
HARLEQUIN ENTERPRISES: ASSESSING E-BOOKS

Ken Mark wrote this case under the supervision of Professors Rod White and Tony Frost solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other information to protect confidentiality.

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Version: 2017-12-05

INTRODUCTION

Simeen Mohsen, vice-president of strategy at Harlequin Enterprises, returned to her office, closed the door and reflected upon her conversation with the company's new chief executive officer (CEO) and publisher, Craig Swinwood. It was November 2013, and Mohsen had been with Harlequin for just over a year, after having completed her MBA at Harvard and spending seven years in various positions at Time Inc. During her early tenure at Harlequin, Mohsen had assisted various business units with strategy issues, mostly involving ways to adapt to the rise of e-books.

Craig Swinwood had recently been appointed Harlequin's CEO and publisher, and one of his initial agenda items was to pull together the members of his top management team to brainstorm about the big issues affecting the company. Swinwood asked Mohsen to prepare a presentation, saying, "I'd like you to briefly size up the current environment, including what's happening with e-books, and then outline what you see as the most significant strategic challenges and opportunities for Harlequin. We don't expect you to have all the answers, but if you can help the team to focus on the right questions, that would take us a long way."

Based in Toronto, Canada, Harlequin was part of Torstar Corporation,¹ a broad-based media company that published more than 120 newspapers, including the *Toronto Star*; it also operated dozens of digital businesses. In 2012, book publishing revenues of \$426,483,000 accounted for just over 29 per cent of Torstar's total revenue and over 37 per cent of EBITDA.

Mohsen knew that, from 2008 to 2012, the e-book category had rapidly grown in value from 0.5 per cent to 21.6 per cent of all trade book sales in the United States.² But Harlequin specialized in publishing for women and enjoyed a solid position as the global leader in series romance fiction (SRF), having dominated the SRF segment of the publishing industry for over 40 years. In 1993, Harlequin had expanded into the women's single-title segment. As shown in Exhibit 1, the most recent data indicated that e-book penetration in the romance fiction genre (in the United States, as well as other developed countries)

¹ www.torstar.com/index.cfm, accessed December 2, 2013.

² *BookStats Extrapolated data, as provided by Harlequin.*

exceeded 50 per cent of unit sales, more than any other category (see Exhibit 1). In this respect, Harlequin stood at the leading edge of the e-book trend.

Mohsen sat down and contemplated her situation. She had a lot of information about the book industry in general and about e-books specifically. The difficulty lay in finding a way to make sense of it all and to then persuasively communicate her findings to the senior management team. That particular task represented a big challenge but also a big opportunity.

HARLEQUIN ENTERPRISES LIMITED

With more than 95 per cent of its sales coming from outside Canada, Harlequin enjoyed a decades-old reputation as one of the world's top publishers of books for women. Founded in 1949, Harlequin began applying its revolutionary approach to publishing — a packaged, consumer-goods strategy — in 1968, shortly after acquiring the publishing business of U.K.-based Mills & Boon. With a growth rate of 25 per cent per year during the 1970s, Harlequin became the world's largest publisher of women's series romance fiction (SRF), with a profitability rate that stood out as the envy of the publishing industry. During this same timeframe, Torstar, a newspaper publisher, acquired all of Harlequin Enterprises Limited.

For the next three decades, Harlequin expanded its highly profitable series romance fiction, fending off many new entrants, including Simon & Schuster's Silhouette series romance fiction imprint. (Harlequin acquired Silhouette in 1984.) As shown Table 1, the growth of Harlequin's very successful original SRF business model slowed during the 1980s, when North American markets were saturated and international markets were fully exploited; but margins remained strong. Every month, 100 titles were published in North America, with a subset of these published in 100 international markets in over 30 languages. Around the world, the Harlequin name became synonymous with romance novels.

Table 1: Harlequin Revenues and Operating Profits
(in thousands of Canadian dollars at 2013 exchange rates)

Year	1986	1987	1988	1989	1990	1991
Revenue (\$ thousands)	255,000	282,000	294,000	295,000	311,000	320,000
EBITDA	39,400	41,800	46,300	58,500	54,900	53,100
Depreciation & Amortization	3,000	3,000	3,000	3,000	3,000	3,000
Operating Profit	36,400	38,800	43,300	55,500	51,900	50,100
Margin %	14.3%	13.8%	14.7%	18.8%	16.7%	15.7%

Source: Company records.

