RBC still managed the last of the previously approved lines of credits until the program was wound down in 2007. This was a pilot program for publishers that if successful, was to be expanded to other cultural sectors.

Objectives of Program

1. Increase access to capital for targeted cultural industries (publishing, film, magazines, multimedia).
2. Assist in the expansion of Canadian-owned cultural industries.

The Program

RBC offered lines of credit or term loans to book publishers and the federal government would contribute over $2 million to cover a percentage of the losses under the program. The amount available under the line of credit was calculated on the following formula: 75% of accounts receivables; 50% of inventory and up to 25% based on the value of contracts. Eligible applicants with annual revenues below $3 million dollars could receive up to $250,000 in the form of an operating line of credit. Over $3 million could receive up to $500,000. The bank charged a fee of .5% of the loan and the interest rate was prime that at the time was 2–4%. The bank could secure loans though applicants' inventory, accounts receivables and in some cases author contracts, but was limited to 25% of the value of the loan. No personal security was accepted.

21 publishers applied and 17 were accepted, which generated $2.7 million in incremental loans.

Report on the Program
http://www.pch.gc.ca/progs/em-cr/eval/2005/2005_06_LLRF/index_e.cfm
The above website is an evaluation of the program. It concludes that while there is still a need for this type of program, certain changes should be made if it ever were renewed. The program as it existed was cumbersome and bureaucratic. From RBC's viewpoint, which is one of the main reasons the bank withdrew its support, there was not enough volume to make it economical for them to continue.

Appendix 2

Roundtable Participants

Roundtable #1 (Sunday Dec 7, 2008):

Contact	Company	Location
Brian Kaufman	Anvil Press	Vancouver
Karen Green	Anvil Press	
John Samson	Arbeiter Ring	Winnipeg
Dan Wells	Biblioasis	Emeryville
Robert Morgan	BookLand Press	Toronto
Jay Millar	Bookthug	Toronto
Kim Pelley	Breakwater Books	St John's
Rebecca Rose	Breakwater Books	
Kitty Lewis	Brick Books	London
Maureen Harris	Brick Books	
Christina Palassio	Coach House Books	Toronto
Steve Luxton	DC Books	Montreal.
Nic Boshart	Invisible Publishing	Halifax
Bev Daurio	Mercury Press	Toronto
Ron Hatch	Ronsdale Press	Vancouver
Todd Besant	Turnstone Press	Winnipeg
Linda Cameron	University of Alberta Press	Edmonton
Simon Dardick	Véhicule Press	Montreal
Noelle Allen	Wolsak & Wynn Publishers	Hamilton

Roundtable #2 (Monday Dec 8, 2008):

Rick Wilks	Annick Press	Toronto
Ruth Linka	Brindle & Glass	Victoria BC
Marc Côté	Cormorant Books	Toronto
Jim Lorimer	Formac/Lorimer	Halifax/Toronto
Karen Boersma	Kids Can Press	Toronto
Sylvia McConnell	Napoleon & Company	Toronto
Blake Sproule	Playwrights Canada Press	Toronto

Associations:

Carolyn Wood	Association of Canadian Publishers
Rachael Pleet	LitDistCo
Marg Anne Morrison	Ontario Book Publishers Organization

Appendix 3

Other Interviews

1. Lindsay Folk,	Manager	Farm Credit Canada
2. Jeffrey Lependorf,	Executive Director	Literary Ventures Fund (USA)
3. Roy MacSkimming	Co-ordinator	Canada Council's Flying Squad for Publishers
4. Mark Jamison	CEO	Magazines Canada
5. Sean Elwood	Director, Grants & Services	Creative Capital, (USA)

