

2. Cost Structure

19. The expense associated with producing a magazine can be divided into fixed costs and variable costs. Variable costs for a magazine include: advertising sales; marketing and promotion; production and printing; and distribution. Fixed costs are editorial, administration and fulfilment costs. A magazine must obtain enough advertising to maintain a healthy ratio of editorial pages to advertising pages. If the number of advertising pages increases, then the publisher is able to add more editorial pages to support it. If, on the other hand, the number of advertising pages drops, then the editorial content must be reduced to control costs. The balance between editorial and advertising content is critical for a magazine.

3. Canadian Market

20. The Canadian market is not large, particularly when compared to the U.S. market.¹³ It is also highly fragmented from a language perspective. There are two official languages in Canada as well as a number of other languages. The constraints imposed by the demographics of the Canadian market have a significant impact on the ability of a magazine primarily addressed to Canadian interests to obtain the broad base of circulation that is necessary to achieve economic viability.

21. Canadian magazine publishers compete with other media for the same limited amount of advertising dollars in the Canadian market. Magazines have been losing market share to other media forms such as direct mail and television. It is unlikely that the share held by magazines will increase. The amount of money spent by advertisers to reach Canadian consumers is also not likely to grow.¹⁴ In addition, "spillover" advertising (the ability of advertisers of internationally distributed products to reach Canadian consumers through U.S. magazines) is a further limitation on the competitive position of the Canadian industry.

22. Canadian periodical publishers face a major competitive challenge in their business environment that is not common to their counterparts in countries with a larger population to serve. The pivotal fact is the penetration of the Canadian market by foreign magazines. As noted above, foreign magazines dominate the Canadian market, accounting for over 80 per cent of newsstand sales and more than half of the circulation of English-language magazines aimed at the general public.¹⁵

13. Canada's approximate population of 30 million pales in comparison to the population of the United States which is estimated to be 266 million.

14. *Task Force Report*, *supra* note 4 at 38.

15. According to the *Task Force Report*, Canadian magazine publishers earn only 25.5 per cent of the total circulation revenue in their own domestic market: the remaining 74.5 per cent goes to foreign publications (*ibid.* at 39).