THE WORKING CAPITAL
PUBLISHING STABILIZATION PROGRAM

STRATEGIC PLAN
SEPTEMBER 2010

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INTRODUCTION

The Canadian book publishing industry consistently demonstrates a high degree of resilience and imagination along with a strong commitment to connecting Canadian authors with Canadian readers. In spite of its considerable cultural successes, however, the industry continues to struggle with limited profitability and issues of competitiveness and stability.

This is largely due to a number of persistent structural characteristics in the Canadian marketplace, especially the relatively small size of the domestic market, intense competition—particularly in the form of competition from the well-capitalized multinational firms that account for the majority of book sales in the Canadian market—and an increasing concentration of sales among a small number of large publishers and retailers. More recently, the industry has also been grappling with rapid and widespread change in formats, technology, and channels to market. In short, many Canadian publishers are serving an expanding range of consumer demand nowadays, via a growing variety of sales channels, while simultaneously working to meet the demands of traditional channels and markets.

Within this wider context, Canadian-owned publishing houses (as a group) are often undercapitalized, have limited access to capital, and are marginally profitable. This persistent financial condition constrains their ability to carry out their primary goal of connecting Canadian readers with Canadian authors, and undermines their stability and competitiveness for the long term.

In May 2000, the Department of Canadian Heritage published a study entitled *The Competitive Challenges Facing Book Publishers In Canada*. The study documents in detail the competitive issues summarized above and their impact on Canadian firms. Perhaps most interestingly, the report concludes with an analysis of the competitive strategies employed by a sample of Canadian firms and notes the following:

> *Based on [the case studies reviewed], it would seem that the following are the keys for any successful competitive strategy for Canadian-controlled book publishers, especially the smaller companies:*
>
> - *Niche publishing by genre*
> - *Investment in marketing and expansion into foreign markets*
> - *Adoption of new technologies*
> - *Investment in and production of new titles*

In other words, the competitiveness of Canadian firms is highly influenced by their ability to invest in key areas that materially affect their long-term viability, most notably: investment in product, investment in marketing, and investment in new technologies.

A 2008 study[1] commissioned by the Ontario Media Development Corporation echoed many of these points and highlighted the further competitive pressures facing Canadian firms today:

> *Book publishers today face the necessity of having to juggle two realities at the same time:*
>
> *a) The day-to-day necessity of dealing with their traditional market (retailers, libraries, library wholesalers, specialty accounts, etc.) and traditional business models (sale of physical books and sale of subsidiary rights) which provide the bulk of their current livelihoods;*
>
> *and*
>
> *b) The necessity of having to understand and adapt their businesses to take advantage of the digital environment that will be integral to their future livelihood.*

These studies, and all other such qualified observations of the Canadian marketplace over the last ten years, are consistently clear: the case is more compelling than ever for Canadian firms to invest in key areas that can materially affect their long-term viability.

However, it is also true that the ability of Canadian publishers to make such investments continues to be constrained by their limited access to capital.

Most Canadian-owned publishing houses operate at or near their borrowing capacity, and have limited ability to attract external equity capital. The situation is particularly acute for those firms engaged in literary publishing in categories such as fiction, poetry, drama, and literary non-fiction. While they are highly culturally significant, such publishing programs often struggle with marginal profitability.

This means, in part, that these firms do not generate sufficient profits to fund long-term strategic investments. Nor do they generate sufficient working capital from operations to support the increased cash requirements that accompany growth—that is, cash to fund the increases in accounts receivable, inventory, and taxes that correspond with higher sales.

As much as anything else, this restricted access to capital therefore explains the limited capacity of the industry to fund necessary investments in systems, marketing, technology, and/or editorial acquisitions that would enable a more stable financial position and a stronger competitive footing.

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[1] *A Strategic Study for the Book Publishing Industry in Ontario*, Ontario Media Development Corporation, September 2008.

STRATEGIC CONCEPT

As Canadian-owned publishers play a demonstrable and substantial role in producing and disseminating Canadian-authored works, there is a clear public good, and public interest, associated with the health and stability of the industry.

In order to counter the structural challenges in the Canadian marketplace and to help ensure the long-term viability of Canadian publishing houses we conclude that it is necessary to establish a new pool of working capital for eligible Canadian publishers.

We propose to demonstrate the effectiveness of such a program through an initial five-year pilot phase—for a limited field of beneficiary firms—of a working capital stabilization program for Canadian-owned book publishers. The overarching goal of the program will be to establish a sustainable capital pool that can be used to significantly improve the competitiveness, profitability, and long-term stability of the participating firms.

