AN ACCIDENTAL SUCCESS STORY: THE FORCED DIVERSIFICATION OF QUEBECOR MEDIA

Marc Edge
University of the South Pacific, Fiji

ABSTRACT Canada's news media ownership landscape changed dramatically in 2009-10 with the bankruptcy of Canwest Global Communication and the voluntary separation of the CTV network from the Globe and Mail national newspaper. These developments suggested failure of the newspaper-television convergence business model adopted by these companies a decade ago. One company has been able to make the convergence model work in Canada, however. Quebecor Media acquired the TVA network in Québec in 2000 to go along with its chain of French-language newspapers in Quebec and the Sun Media national chain of English dailies it acquired in 1998. It subsequently acquired the Osprey newspaper chain to become one of the country's largest newspaper publishers. Unlike other converged media companies in Canada and the U.S., however, Quebecor has remained profitable despite the recession that began in 2008. This paper examines financial data, including CRTC monitoring reports and annual reports from Quebecor and other companies, in an attempt to explain its success. One factor found to be of significance has been Quebecor's diversification into more profitable areas, such as cable television and cellular telephony.

KEY WORDS: acquisition, divestiture, strategy, cross-ownership

---

Quebecor Media has become one of the largest media corporations in Canada despite very modest origins. Unlike the country's other converged newspaper-television companies—Canwest Global Communications and CTVglobemedia—Quebecor thrived even during the recession of the late 2000s. While Canwest declared bankruptcy in 2009, resulting in the separate sale of its newspaper and television divisions, and CTVglobemedia divorced ownership of its television network from that of the *Globe and Mail* in 2010, Quebecor made a success of convergence. Its profit margin rose steadily despite the economic downturn, from 26.7 percent in 2006 to more than 33 percent in 2009 and 2010. Quebecor's financial success became increasingly problematic, however, to those concerned about concentrated corporate media power in Canada. Some of those most affected by Quebecor's growing power were its workers. In 2011, Quebecor forced a contract settlement on locked out staff at its *Journal de Montréal* newspaper by publishing for more than two years with only management personnel and contract writers by using content from the company's accumulated other news outlets. Quebecor also started the controversial Sun News Network in 2011, which some called "Fox News North" for its conservative slant. This paper examines how Quebecor grew from modest origins, survived and even thrived during the economic downturn that broke up Canada's other multimedia conglomerates, and emerged as one of Canada's dominant media companies. It concludes that Quebecor did so by diversifying differently than Canwest and CTVglobemedia. Its diversification succeeded due to some unique market characteristics, but it did not proceed as planned, which ironically contributed to its success.

DIVERSIFICATION THEORY

Diversification, according to Chan-Olmsted (2006: 39), is "the dominant topic in the studies of corporate strategy." The integration of additional enterprises into a business can be horizontal, vertical, or diagonal (Doyle, 2002). Horizontal integration entails acquiring identical or very similar businesses and allows the firm to simply grow in size and market share. Vertical integration entails acquiring businesses that are involved at different stages of the same industry, for example in producing raw materials or in distributing the final product. A newspaper company could increase its vertical integration by acquiring a paper mill or a trucking company, while a movie studio could do so by taking over a talent agency or a chain of theatres. Diagonal integration diversifies the company into a related line of business. In media, diagonal integration was popular in the late 1990s and early 2000s under the strategy of convergence, which typically saw newspaper companies partner with television broadcasters. Expansion into an unrelated line of business is known as "conglomerate" diversification (Chan-Olmsted, 2006). Research has shown that firms that diversify into related fields tend to be more profitable, while those that diversify into unrelated areas tend to be more stable (Amit and Livnat, 1988). Related diversification benefits from "economies of scope and scale through the leveraging of core competencies," noted Chan-Olmsted (2006: 41).

> Unrelated diversification, on the other hand, may derive benefits from the possible synergies created by leveraging corporate restructuring and general management capabilities, learning "best practices" in

other business units, improving capital allocations by forming an internal capital market, and reducing financial risk through a diversified business portfolio (Chan-Olmsted, 2006: 41).

