

offshore forces, but the rising Canadian dollar has also affected business.

U.S.-based sales account for between 60 to 65 percent of Transcontinental's total book group. "With the dollar at 90-cents, it's a good thing that we were not making profit only on the exchange rate or we'd be dying right now," notes Grégoire. "Any benchmarking we're doing today is based on the dollar being at par. If it goes there we'll be ready for it."

For Friesnes, exporting accounts for about 40 percent of their \$82 million in sales. "Certainly the dollar has increased a lot, therefore every time we get payment in U.S. dollars we get less money in the bank," note Friesen. "That said, our U.S. business continues to grow."

For smaller Canadian book printers the mounting challenges of a shrinking book industry have required finding alternative forms

of revenue to fill capacity. That's the route Ottawa's Tri-Graphic Printing took about two years ago. "We were 100 percent focused on books, but we found that the book industry is changing, so the traditional approach to books wasn't enough to sustain the business," says Bob Brown, president of Tri-Graphic who came in to turn the

*Jacques Grégoire,
senior vice president
Book Group, Transcontinental.*



Read On

Industry consultant John Zarwan takes both sides of the "Future of Books" debate, and wins.

Why Books Will Be Around Forever!

What can replace reading a paperback on the beach? On a dark winter's night, who wants to curl up by the fire with a computer? How does one replace the serendipity of browsing in a bookstore or a library? Or the smell of opening a new book? Books aren't dead, nor will they be any time soon. The Internet killing books? Hah. Where did Amazon.com get its start? To paraphrase Mark Twain, reports of the death of the printed book have been greatly exaggerated.

The North American book market is quite healthy, perhaps symbolized by the 10 or more bookstores that serve my home town of Charlottetown, a city of about 35,000. Books sales in the U.S. in 2005 were up almost 6%, to more than U.S. \$35 billion, while about \$2 billion of books were published in Canada. Book spending has remained a relatively constant percentage of consumer spending for more than 50 years, relatively unaffected by recession, war, demographics, or changes in lifestyle. It's not surprising, given the variety of the book publishing market, including adult and juvenile books; fiction and non-fiction; paperback and hardback; textbooks; reference materials; professional books; and specialty segments such as yearbooks, religious publishing, and book clubs.

Why Books are Dead

Books are deader than the trees they're printed on. The book publishing business is in trouble. Long-term overall unit sales growth is anemic, hidden by higher prices. Almost all segments are declining, reflecting changes in reading and leisure habits. It is only a matter of time before electronic versions push out print.

The book publishing and manufacturing markets face a host of critical issues. Perhaps the most serious is that people are reading less. There has always been competition for leisure time, but it has accelerated due to interactive video entertainment, gaming, and other multi-media technologies. Moreover, changes in population, including ethnicity, immigration, and age, are viewed as dampening demand for books. (See, in particular, the United States National Endowment for the Arts (NEA) 2004 report *Reading at Risk*.) At least equal in importance is the completely dysfunctional publishing and manufacturing model, which is incredibly wasteful. Relying heavily on best-sellers for profits, the unpredictability of demand leads either to unsold books and returns or to stock-outs and shortfalls.

Continued advances in display technology, particularly in flexible display and "e-paper," combined with a more realistic

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David Friesen, CEO of Friesens Corporation

operation around.

“You could not scale the company down enough to cover the fixed costs with the declining revenue. The volume had to grow, and it wasn’t going to be out of the book industry because it wasn’t available.”

Tri-Graphic experienced its toughest times about a year-and-a-half ago when it was forced to temporarily enter creditor protection, but the company has been growing since with sales now around \$13 million and expectations of hitting \$15 million this year.

“We have some significant competitors in this country in the book business. They bring size and strength to the table every time. We’re a family business, we’re small, we’re agile, and that allows us to focus on service. That’s certainly one of our mainstays in surviving,” says Brown.

Today Tri-Graphic’s workload is about 60 percent books with the balance being high-quality commercial print. The company is well equipped for both markets with a Hantscho four-unit heat-set web press, a Timson one-colour web, a 41-inch five-colour KBA sheetfed with coater, along with a two-colour perfecting 40-inch Heidelberg and a five-colour 29-inch Heidelberg with coater.

The company produces case bound and softbound books—it’s the only Ontario book printer with in house case binding capabilities, notes Brown. And its well-equipped inhouse bindery serves as a perfect complement to some of the commercial work it’s going after, like annual reports.

As part of Tri-Graphic’s transition to incorporate commercial work, the company spent a great deal of time on colour management and improving its quality. Brown foresees great opportunities in the commercial market, but isn’t looking past the book segment.

“Our goal is to keep the book business solid and grow it, and we are looking seriously at bringing print on demand capability in house. It’s just in the planning stages now. I don’t think there’s any way we can avoid it.”

The larger printers agree that digital book printing is on the rise, but it’s still early in the development. “We have the equipment but we’re not too involved with it,” says Friesen, although he acknowledges that as run lengths continue to decrease for all genres of books, print on demand will continue

The number of new titles continues to increase. Nearly 200,000 books were published last year, up about 50% in 5 years and more than triple that of 1975, with sales of more than 3 billion copies. Although blue-ribbon commissions bemoan a decline in “literary” reading, a record number of adult fiction titles are being published, and new poetry and drama titles increased more than 40%. Similarly, juvenile fiction continues to be spurred by the high demand for the Harry Potter series, with nearly 300 million books in print worldwide. Young adult fiction is surprisingly strong and a popular source for new films.