More broadly, the pilot will aim to demonstrate the effectiveness of the stabilization model in the publishing sector and, in so doing, to provide a basis for program refinement and expansion.

The design and implementation of the pilot will be based on the following guiding principles.

- Access to capital. In order to significantly change the financial condition and capacity of Canadian publishers, they must have access to affordable sources of capital that can be used to fund prudent investments in technology, product, or marketing and also to meet the increased working capital requirements that accompany growth.

- Technical assistance. Given the overstretched staff resources of most firms—as well as the need for specialized assistance to build management capacity and address emerging opportunities in digital markets—the program will provide for individualized technical assistance for participating firms.

- Debt management. Recognizing that the majority of the prospective program participants are private-sector, for-profit firms, the program will not explicitly support deficit or debt reductions through grants or other targeted financial supports. However, program staff may work with individual firms to actively manage the debt obligations of the firm, particularly in relation to the value of owner's equity.

- Collective action. The program will recognize the value of collective action, and, in particular, the advantages of peer-to-peer collaboration and exchange among Canadian-owned publishing houses.

- Shared responsibility. Program participants will be responsible for a range of reporting requirements and for the achievement of specified goals and performance benchmarks. Participants are also expected to contribute financially to the sustainability of the capital pool, and to assist in transferring technical expertise to and encouraging management within other firms in the industry.

The program design described here draws heavily on the findings and recommendations from an earlier study—"Publishing Stabilization Program: A Discussion Paper"—led by Barbara Howson in 2009. Similarly, the program design is informed by best practices in existing stabilization programs, most notably the very successful implementation by the Creative Trust Working Capital for the Arts Program in Toronto.

Senior staff from the Creative Trust served as consultants for the 2009 Publishing Stabilization Discussion Paper, a report that was in turn informed by close analysis of publisher financial statements as well as a series of roundtable discussions and interviews with firms across Canada over the course of a six-month study that explored the feasibility of a stabilization program for the Canadian publishing sector.

The financial analysis conducted during the 2009 study revealed that the majority of firms in the survey sample were heavily undercapitalized with 40% operating effectively at break-even (i.e., a 2% profit or less) or at a loss. This analysis also indicated a high reliance on debt financing, and found that 62% of the surveyed firms were carrying debt loads that exceeded the value of their owners' equity.

The discussion paper's conclusion offered the following key observation in calling for continuing work toward the establishment of a publishing stabilization program:

> *Nine years ago, the Donner Report[2] 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…It is imperative that [the program model described in the 2009 paper be developed 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.[3]*

The 2009 paper can be read as both a companion and a highly valuable foundation for the program plan described below as well as the operations and financial plans that follow.

[2] *The Competitive Challenges Facing Book Publishers In Canada*, Department of Canadian Heritage, May 2000.
[3] *Publishing Stabilization Program: A Discussion Paper,* Organization of Book Publishers of Ontario, March 2009.

ALIGNMENT WITH CURRENT POLICY AND PROGRAMS

The stabilization model is well aligned with government policy. It shares with relevant policy and programs in this area a central goal of building a more stable domestic publishing industry and so ensuring the continued—even expanded—publication of Canadian books for Canadian readers.

Governments at both the provincial and federal levels have been actively reviewing and renewing policy for the cultural industries in recent years. In June 2010, for example, the Ontario Ministry of Tourism and Culture released a report entitled *Entertainment and Creative Cluster: A Framework for Growth* that sets out the Government of Ontario's vision for the continued growth of Ontario's content-producing industries, including book publishing.

There are six pillars of cultural policy described in *Framework for Growth*, the first of which is, "Develop private investment and financing: Strengthen companies through improved access to capital to drive innovation, help them enter new markets and develop talent and leadership."

The policy statement for this pillar reads as follows:

> *Ontario's creative industries have proven to be entrepreneurial in navigating the complex route to financing new projects. However, access to working capital, credit and equity is often limited for many companies in the Creative Cluster. Without investment capacity, creative industries will not be able to innovate and adopt digital technologies, let alone gear up their development agendas for conducting their traditional business in challenging times. The root causes of this lack of investment must be understood and addressed to facilitate investment in Creative Cluster companies and improve access to capital markets.*
>
> *The following opportunities could provide creative industries in Ontario with the financial depth needed to invest in the next generation of world-leading products:*
>
> - *Help firms become more investor-ready*
> - *Improve access to equity investment*
> - *Facilitate access to credit*[4]

The stabilization pilot proposed here responds directly to the imperatives in this important policy statement through a combination of innovative capitalization models that rely heavily on private-sector financing as well as targeted technical supports designed to increase the management capacity of participating firms.