Diversification is a potentially important strategy for media businesses because they are more subject than firms in most industries to variations in the business cycle. Because they are reliant for the vast majority of their revenues on advertising, which is a discretionary expense for most businesses, media companies tend to see their revenues fall sharply during an economic downturn (Picard, 2001; Picard & Rimmer, 1999). Diversification can be used as a strategy to ameliorate this boom-bust cycle. Research has found that while the search for content-sharing synergies with related media has been largely unsuccessful and thus still leaves media businesses subject to fluctuations in the economy, diversification into unrelated fields can help soften the effect of downturns (Chan-Olmsted & Chang, 2003; Jung & Chan-Olmsted, 2005; Stephan, 2005).

A leading example of conglomerate diversification by a media company is the Washington Post Company, which in 1984 acquired the Kaplan educational preparation firm. In 1993, Kaplan contributed 5 percent of the company's revenues, but due to its aggressive expansion that increased to 20 percent by 2001 (Scherer, 2002). By 2006, as newspaper circulation and advertising fell industry-wide, Kaplan was contributing 43 percent of the Post's $3.9 billion in annual revenues (Gunther, 2007). The following year, Kaplan accounted for more than half the revenues of the Washington Post Co., which as a result rebranded itself from a media company to "an education and media company." Television stations (8 percent), magazines such as *Newsweek* (6 percent), and cable companies (15 percent), together contributed more to company revenues than the 21 percent accounted for by its flagship *Washington Post* (Ahrens, 2007a). By 2010, due to Kaplan's expansion in the U.S. and abroad to include vocational schools and even an online university, it contributed 62 percent of company revenues (Burd, 2010). Other newspaper publishers have also successfully diversified into unrelated businesses. *Financial Times* publisher Pearson owns one of the world's largest textbook companies. Prisa, publisher of the Spanish daily *El Pais*, has a profitable education division that includes the largest publisher of textbooks in Latin America (Scherer, 2008). Torstar Corp., publisher of the *Toronto Star*, acquired the Harlequin romance novel publisher in 1981 (Olive, 2004). In the depths of a recession in 1990, Harlequin contributed $64.4 million of Torstar's $104 million operating profit that year (Siklos, 1991). The erstwhile Canadian newspaper chain Southam Inc. owned the Coles bookstore chain from 1976 until 1995.

Most media companies tend to diversify diagonally into other media-related enterprises, hoping to find the synergistic advantages of cross-media consolidation that have proved elusive. By the mid-2000s, however, enthusiasm for newspaper-television convergence began to wane (Ahrens, 2007b; Thornton & Keith, 2009). The pioneering AOL-Time Warner merger that galvanized corporate enthusiasm for convergence at the turn of the millennium proved perhaps the most disastrous business merger of all time (Motavalli, 2002; Klein, 2003; Swisher, 2003; Munk, 2004). The company quickly dropped the acronym of its digital arm from its title and sold a share of AOL ownership to Google, finally spinning it off into a separate company in 2009. Media conglomerate Viacom split into two separate companies in 2005, including the CBS Corporation to hold its broadcasting operations. The A.H. Belo Corp. of Texas similarly created different publicly-traded companies to manage its newspaper and television assets in 2008. These corporate separations contributed to a trend toward "de-convergence" (Jin, 2011).