Harlequin's Foundation: Series Romance Fiction

Each paperback-series romance book was part of an identifiable branded product line that consistently, reliably and conveniently delivered the expected benefit to the consumer. The look, size and length of each book in a given series was the same. Harlequin books were printed in a small-sized format (105 mm × 168 mm), suitable to fit in distribution racks located in mass-market stores, supermarkets and drugstores. Page lengths for books in a given series were limited to between 192 and 256 pages, the format a loyal reader would be accustomed to. Cover designs differed somewhat but complemented each particular theme.

The typical Harlequin series customer was female, around 40, married and educated. Over half of Harlequin's series customers read for at least three hours per week. These readers were loyal to the Harlequin brand, with 80 per cent of them indicating that they would buy Harlequin books again during the next year. Harlequin advertised its offerings in print magazines and on websites.

Series books usually focused on a particular theme and attracted readers who were looking for a consistent reading experience. Each new book in a series served as an addition to a clearly defined and clearly branded product line. Harlequin had up to 20 different series-romance fiction brands, such as American Romance, Blaze, Desire, Heartwarming, Intrigue and Historical, each with its own particular theme. For example, American Romance offered readers this theme: "You love small towns and cowboys! Harlequin American Romance stories are heartwarming contemporary tales of everyday women finding love, becoming part of a family or community — or maybe starting a family of her own." In contrast, Harlequin Desire's product offered a different kind of positioning: "You want to leave behind the everyday! Harlequin Desire stories feature sexy, romantic heroes who have it all: wealth, status, incredible good looks ... everything but the right woman. Add some secrets, maybe a scandal, and start turning pages!" Over the years, the number of different SRF product lines had proliferated from two during the 1970s — Harlequin Romance and Presents — to the 18 currently available. Each different series product line offered between two and eight new titles per month, for a total of around 90 new titles published each month.

The Harlequin author-editor team played a critical role in ensuring the series products demonstrated consistency and quality and reliably met readers' expectations. Working in acquisition centres in Toronto, New York and London, Harlequin's editors reviewed as many as 30,000 unsolicited manuscripts annually and worked closely with a group of over 1,300 authors to develop and publish the company's titles. The author-editor teams strove to incorporate the appropriate level of realism, fantasy, sensuality and — most importantly — consistency into each title for a particular series. The editor served as equal parts creative consultant, coach and curator, with a mandate to identify good writers, nurture them and develop them through their careers as Harlequin SRF authors.

Ensuring a steady flow of high-quality product was instrumental, especially since Harlequin's franchise had been built on series-romance fiction. Series authors received a standard royalty of 6 per cent to 10 per cent of the retail cover price. Advertising campaigns supporting each series focused on the brand promise to the reader, not on individual authors. Harlequin's author-editor relationships remained strong, so much so that many series authors became enthusiastic about maintaining a long-term relationship with a trusted editor as they pursued their break-out mainstream single-title book. If these authors achieved single-title success, it was hoped they would remain loyal to Harlequin.

Traditional bookstores did not serve as the principal distribution channel for print series romance fiction. Rather, SRF books were available for sale at supermarkets, drugstores and mass merchandisers, and these locations accounted for 70 per cent of Harlequin's North American retail sales (not including sales through retailers such as Amazon.com). Harlequin maintained a distribution presence of about 250,000 points of sale around the world.

The typical SRF book sold at a suggested retail list price of \$5.99, less than the \$7.99+ price for single-title paperback novels. The suggested selling prices for the print books and e-books were identical; however, retailers generally sold books at less than the suggested price (e.g., Walmart discounted all its print books). Newly released popular e-books were often heavily discounted, a practice pioneered by Amazon. Print series romance novels were delivered to retail stores on a standing-order distribution basis: retailers would commit a certain amount of facings for Harlequin products, and Harlequin (working with its distributors)