The stabilization program model is also notably different from earlier attempts to relieve issues around access to capital in the Canadian-owned publishing sector, particularly the loan guarantees that have at various times been available from provincial or federal agencies. The program offers an approach that is highly tailored to the needs of the individual participating firms and that is designed to relieve the most pressing issues associated with limited access to

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[4] *Entertainment and Creative Cluster: A Framework for Growth*, Ontario Ministry of Tourism and Culture, June 2010.

capital: the high cost of capital from traditional commercial sources, the operational constraints of limited working capital, and the limited capacity of these firms to invest in key areas of operations (e.g., investment in technology or marketing) that could materially improve their financial and competitive position for the long-term.

At the same time, one of the strengths of the stabilization pilot is that it is designed to be complementary to existing provincial and federal programs. The program model and eligibility requirements described below would not prevent a pilot participant from also participating fully in any existing provincial or federal programs—particularly given that working capital grants will apply broadly to all of the firm’s operations, as opposed to individual book projects, and given that the bulk of the available capital pool will be raised from private-sector funding sources.

Participants in the pilot program will not undergo any changes in ownership or financial structure or in the scope or nature of their operations that would intrude on any of the requirements of existing provincial or federal programs. This applies both to existing grant programs as well as available tax credits.

PROGRAM PLAN

We propose a five-year pilot program for up to eight participant firms to be drawn from a specified pool of candidates (see Appendix A). The program will have four integrated components: selection, work plan implementation, access to capital, and evaluation.

A. SELECTION

A1. ELIGIBILITY

The pilot phase of the program is open only to Canadian-owned and controlled publishing houses—whether for-profit or non-profit organizations—based in Ontario. In the case of a group of parent and subsidiary firms, only one application from an eligible firm from within the group will be accepted.

Applicants must:

i. Meet the definition of a Canadian-owned publisher as established by the Canada Council for the Arts

ii. Be current participants in the Canada Council's Book Publishing Block Grant Program

iii. Be in good standing with respect to contractual obligations to authors and external funding agencies

In addition, applicants must:

- Have total operating revenues of between $400,000 and $4 million for the most recent fiscal year

- Not have accumulated deficits over the previous three years that exceed 25% of the most recent year's operating revenue

A2. SELECTION PROCESS

Eligible applicants will undergo a further selection process for admission to the pilot program. The admission process is based on a written application as well as an interview with program staff, the results of which will combine to provide a ranking of eligible applicants and the subsequent admission of a sustainable pool of applicants for the pilot phase.

The selection criteria for admission will include:

- Evidence of the applicant's long-term commitment to—and expertise in—its editorial mission or position and the impact of its program for reading audiences and/or other stakeholders

- The ability of the applicant to benefit from the program as evidenced by the management capacity of the applicant

- The commitment of ownership and senior management to the goals and processes of the pilot program—in particular, the willingness of management to engage in a process that requires sustained work over a period of years and that may result in substantive organizational change

- Evidence that there are no significant artistic, financial, or operating problems that will prevent the applicant from participating fully in the process

- The demonstrable potential to improve the stability and competitiveness of the applicant firm for the long term

B. WORK PLAN DESIGN AND IMPLEMENTATION

Following admission to the pilot, successful applicants will participate in an intake assessment with a program consultant. Through a comprehensive exploration that ranges from values and mission to ownership and leadership structures to day-to-day operating procedures, the assessment process will provide a basis for further discussion, analysis, and planning.

In particular, the assessment seeks to identify those factors, opportunities, or challenges that could significantly influence the stability and competitiveness of the applicant firm.

In the course of the assessment, the program team will work with the applicant to develop an individually tailored work plan that will outline a process, timeline, and measurable goals for the applicant's participation in the pilot program. The goals and priorities established in this plan will vary from participant to participant, but all plans will incorporate clear targets for the financial performance and financial condition of the firm as well as a provision for the creation of a long-term strategic plan and an accompanying, ongoing planning process.

The firm's ongoing participation in the pilot program, including its access to program funding, will depend in part on its achievement of the milestones and goals specified in the work plan. Each participant will implement its work plan with the support of program staff and/or consultants, and may receive targeted technical assistance from additional consulting staff provided by the pilot program.

In addition, firms must comply with the following requirements throughout the pilot program.

- The achievement of a specified target profit in each operating year[+]
- The achievement of specified deficit or debt reduction targets in each operating year[+]
- The provision of complete and verifiable information to address ongoing program reporting requirements

[+] These targets will be established in the work plan for each participant firm.

C. ACCESS TO CAPITAL

The pilot program provides funding to participant firms in the form of a working capital reserve, a portion of which may be designated by the firm for targeted long-term investments.