Appendix 4

Publishers Interviewed

1. Rick Wilks	Annick Press	Toronto
2. Brian Lam	Arsenal Pulp Press	Vancouver
3. Alana Wilcox/ Christina Palassio	Coach House Books	Toronto
4. Marc Côté	Cormorant Books	Toronto
5. David Caron/ Jack David	ECW Press	Toronto
6. Susanne Alexander	Goose Lane Editions	Fredericton
7. Mike O'Connor	Insomniac Press	Toronto
8. Lou Morin	NeWest Press	Edmonton
9. Rolf Maurer	New Star Books	Vancouver
10. Bob Tyrrell/ Andrew Wooldridge	Orca Book Publishers	Victoria
11. Tim Inkster	Porcupine's Quill	Erin, Ontario
12. Margie Wolfe	Second Story Press	Toronto
13.Kathy Lowinger	Tundra Books	Toronto
14. Simon Dardick	Véhicule Press	Montreal
15. Noelle Allen	Wolsak & Wynn Publishers	Hamilton

Additional Information

Consultants

Lead Consultant
Barbara Howson is a senior publishing professional with over twenty years experience in Canada and in the United Kingdom. She has held executive positions with both Kids Can Press and Stoddart Publishing; the latter included representing House of Anansi Press, Cormorant Books and Boston Mills Press in the international markets. She has been active in the publishing community throughout her career, sitting on the board of the Association for the Export of Canadian Books and acting as Chair of the Export Committee for the Association of Canadian Publishers (AECB). Her career includes notable achievements in sales and marketing within the domestic book market, as well as extensive experience and success in foreign rights and licensing arrangements, working with a variety of publishing and media companies.

In 2007, Barbara began work as a consultant to the publishing industry. Her clients include the Ontario Media Development Corporation, AECB, Access Copyright, Second Story Press, and Douglas & McIntyre Publishing Group. Barbara is active in the Association of Canadian Publishers Mentorship Program. Barbara is also on the faculty of the Humber College Creative Book Publishing Program and is a member of the board of Raising Readers, a literacy charity active in the east end of Toronto.

Change Consultant
Jini Stolk is founding Executive Director of Creative Trust, a six-year, $6.1 million program to improve the financial health and sustainability of mid-size performing arts organizations in Toronto. She has previously acted as consultant to the Quinte Arts Council, Toronto ArtsWeek, the Playwrights' Development Centres and a variety of performing and other arts organizations, and has had senior management experience in a range of producing and membership organizations. She was Managing Director of Toronto Dance Theatre for six years between 1994 and 2000, and guided that company through a major artistic and organizational transition. Before that she spent ten years as Executive Director of the Toronto Theatre Alliance, where she promoted the interests and concerns of Toronto's performing arts industry to government, the media, the private sector and the public. While at the TTA, she acquired and revitalized T.O. TIX, Toronto's half-price ticket booth and acted as executive producer of the Dora Mavor Moore Awards. She has also served as Associate Director of the Association of Canadian Publishers and General Manager of Open Studio. She continues her involvement in many community and cultural advocacy activities, and is President of the board of Hum dance theatre, and a director of the Toronto Arts Council and the 215 Centre for Social Innovation. She previously served as President of the boards of Toronto Artscape, Artscape Non-Profit Homes, and the Six Stages Theatre Festival. She has been recognized with a Harold Award and the Sandra Tulloch Award for Innovation in the Arts.

Fianancial Consultant
Peter Brown received his education at McMaster University in Hamilton, Ontario (BA), in the MBA program of York University in Toronto and, in International Finance, at the International Management Institute of the University of Geneva in Switzerland.

During recent years, Peter has completed seven feasibility studies on the development of a series of national and community-sponsored arts and cultural stabilization projects across Canada, as well as the initiation and advancement of complementary projects, funded and supported by the Bronfman Family Foundation, the federal Department of Canadian Heritage, provincial governments and other private foundations. He remains the consultant Director of Program Development and Evaluation of the Toronto program Creative Trust, which engages some 22 mid-size performing arts companies and 30 other smaller companies in an intensive program of sustainable development.

Peter has also served as a Director and the Treasurer of Toronto Artscape Inc. and remains the President of Artscape Nonprofit Housing Inc. in Toronto and is Treasurer of the St. Catharines and Area Arts Council.

