

## Canadian Book Publishing and the Long Tail -

### Can Small be Beautiful?

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*The Long Tail: Why the Future of Business is Selling Less of More*

Chris Anderson

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*Book Publishers and Exclusive Agents*

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Five years ago, Canadian book publishers emerged from a horror story. General Publishing, a book distributor handling books from a number of Canadian publishers, had gone bankrupt. Book returns from the big-box bookstores had surged to unacceptable levels, and payments were delayed. A number of independent bookstores had gone out of business. Reflecting on the crisis, the Standing Committee on Canadian Heritage issued a report on the Canadian book industry in June 2000, noting the problems and listing the challenges that faced the industry. A year later, Indigo acquired Chapters.

After that roller-coaster ride, it was hoped that things could settle down and Canadian publishers could get down to creating and selling books.

However, numbers released by Statistics Canada in June 2006 show a troubling tale.

In 2004, the total revenue for book publishers in Canada was some \$2.2 billion. 47% of that revenue went to the 19 foreign-controlled book publishers active in Canada. 53% was shared among 311 Canadian-owned book publishers.

The Canadian-owned sector is incredibly varied. At the top of the heap in terms of revenue are Thomson Publishing and Harlequin Books, each of which make a nice profit in their respective niches of professional publishing and romantic paperback fiction. But neither has dipped their toe into “trade” publishing, the risky field of hard-cover fiction and non-fiction that most people think of when they walk into a bookstore. That is where most of the smaller Canadian-owned publishers try to compete, publishers like McClelland & Stewart, Douglas & McIntyre, Key Porter, and dozens of others. Those smaller publishers received government support of about \$50 million in 2004.

From the perspective of readers looking for choice, no one can quarrel with the result. The Canadian-owned publishers originated over 10,000 new trade titles in 2004, the great

majority of them by Canadian authors. (The branch plant publishers also publish a few hundred trade titles by the better-known Canadian authors, but the Canadian-owned firms give rise to the real diversity in the system.)

But the Statistics Canada show an appalling truth. The median profit of all those Canadian owned-houses was less than \$10,000 in 2004, even after government grants. In fact, without the support of government subsidy programs, the average Canadian-owned publishing house would have gone into the red to the tune of \$150,000. And fully 40% of them were in the red even after receiving government subsidies. Nor is this a recent development. As detailed in the Heritage Committee report, the profit situation for Canadian-owned publishers was even worse back in 2000.

All of which lends interest in a new phenomenon, the “long tail” effect, whereby the “smaller” book, the niche title, and the less popular title, may have a better chance of success in the future. Could this work to the advantage of Canadian book publishing?

The term “The Long Tail” was coined in 2004 by Chris Anderson, the editor of *Wired* magazine. His book with the same title was published in July 2006 and immediately became a bestseller. Anderson started with the age-old observation (often referred to by economists as a Pareto distribution) that for many product categories, including books, movies and sound recordings, 20% of the titles account for 80% of the sales. On an X-Y graph, measuring popularity vs. inventory, the 20% of bestsellers constitute the “head” at the far left of the graph, and there is a long tail extending to the far right consisting of the remaining titles that get relatively few sales.

Anderson’s new insight was that with the rise of the Internet and companies like Amazon (for books), Rhapsody (for music) and Netflix (for DVDs), there were now new ways to market, promote and distribute these lesser-known titles. The Internet gives unlimited shelf space to new or old titles, and search engines make the job of finding these titles much easier. If storage and distribution costs can be minimized, there can be a thriving business in satisfying demand for titles that would never be stocked by bricks-and-mortar stores with their limited shelf space.

The Amazon numbers illustrate the long tail phenomenon. A normal mall store has room for no more than 20-30,000 distinct book titles. The big-box retail bookstores – Chapters Indigo in Canada, Barnes & Noble or Borders in the U.S. – can stock upwards of 100,000 different titles. But an Internet bookseller can list and sell millions of different titles. Anderson states that 20-30% of Amazon’s book sales are represented by titles that are not in the top 100,000.

In summary, Anderson argues that the Internet has made possible “a new world in which the combined value of modest sellers and quirky titles equals the sales of the top hits.” This is undoubtedly overstating the case. The long tail effect does not eliminate the overwhelming impact of the bestseller. The economics of popular culture, where almost all of the cost is in the first copy and the marginal costs of additional units are small, still drives publishers to seek titles that can generate significant sales. The same economics means that

publishers do particularly well if these titles continue to sell in “backlist,” that is titles more than one year old. Backlist titles involve little new investment and can spell the difference between profit and loss for many firms. But the Internet, while making backlist books more accessible to consumers, also gives new life to the used-book market, which financially benefits neither the publisher nor the author.