As the program aims to establish a sustainable pool of capital over time, program participants are required to contribute a portion of profits back to the program for future use.

C1. WORKING CAPITAL RESERVES

Each participant firm will be eligible to receive up to four equivalent annual grants toward the establishment of a working capital reserve. Access to these grants will be contingent on the firm's success in achieving the goals set out in its work plan as well as the other ongoing financial and reporting requirements outlined previously.

In the event a firm does not comply with these requirements in a given year, the installment grant will be suspended. Grants to the firm may resume subsequently once it is again in compliance with all program requirements and so long as the pilot program has not yet concluded.

Pending the confirmation of program funding, the total working capital reserve available to each participating firm will be capped at 25% of the operating revenues in its most recent fiscal year before admission to the program.

These working capital grants must be set aside in a designated working capital reserve account on the firm's balance sheet that must, at the end of each year during the pilot program, be at least equivalent to the cumulative amount awarded. In other words, these reserve funds are to be used to address the short-term working capital requirements of the firm only, and must be fully restored to the reserve account by year-end. This ensures the availability of an ongoing reserve—at no capital cost—to help meet the firm's short-term cash requirements.

The following example illustrates the timing and amounts for working capital grants for a participant firm with annual revenues of $500,000.

Maximum working capital grant:	$125,000 (25% of base)
Annual installments:	$31,250
Reserve at end of year one:	$31,250
Required minimum reserve at end of year two:	$62,500
Required minimum reserve at end of year three:	$93,750
Required minimum reserve at end of year four:	$125,000

C2. TARGETED INVESTMENTS

Notwithstanding the reserve account provisions outlined above, participant firms may secure an exemption to the reserve requirements outlined above so that a portion of the working capital reserve can be applied for longer-term investments. The following provisions will apply in such cases:

i. The planned investments are subject to the approval of program staff

ii. The total amount that may be withdrawn is capped at 40% of the available reserve funds

iii. Investments will be approved only in targeted areas that can be reasonably expected to materially influence the long-term position of the participant firm—more specifically, any such investments will most often be made in title acquisitions, technology, or marketing

iv. Funds withdrawn from the working capital reserve must be restored in full within two years—that is, any such funds effectively operate as an interest-free loan from the reserve for investments with a two-year time horizon

C3. CONTRIBUTIONS TO THE CAPITAL POOL

In order to sustain and expand the pilot program over time, participants are required to contribute a portion of profits back to the capital pool for a specified period of time. The capital pool will be used to fund initiatives of direct mutual benefit to program participants and/or to support the admission of additional program participants in the future.

The following provisions apply to these contributions to the capital pool:

i. The contributions are capped at 5% for profits up to the level of the base after-tax profit for the participant (i.e., profits earned in the most recent fiscal year before admission to the program) and 10% of incremental profits beyond that base level

ii. The contributions will continue for each of the five fiscal years following the participant's admission to the program

D. EXCHANGE AND DEVELOPMENT

D1. THE PROGRAM COLLECTIVE

By design, the pilot program is meant to function as a shared capital pool but also as a highly focused collective for ongoing development and improvement. In this spirit, program participants will have the opportunity to join specialized professional development programs over the course of the pilot. In addition, all program participants will participate in—and will in turn lead—regularly scheduled workshop sessions that further explore issues of broad interest to the participant group and that will provide a basis for discussion and exchange around lessons learned, best practices, and problem solving.

D2. PARTICIPATION OF SMALLER FIRMS

Program eligibility requires that firms have annual revenues of at least $400,000 in order to participate. However, the program also aims to support the progress of firms below this revenue threshold, with the idea that they may be able to participate more fully in an expanded stabilization program in the future.

With this in mind, participating firms may be invited to mentor smaller firms over the course of their participation in the program. Similarly, smaller firms that would otherwise not be eligible to join the pilot may be invited to participate in professional development or other workshop programs organized through the pilot program.

E. EVALUATION AND REPORTING

E1. ANNUAL REPORTING AND REVIEW

Program staff will conduct an annual review of each participant in order to assess progress to date and ensure compliance with all ongoing program requirements. The review will also provide an opportunity for updating or refining the participant's work plan and to respond to emerging challenges or opportunities as required.

E2. COMPLETION

Prior to the final working capital installment transfer, each participant will be asked to complete a self-assessment report to summarize the results achieved as a result of their participation in the program. Participants will also be required to submit a three-year strategic plan that includes goals for the financial performance of the firm as well as a plan to manage and maintain the working capital reserves accumulated during the pilot.