But books will grow 5% a year for ever? Not likely. Moreover, Canadian book manufacturers, who tend to rely on the American export market, are also under pressure because of the strong loonie and increasing imports from lower-cost countries such as China. As a result, they are adapting their business, including their manufacturing process.

DIGITAL PRINT AS ‘SAVIOUR’?

One of these changes in book production is digital print, which is used for print on demand, shorter runs, and inventory management. While print on demand has not had the anticipated widespread growth, it represents a significant proportion of printing of custom books, particularly for the education and training and the self (formerly vanity) publishing markets. Industry observers with good track records (see, for example, Charles, Charles and Associates’ Book Market Overview, prepared for GAMIS [now PRIMIR] in 2003) believe that digital book printing will take a larger share of the book market, with growth increasing from 4% today, to 13% by 2007, and 22% by 2012. Projected growth rates in some segments, such as textbooks and juvenile, are in excess of 30% a year.

ELECTRONIC AS THREAT? NOT

New forms of electronic media are supposed to replace print. But using non-print media as a mechanism for the storage and distribution of books is certainly not new. Microfilm and microfiche have long been used for storage and preservation. Audio books have been popular since the advent of the long playing record. While they have changed format—MP3 and iPods are now popular players—they have consistently represented about 4% of book sales; there is no reason to believe this will change.

Moreover, books have been available in electronic format for more than 30 years. Electronic media is not really appropriate for the vast majority of books. They lack the portability desired in a book, and the display technology is still deficient for all but the shortest and time-sensitive information.

Despite improvements in digital book technology, distribution, and display, conventionally printed books have staying power. Books have, and will continue to have, the advantages of clarity of display; superior comfort and ergonomics; the ability to focus attention. Most people read for pleasure. The classical book has served and will continue to serve us well.

-JZ

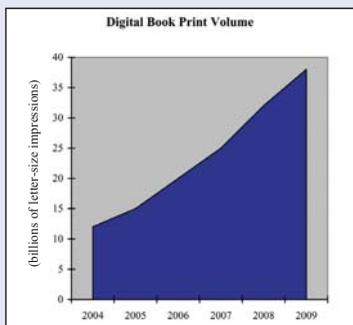
to grow and regular offset will decline.

Although the prospect of digital book printing seems inevitable to these book printers, the threat of online books still seems too far in the distance to truly have an affect on their businesses in the near term.

David Friesen isn't concerned about books moving online. "Runs are getting shorting but the titles are getting more," says Friesen. "We're putting more product through our plant this year than the year before. In the near term future, we think that books are a very good product." **CP**

Digital Book Potential

A report by industry consultants InterQuest called *The Digital Book & Manual Printing Opportunity*, a market analysis and forecast, anticipates digital book printing will continue to grow dramatically through to 2009. The company surveyed printers, primarily book printers with a mix of traditional and all-digital shops, in the U.S. and Europe to determine the status of digital production in these environments. Printers involved with trade book production responded with anticipated compound annual growth rates of between 20 and 30 percent over the next three years. "Reprints of mass market paperbacks also offer opportunities for on-demand providers," cites the report.



Respondents to the study ranked set-up time, throughput and underutilization of equipment as the top three bindery issues with their digital operations.

About 83 percent of the printers were satisfied or very satisfied with the growth of their on demand book and manual printing business. Not surprising, says the report, considering most respondents report higher margins on this work.

Total cost of ownership, print quality and reliability were the top barriers identified with digital book printing.

Looking forward, the study suggests digital book printing still has plenty of growth potential and will grow faster than digital manual production over the next five years. This is primarily because a large percentage of manuals are already printed digitally, leaving little room for growth. The report also suggests the manuals will be hit harder by electronic media than books will.

The InterQuest report is available at www.interquest.com

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approach to the market, has made the e-reader and electronic book more acceptable. Electronic books have some clear advantages over conventional print on paper. Electronic content benefits from its non-linearity, allowing search and hyperlinking. Data density means that they have high storage capability while increasing portability. Perhaps most important is the potential for widespread and low-cost distribution, which not only takes cost out of the process but also ensures an in-print back list.

Most digital books are now available through the Internet, for use either on general purpose computing devices or specialized readers, with Adobe PDF, XML, and other standard file formats favored. All new books are already in digital form before being printed. Google's efforts to digitize existing libraries are well-known. The popularity of downloading books from the net is evidenced by the most recent book in the Harry Potter series, which had 15,000 (illegal) downloads within three days of its publication. Publishers such as Random House are making tens of thousands of titles available in electronic form.

Already, we can pretty much write-off anything that's time sensitive or needs to be regularly revised. Reference books are a great example; if not completely electronic today, they will be within a few years. Similarly, we can envision a transition of school textbooks, particularly university, toward electronic distribution, as will professional and other high cost, relatively short run books. Don't think it will happen? In the state of Georgia, law stipulates that all texts must be available in electronic form; Vail, Arizona high school has eliminated textbooks and is replacing them with laptops.

It's clear that electronic media will displace printed books in a number of markets. It will not take much of a shift to have a significant impact on the overall book market. The British Library believes that within 15 years, 10% of books will be available in print only, compared with 40% in digital format only. While the "electronic book" is unlikely to replace print completely, the printed book will be a luxury item available only to those able to afford them.

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