Steering Committee

David Caron is the co-publisher of ECW Press, a Toronto-based trade publisher with a mix of Canadian literary titles and niche non-fiction selling in Canada and internationally. David came to book publishing via theatre, and served as the executive director of the Literary Press Group of Canada before joining ECW.

Erin Creasey is publishing manager at ECW Press. Previously she was the General Manager of LitDistCo, the book distribution arm of the Literary Press Group. She has also worked at NeWest Press in Edmonton. Erin currently serves on the Board of LitDistCo and the advisory committee for the OBPO's Gutenberg 2.0 Project, and works with various other industry groups and committees.

Mike O'Connor is the founder and publisher of Toronto-based publishing house Insomniac Press. He has been the president of the Organization of Book Publishers of Ontario. He has sat on the boards of directors for many industry organization including Access Copyright, and the Canadian Copyright Institute. Before starting Insomniac Press, he worked for Firefly Books and McClelland & Stewart. O'Connor received a degree in journalism and worked for a number of newspapers across Canada. He teaches creative writing and publishing at the University of Toronto and Ryerson University.

Alana Wilcox is the Senior Editor at Coach House Books, which won the inaugural Ontario Premier's Award for Excellence in the Arts for Arts Organizations and was the Libris Award's Small Press Publisher of the Year in 2007. She is a founding editor of the uTOpia: Towards a New Toronto series of books, and the author of a novel, A Grammar of Endings. She has served on juries and hiring and review committees for the Toronto and Ontario arts councils and Canada Council, and she is the past chair of the Literary Press Group and a member of the Literary Committee of the Toronto Arts Council.

Interview Guide used for Publisher Interviews

Working Capital for Publishers Feasibility Study
Interview Guide

Interview Date: ____

Publisher: ____

Contacts: ____

Introduction

- Intent of the study – Feasibility of a working capital program with technical assistance for publishers.
- The Process – Researched different approaches; two roundtables with publishers; interviews with individual publishers; interviews with granting agencies.
- Timing – Study started in October with final report due mid-March.
- Purpose of this interview – In-depth information from publishers.
- Program funding concerns – One-time funding to enhance working capital and ensure publishing programs and financial viability.

Organizational Situation

1. History and present support from governments – provincial and federal.
- View of future government support.

2. **Financial history and present situation**

Latest year-end: Total Revenues: $

Current working capital situation:

Accumulated Surplus (Deficit): Any plans to retire deficit? (Written?):

Frequency of production of operating statements, balance sheets:

How would you describe the circumstances of your operating finances?

- **Secure**,
- **No immediate threat**, but new strategies will be required to maintain current position;
- **Difficult**, will affect publishing program;
- **Very Difficult**, will not be able to manage current

3. **Staffing**

Number of full-time staff: Staff turnover in last year:

Number of part-time staff: Number of freelancers:

Number of interns in a year:

4. **Publishing Program**

Number of titles published a season: Number of titles in backlist:

5. **Planning processes** - Strategic Plans / Budgets / Cash Flows to discuss

Do you have written strategic plans?

<u>Working Capital</u>

1. Quantify need for working capital funds.

2. Comments on a program for working capital. Publisher's goals:

3. Any specific needs for technical assistance do you require? For example: improve data systems, financial, technical, marketing, digitization or succession.

4. What types of change do you feel are likely to be most effective in helping you to meet these challenges and ultimately to sustain your company over the long run?
   - Change in Publishing Program
   - Organizational Restructuring
   - Financial Restructuring (reduction operating deficit)
   - Introduction of New Technology
   - Professional Development
   - Other

5. Or, if you feel your firm does not need internal technical assistance, how does your company need assistance to meet the challenges presented by external pressures such as retail channels, rising distribution costs, returns or low margins?

6. If your company des not change to meet these challenges, what do you predict will be your company's financial future?

7. Other Suggestions.