F. ANTICIPATED OUTCOMES

F1. PARTICIPATING FIRMS

- Increased investment in Canadian authors and Canadian-authored work
- Increased management capacity
- Increased capacity to deal with technological and market-based change
- Increased investment in technology
- Increased investment in reaching new audiences in Canada and abroad
- Decreased cost of capital
- Increased capacity to generate new capital from operations
- Increased competitiveness
- Increased stability and stability of publishing programs
- Increased collaboration among Canadian publishing firms

F2. PUBLIC INTEREST

- Development of new and more diverse funding sources for literary publishing in Canada
- Expanded, sustainable publishing programs for Canadian-authored work
- A more stable domestic industry that can continue to adapt to a rapidly changing marketplace while serving Canadian readers
- Increased publishing opportunities for Canadian authors
- Increased access to Canadian-authored books for Canadian readers

OPERATIONS PLAN

OPERATING CONTEXT AND TIMELINE

As noted in the preceding program plan, the current focus is on demonstrating the potential and effectiveness of the program through a five-year pilot delivered to a group of up to eight beneficiary firms based in Ontario.

In order to properly establish the program model for the pilot, we anticipate a 12–15 month developmental phase starting in fall 2010. The focus during this phase of work will be on organizational development, fundraising, and participant selection.

Following the conclusion of this active developmental stage, the successful applicant firms will be formally admitted to the pilot and the five-year pilot implementation will begin. This is targeted for January 2012 with the pilot running to the end of the 2016 calendar year.

During the development stage, ongoing work on the project will be carried out by a steering group of industry professionals supported by an in-kind contribution of *pro bono* services by the current project consultant, Craig Riggs.

As the development process continues, this work will eventually transition to the staff and board of an independent executing agency for the pilot, additional details for which are provided below. We expect that, pending the availability of development funding, the pilot project will make additional use of consulting support during this development phase, particularly for fundraising and legal requirements.

Aside from achieving the specified outcomes, as outlined previously, for which the program has been designed, the goal of the pilot will be to demonstrate the value and potential of the stabilization program model and to establish a foundation that can support an extension and expansion of the program beyond its pilot phase.

EXECUTING AGENCY

The pilot requires an independent executing agency to properly support the participants throughout the intensive engagement that the stabilization program demands of its beneficiary firms, as well as to reflect the distinct and complementary role of the program within the landscape of current stakeholders and participants in the Canadian publishing industry.

A new non-profit organization will be established to serve as an executing agency for the pilot early in the 2010–2011 development phase. This organization will be incorporated as a non-profit via federal registration, both to take advantage of the relatively straightforward registration process at the federal level (as opposed to registration in the Province of Ontario alone) and to allow for the fact that the program may expand to other Canadian provinces in the years to come.

This executing agency will be based in Toronto. Toronto is the centre of the Canadian publishing industry and being based in the city will offer the pilot not only the advantage of proximity to the concentration of publishers, industry participants, and other stakeholders there, but also significant operating efficiencies through reduced travel expenses and synergies with allied groups.

In order to guide the formation of this executing agency, the pilot project will engage the services of Drache Aptowitzer, a leading law firm for the charity and non-profit sectors based in Ottawa and Calgary. The pilot team will work with Drache Aptowitzer to help ensure a sound structure and composition for the executing agency as a non-profit organization.

From discussions to date, we have concluded that the executing agency would very likely not be eligible for charitable status with Revenue Canada due to its close association with the for-profit firms participating in the stabilization program. We nevertheless expect to be able to fund the program through the combined public-private-sector funding model described below.

HUMAN RESOURCES

As the following financial plan indicates, the executing agency has a target annual operating budget of $85,200. This amount must support staff costs along with all other program delivery costs, excluding capital grants and technical assistance, required by the pilot.

Needless to say, this budget suggests a lean organizational model leveraged by strategic partnerships and supported by all available operating efficiencies.

Accordingly, we anticipate a single, half-time staff person[5] for the executing agency—an Executive Director—to be supported by a volunteer board of directors.

Should the stabilization program be extended or expanded over time, this staffing provision would need to scale accordingly. For the moment, however, we consider this to be an appropriate provision that reflects the limited field of beneficiary firms in the pilot project but nevertheless provides an appropriate staff resource that can foster close working relationships with and among the participant firms throughout the pilot program. Ultimately, the quality and depth of these working relationships will be a key determinant of the success of the pilot.

Governance for the executing agency will be provided by a results-oriented board of directors. The board will guide policy development and provide operational oversight toward the specified outcomes for the pilot. The executive director will sit as a non-voting member of the board and will be accountable for day-to-day operations within the pilot and for the progress of the program and its participants.