How does the long tail effect apply in the Canadian book market? And can it benefit Canadian publishers and Canadian-authored books? The story is a complex one and has many moving parts.

As in other countries, bestsellers have always dominated the book market in Canada. When big box retail bookstores emerged in the mid 1990s, many thought that the greater selection of titles might mitigate that effect. But very little changed. If anything, bestsellers received more sales than before, since their prices were heavily discounted to increase traffic in the stores.

BookNet Canada has tracked sales data in Canadian bookstores since October 2005 and its numbers show that the bestseller effect is still alive and well. In the nine-month period since it began collecting data, some 650,000 different book titles were sold to Canadians. The top 200 titles garnered 20% of the revenue. The next 5,000 titles got 40% of the revenue and all the remaining titles combined garnered the remaining 40% of the revenue.

The bestseller list is highly volatile and it is an axiom of cultural economics that “nobody knows” what will succeed in advance of publication. J.K. Rowling went through 12 publishers before one decided to publish her manuscript of the first Harry Potter book. Now the release of her titles (the Canadian rights to which are held by Raincoast) are a worldwide event. Last year, *Harry Potter and the Half-Blood Prince*, released in July 2005, was the number one bestseller in Canada. But Chapters Indigo was so concerned that the resulting increase in its book sales was a one-time event that in the “Management Discussion and Analysis” issued with its financial returns in May 2006, it restated the percentage increase in its comparable store sales “normalized for Harry Potter.” In other words, it purposely subtracted the Harry Potter sales in order not to mislead investors into thinking that similar growth could be expected in future years.

Where are the Canadian authored books in these statistics? This is an easy question to ask but a tough question to answer. Statistics Canada breaks out book sales by genre, by ownership of the publishing house, and by agency or “own titles.” It also breaks out the number of new titles by Canadian and non-Canadian authors. But it has never generated a solid estimate of the proportion of sales represented by Canadian authors. In its last survey Statistics Canada did ask the question, but the response rate was insufficient to generate a reliable result.

BookNet Canada’s bestseller lists appear monthly in *Quill and Quire* and one of its “top 20” lists focuses on Canadian-authored titles. However, at present the sales data

collected by BookNet does not break out Canadian authored works (although it hopes to change that) and any estimate must be made the hard way, by eyeballing each title in the list.

On that basis, *Quill and Quire* estimated that based on November 2005 BookNet numbers, Canadian-authored titles accounted for 10% of the top 200 bestsellers sold that month. But it is clear that this number can change greatly from month to month, since it is so dependent on what new titles have been released. It is also likely that Canadian authors do better in the sub-genres. For example, a recent *Quill and Quire* piece on the cookbook market estimated that fully 50% of the bestselling titles that month were connected to Canada.

Looking at the Statistics Canada data for all trade titles in 2004 (not just the bestsellers), and focusing only on the sales of publishers "own titles," a more generous estimate might put Canadian authored titles at upwards of 25% of overall sales volume, depending on the month. If that is the case, it is clear that Canadian authors do much better in the long tail.

Further evidence of this is found in a telling statistic. Of the new trade titles published in Canada in 2004, only 36.5% were by Canadian authors. But when it comes to trade titles that were *reprinted* in 2004, the percentage of Canadian-authored titles rose to 75%. That suggests that the Canadian-authored books have shorter initial print runs, a longer shelf life and more frequent reprints, distinguishing features of a long tail effect.

There are also some heartening signs that the Internet could be helpful to Canadian books. Statistics Canada released a special study of Internet users in August 2006, tracking the activities of a selected sample over a 24 hour period. Respondents were divided into light users, moderate users, heavy users and no users. The heaviest users of the Internet turn out to be the most interested in buying books.

The increased connection between Internet and book purchases is supported by a 2005 study entitled "Book Buying Attitudes and Behaviours of English-Speaking Canadian Adults," carried out by Secor Consulting for the Department of Canadian Heritage and the Canadian Publishers Council. 22% of the book buyers surveyed in late 2004 said that they had bought at least one book from the Internet. Among heavy buyers of books, that number rose to 36%.

The Internet is a growing part of the picture for Chapters Indigo, Canada's largest book retailer. In the 52 week period ending April 1, 2004, the Chapters Indigo website had revenues of \$52.0 million, which was 6.7% of the overall sales of the company. Two years later, for the year ending April 1, 2006, its sales on the Internet had risen to \$79.5 million, close to 10% of its overall sales.

Amazon.com and Amazon.ca are also important retailers of books in Canada. The actual volume of Amazon's sales in Canada is not known, however, since its financial statements only break out "North American" sales, disguising how much is accounted for by Canadian buyers. In addition, Amazon lumps its book sales in with CD, DVD and video game sales under the heading "Media" so that the book segment cannot be broken out.