One of the primary functions of the executing agency will be fundraising and the management of effective working relationships with funders and donors. This work will be supported by a dedicated advisory committee that will include the executive director, selected members of the board of directors, and additional members from the community at large. The advisory committee will provide connections, advice, and active support for the ongoing fundraising efforts for the pilot.

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[5] We anticipate this staffing requirement will be front-loaded with a greater-than-halftime allocation in the early years of the program and a smaller allocation in the latter years, but that the overall staffing provision will average out to a halftime-equivalent position over the five-year pilot.

We anticipate that both the board of directors and the advisory committee will be composed of professionals from within the publishing industry as well as those from outside the industry that can bring additional expertise and professional networks to bear. Members for both groups will be recruited by the project steering committee in cooperation with the project consultant, and will be selected on the basis of their commitment to the project and their professional expertise, particularly their knowledge of the industry (or, more broadly, of cultural industries in general), their knowledge of and relationships with relevant funders and/or donor groups, and their expertise in business, financial, and change management.

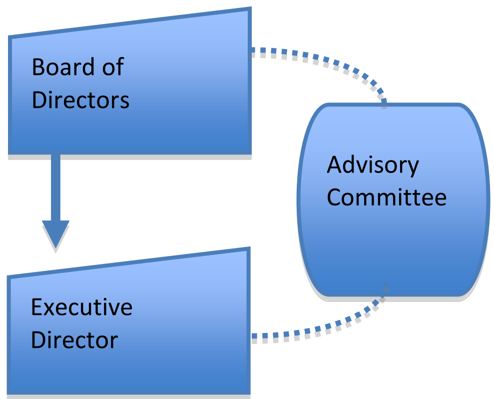

Figure 1. Organizational structure and governance for the executing agency.

AGENCY OPERATIONS

Beyond these staffing provisions, the executing agency will adopt a lightweight organizational model with an eye to driving administrative costs as low as possible. Office and meeting space will be shared or, in the best case, donated in-kind by an allied organization.

Aside from a provision for basic administrative and office expenses, and an additional budget line for professional fees (including legal services), the annual operating budget will otherwise be targeted to fundraising activities and to services for participant firms.

This lean operating model will be supported in part by strong working relationships between the agency and stakeholders in the publishing industry. While it will operate as an independent organization, the pilot represents a compelling, innovative solution to a persistent challenge within the industry and so the executing agency can reasonably expect to partner with various industry groups and to secure appropriate in-kind support and/or other collaborations from them over the course of the pilot.

FINANCIAL PLAN

CAPITAL REQUIREMENTS

The following table summarizes the capital requirements for the pilot, including capital grants to participating publishers, technical assistance, and a provision for program administration. The development budget noted in the table applies to organizational development and fundraising in the 12–15 month development period outlined above.

	Development	Year One	Year Two	Year Three	Year Four	Year Five	Total
Working capital		$650,000	$650,000	$650,000	$650,000		$2,600,000
Technical assistance		$60,000	$80,000	$40,000	40,0000	$20,000	$240,000
Program admin	$54,250	$105,200	$105,200	$85,200	$65,200	$65,200	$480,250
Sub-total	$54,250	$903,200	$771,200	$771,200	$735,200	$85,200	$3,320,250

Table 1. Capital requirements by year.

The table otherwise reflects an informed estimate as to the capital required to successfully implement the pilot. It is based on the analysis of actual financial statements from a representative group of prospective program participants, as conducted in an early phase of feasibility planning for the pilot.

This sample group of eight firms reported combined annual revenues of just over $13 million.

The reported working capital for the group was slightly under $700,000, or roughly 5% of revenues, whereas an effective level of working capital is generally held to be 20–30% of revenues.

The award estimates in Table 1 therefore reflect a capital requirement of $2.6 million in order to build the working capital within these prospect firms to a level equivalent to 25% of revenues.

The technical assistance requirement is based on an average budget of $30,000 per participant. As the table reflects, we anticipate that the bulk of these funds, roughly 70%, will be used in the first year of the pilot with the remaining portion fully applied by the end of year three. The technical assistance provided will be highly individualized to the requirements of individual participant firms, but will in all cases be targeted to improve the management capacity of the firm, its operating processes, and its ability to adapt and respond to the rapidly changing marketplace facing all publishers today.

The annual allocation for program administration is based on an amount equivalent to 15% of the total capital requirement for the program. It remains constant throughout the pilot reflecting the intensive work associated with fundraising and working with participant firms in the early phases of the pilot and then the extensive reporting and evaluative work in the latter years.

SOURCES OF FUNDS

The following table reflects our broad targets in terms of sources of funds for the pilot.

	Development	Year One	Year Two	Year Three	Year Four	Year Five	Total
Public-sector	$54,250	$316,120	$269,920	$269,920	$257,320	$7,673	$1,175,203
Private-sector		$554,263	$461,899	$454,680	$423,338	$14,249	$1,908,429
Participants		$32,817	$39,381	$46,600	$54,542	$63,278	$236,618
Sub-total	$54,250	$903,200	$771,200	$771,200	$735,200	$85,200	$3,320,250

Table 2. Target sources of funds.

As Table 2 illustrates, we anticipate three major source categories: (i) government and government agencies, (ii) private-sector, including foundations as well as individual and corporate funders, and (iii) contributions from program participants. Each of these has an important role to play within an integrated fundraising model for the pilot.

Funds from public sources account for just over one-third of total capital requirements. We propose that the role of public funding in the project is likely to be that of “first money in”—that is, to provide a foundation of capital that can establish the credibility of the pilot and which can then be heavily leveraged with contributions from other sources. This will represent not only an innovative use of public funds but also one that stimulates significant additional value in the form of matching funds from alternate sources.

The broad category of foundations and donors constitutes the largest share of projected funding at 60% of the capital budget. This category includes private foundations, corporate sponsors, and individual donors, and represents an important innovation of the stabilization program model when applied to the publishing sector.

With rare exceptions, most of these funding sources would not normally be available to for-profit firms in the publishing sector. However, we anticipate that the non-profit, arms-length executing agency described above can approach these potential funders on a completely different footing and can successfully raise funds with these groups as a result. Similarly, funds raised from foundations and other donors would represent a bona fide new capital source for Canadian publishers that could legitimately complement existing funding sources for the Canadian industry.

The “participants” line in Table 2 reflect the “contributions to the capital pool” described in the program plan. These amounts represent a percentage of profits from participating firms contributed back to the overall capital fund. For purposes of the projection in Table 2, we have estimated a combined base profit of 5% for the participating firms, 5% of which is contributed back to the fund for the term of the pilot. We have also projected annual profit growth of 10% beyond this base, 10% of which is contributed back to the fund during the pilot term.

While these contributions represent less than 10% of the total capital budget, they are significant in the sense that they provide a tangible investment toward the sustainability of the fund by the beneficiary firms in the program. They also allow the benefits to the fund to scale in relation to the progress that participating firms make in the years during and immediately following the pilot—that is, to the extent that the participating firms can improve their financial position and profitability, the fund will also benefit to a greater extent.

Overall, the program is based on a funding plan that relies on a balanced portfolio of public and private-sector funding sources in order to create a stable, combined pool of capital that can serve as an effective complement to existing government policy and programs as well as traditional sources of capital.

FUNDRAISING STRATEGY

The operations plan anticipates an initial development phase of 12 months or more, the bulk of which will be occupied with fundraising activities. This process will begin with two integrated streams of activity: the development of fundraising materials and initial prospecting.

The foundation of the fundraising toolkit will be a case for support that articulates the context, public interest, and outcomes associated with the project. This case will be expanded into a funding proposal template that elaborates the aims of the project, the components of the pilot program, its readiness for implementation, and provisions for stewardship, reporting/disclosure, and recognition of donors.

With these initial funding materials and background in hand, the development team will begin a round of initial prospecting focused on personal and professional contacts close to the project.

This will encompass contacts in local, provincial, and federal government ministries and agencies, including the Ontario Media Development Corporation, the Ontario Arts Council, the Ontario Ministry of Finance, the Department of Canadian Heritage (and selected additional federal ministries and agencies), and the Canada Council for the Arts.

Following this initial round of exploratory discussions, prospecting will extend to an initial field of foundation and corporate contacts, including those in the financial sector. Prospects in both categories will be selected on the basis of access to decision makers, criteria for grants (in the case of foundations, for example, we expect to prioritize those which are open to proposals from non-charitable organizations), and expressed interest in the arts and culture sector. We anticipate a long development cycle with both foundation and corporate donors and so prospecting in these categories will begin as early in the development process as is feasible.

Finally, the team will also further explore additional non-traditional funding models during this initial prospecting process, including the use of online "crowdsourced[6]" funding tools for individual donor contributions and comparable social investing models, the availability of cross-sectoral funding supports for the arts, and options for patient capital venture funding[7]. Investigations to date indicate some potential in each of these areas and we expect that a broad portfolio of donor sources will likely be necessary in order to achieve our private-sector funding targets.