If Canadian books are to benefit from the long tail, a key ingredient must be promotion. The 2005 Secor study found 73% of respondents agreeing that “books written by Canadian authors should be more highly promoted in Canada.” But how to do so on an economic basis is still a conundrum. When asked, 40% of book buyers identify “book displays” as a reason contributing to their impulse buy. 27% cite “book positioning.” 20% cite book reviews. Only 2% cite broadcast outlets like Canada AM or Book TV.

The use of Canadian broadcasting as a promotional tool for Canadian-authored books warrants further examination. In the case of sound recordings, radio broadcasters – who are required by CRTC regulation to devote at least 35% of their playlist to Canadian recordings - have had a noticeable impact in increasing sales of records by Canadian musical artists. At the recent CRTC hearings on radio policy, however, a curious statistic emerged. Overall sales by Canadian artists account for about 16% of total record sales in Canada. But of the top 200 albums sold in Canada, over 25% were by Canadian artists. Why the better success rate for Canadian artists among the bestsellers? Arguably the reason is that Canadian radio stations tend to focus their Canadian airplay on the stars, and do not give much airplay to the Canadian talent in the long tail. That may change, if the CRTC gives extra credit to stations for playing songs by emerging new artists instead of playing music by the tried and true.

Can books be promoted on TV? Absolutely, as anyone familiar with the drawing power of the *Oprah Winfrey Show* will attest. When Oprah plugs a book, sales for the title in both the U.S. and Canada go into the stratosphere. And every so often, she will include a Canadian title, like Rohinton Mistry’s *A Fine Balance*, if it is distributed in the U.S. (Most Canadian titles are not).

With Oprah in mind, it is something of a tragedy that Canadian TV shows do not offer more promotional opportunities for Canadian books. But it would be difficult to match the Oprah effect with a Canadian show. The *Oprah Winfrey Show* runs on CTV stations at 4 p.m. Monday to Friday and with the benefit of simulcasting, gets average ratings of 647,000 in Canada, three times better than *Canada AM* and eight times better than the *Vicki Gabereau* show (all numbers from Nielsen for the spring of 2006).

As for the CHUM-owned digital service, Book TV, which launched in 2001, barely 7% of English TV households were subscribing to the service as of August 31, 2005, and it was still losing money. However, its subscribers still represent a very important audience for book publishers. After all, the 2005 Secor study showed that only 18% of the population buys 71% of the units and 58% of the dollar value of books in Canada. And given the nature of its audience, CBC radio can also be a potent venue for raising awareness of Canadian books, if it were to focus more on this goal.

The power of promotion is well shown in the results from “Heather’s Picks,” the front table in all the Chapters Indigo stores across Canada which displays selections by company CEO Heather Reisman. These selections are made from galleys or pre-publication copies and she adds about one new selection each month. A number of her selections are by Canadian authors. “I pick books I love with no idea of what will happen,” she explains.

“Here in Canada, I believe there are now real followers of ‘Heather's Picks,’ as we can see that once a book is chosen it quickly becomes a top seller.”

“For me,” she goes on, “the fun is in discovering a great book and then having the joy of ‘putting’ it in someone else's hands who I think will enjoy it as much as I did. I also believe that so many books by lesser known authors can easily get lost in the shuffle. Word of mouth and hand-selling -- which is essentially what Oprah is doing and what I am doing -- remain a great way for books which might otherwise take a while to surface to get known.”

Michael Tamblyn, the CEO of BookNet Canada, argues that if Canadian publishers are to take advantage of the long tail effect, they will need to become much more skilled at creating and directing niche demand -- tapping into or building communities of interest for some of their more obscure offerings or older works. “The Internet,” he says, “offers an expanded palette of options in this regard -- mailing lists, community websites, discussion forums, blogs, MySpace -- for the publisher who is skilled enough to take advantage. But this requires a shift in both the mindset and techniques that Canadian publishers bring to bear when thinking about the promotion of their titles.”

One development that may help Canadian books in the long tail is the technology of on-demand books. Under this concept, a single paperback copy of a desired book could be printed and delivered to a customer overnight. Storage costs and returns would be eliminated. Chapters Indigo is known to be actively exploring this concept, which will require the agreement of Canadian publishers to succeed.

In the end, however, the long tail will not eliminate the horrendous economics of Canadian publishing. Government support will continue to be required if we want to have a publishing sector giving us the quality and diversity of Canadian titles that we have become accustomed to. In terms of delivering value for dollar, the current government support mechanisms for Canadian book publishing are probably the most successful programs in the cultural field in Canada. Long tail or not, it is essential that they continue if we want to have firms out there to develop and publish a full array of Canadian authors.

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