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[6] Crowdsourced funding platforms provide an efficient mechanism for matching small private donations from individual donors with worthy causes.

[7] Patient capital is a type of private equity financing that aims to bridge the gap between the purely commercial transactions and ventures with a significant social impact or public good.

CLOSING

The pilot program described throughout this strategic plan represents an innovative solution to a decades-long challenge for Canadian publishers: how to materially improve the financial condition of these firms, and so the stability and competitiveness of the industry, in an environment where access to capital is extremely limited.

The pilot model provides a bona fide complementary source of new capital for the Canadian-owned publishing sector. It also transfers these funds to eligible firms through a highly structured and supportive program that ensures the effective application of capital grants as well as the increased capacity of participant firms to generate increased capital from operations.

With all of these points in mind, we consider the pilot has a high probability of demonstrable success as a complementary funding model for Canadian firms and that its broad goals of (i) establishing a more stable and competitive Canadian publishing sector and (ii) increasing access to Canadian books for Canadian readers are well within reach.

APPENDIX A:
PROSPECTIVE PARTICIPANTS

From analysis to date, the following firms appear to meet the baseline eligibility requirements for the pilot as set out in the program plan:

- Annual revenues between $400,000 and $4 million
- Canadian ownership
- Based in Ontario
- Engaged in literary publishing as indicated by participation in the Canada Council for the Arts' Block Grant Program for Book Publishers

Annick Press Ltd.
Between the Lines Incorporated
Canadian Scholars' Press Inc.
Coach House Books Inc.
Cormorant Books Inc.
Dundurn Press Limited
ECW Press Ltd.
Fifth House
Fitzhenry & Whiteside Limited
Groundwood Books Limited
House of Anansi Press Inc.
Insomniac Press Ltd.
James Lorimer & Company
Les Editions David
Maple Tree Press Inc. (OwlKids)
McArthur & Company
Napolean & Company
Playwrights Canada Press Ltd.
Red Deer Press
Second Story Feminist Press Inc.
Sumach Press Inc.
Thomas Allen & Son Ltd.
Tundra Inc.
University of Ottawa Press
Wilfrid Laurier University Press

Table 3. Eligible participants.

Further investigation will be required in order to ensure that these prospective candidates are within the specified revenue range and otherwise comply with all stated eligibility criteria for the pilot. Similarly, we expect that there are additional firms not listed here that may be found to be eligible after further analysis. The prospect list will be refined further in both respects following further discussions with Ontario publishers and as the application and selection process unfolds. We expect, however, that the total field will remain in the range of 20–25 candidate firms, of which eight may be admitted to the pilot.

APPENDIX B:
STEERING COMMITTEE AND CONSULTANT

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 Sales and Marketing 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 council for the Association of Canadian Publishers, and is the ACP representative to the Public Lending Right Commission. She is also an instructor at the book publishing program at Ryerson University.

Barbara Howson is the vice president of sales at House of Anansi Press. A senior publishing professional with over twenty years experience in Canada and in the United Kingdom, she has held previous executive positions with both Kids Can Press and Stoddart Publishing. 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.

Jini Stolk is founding Executive Director of Creative Trust, a $6.4 million program to improve the financial health and sustainability of Toronto's mid-sized creative performing arts organizations. She has been a consultant to the City of Toronto, the Quinte Arts Council, GHK International and a variety of performing and other arts organizations, and has had senior management experience in both producing and membership organizations. She was Managing Director of Toronto Dance Theatre between 1994 and 2000; before that she spent 10 years as Executive Director of the Toronto Theatre Alliance, where she promoted the interests of Toronto's performing arts industry, acquired and revitalized 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. She is Vice-President of the Toronto Arts Council, a director of the Centre for Social Innovation, and a member of the steering committees of the Ontario Nonprofit Network and ArtsVote Toronto. She previously served as President of the boards of Hum dansoundart, Toronto Artscape, Artscape Non-Profit Homes, and the Six Stages Theatre Festival.

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.

PROJECT CONSULTANT

Craig Riggs is a marketer and business strategist and a partner in the consulting firm Turner-Riggs Workspace. He has a strong background in the publishing and education sectors and has led major market development initiatives in Canada, Asia, and South America. Previously the new markets manager for Harbour Publishing, he led the marketing team for the *Encyclopedia of British Columbia*, a unique reference published in print and electronic editions and one of the largest publishing projects ever undertaken in Western Canada. He is the lead author of three landmark studies in Canadian publishing: *The Book Retail Sector in Canada*, *Book Distribution in English Canada*, and *Audiobook and eBook Publishing in Canada*. He holds a Masters in Publishing, and is an adjunct professor at Simon Fraser University.