COMPANY ORIGINS

Quebecor was incorporated in 1965 as a holding company for the newspaper and printing assets accumulated since 1950 by its founder, Pierre Péladeau. Following his graduation from McGill University with a law degree at age 25, Péladeau purchased the Montréal neighborhood newspaper *Le Journal de Rosemont* using $1,500 he borrowed from his mother as a down payment (Pitts, 2002). That was followed quickly by a string of similar acquisitions. In 1951 he bought *L'Est Montréalais* and also launched a group of three neighborhood papers—*Le Guide de l'Est*, *Le Guide de Saint-Michel* and *Le Guide de Saint-Laurent.* According to Quebecor's online corporate history, when television broadcasting began in Québec, Péladeau "quickly grasped the new medium's future impact." To capitalize on that impact, however, he remained in the newspaper business. In 1955, he launched *Nouvelles et Pontins*, the first of a series of weekly newspapers focused on celebrities. Péladeau's growing newspaper empire also rode a current of social change in Québec, helping to lead that province's "Quiet Revolution" of secularism and separatist sentiment in addition to covering television stars. "They also assailed Québec's hidebound elites," noted the Quebecor history, "which were being overtaken by the pace of social change, and attacked political dirty tricks, braving legal difficulties to do so" (Quebecor, n.d.). As a result of his business and social acumen, Péladeau was a millionaire by age 34.

In 1954, Péladeau began to vertically integrate by diversifying into the printing business. He bought the presses of the defunct newspaper *Le Canada* and opened a printing shop in Montréal called L'Imprimerie Hebdo. Péladeau became Canada's first newspaper publisher to establish a rotary press in 1962, which he named Montréal Offset. In 1964, Montréal's largest daily newspaper, *La Presse*, was shut for seven months by striking press operators. Péladeau mustered all of his journalism and printing resources to fill the gap with the tabloid *Journal de Montréal*, which he published out of the offices of Montréal Offset. It soon grew to 80,000 circulation, but fell to 10,000 once *La Presse* resumed publishing (Pitts, 2002). The reason for the drop-off in circulation, according to the Quebecor history, was because the *Journal*'s distributor abandoned the upstart once the strike was over. This led to another successful foray into vertical integration.

> Never one to back down from a fight, Péladeau used the setback as a growth opportunity. In the space of 24 hours, he assembled a fleet of vans and founded Les Messageries Dynamiques to distribute all the publications produced by his printing plants. The company quickly became a cornerstone of his empire (Quebecor, n.d.).

Once its distribution was assured, the *Journal de Montréal* slowly but surely exploited the tabloid formula for newspaper popularity to overtake its broadsheet rival. "The tabloid's formula of sensationalist crime, entertainment and sports took off from that point, until it overtook *La Presse* and reached 330,000 circulation in 1981" (Pitts, 2002: 84). By then, the *Journal de Montréal* was the second-largest circulation newspaper in Canada behind only the *Toronto Star.* In 1967, Péladeau launched *Le Journal de Québec* in Québec City using the same formula. In 1972, Quebecor went public in order to raise capital to finance an expansion, listing first on the New York Stock Exchange and then on the Montréal Stock Exchange. It spent $2 million of the proceeds from the sale of stock on a new printing plant that enabled it to compete for contracts to print American magazines circulated in Canada. It also began an expansion into the printing market outside Québec with the acquisition of Graphic Web in Ontario. In 1974, Quebecor exploited a market niche that had been created in Montréal by the reluctance of the *Star* and *Gazette* dailies to publish on the Sabbath. It started the city's only English-language Sunday newspaper, the *Sunday Express*, which published until 1985 (Quebecor, n.d.). In 1977, it expanded into the U.S. by launching the tabloid *Philadelphia Journal* in competition with a trio of long-publishing dailies. According to Péladeau, the Philadelphia papers cut their advertising rates in response to the new competition and the *Journal* was forced to fold after losing $14 million in five years (Palmeri, 1990).

Quebecor aggressively expanded into the printing and paper industries in the 1980s. In 1985, it bought its first printing plant in the U.S., Pendell Printing of Michigan (Quebecor, 2000). In 1987, it went into partnership with UK publisher Robert Maxwell to buy control of Donohue Inc., a leading Canadian forest products company, from the Québec government for $320 million. That assured Quebecor a steady paper supply. The following year, it bought telephone book printer BCE PubliTech Inc. from Bell Canada Enterprises for $161 million, which made Quebecor the largest printing company in Canada. In 1990, Quebecor bought a controlling interest in the U.S. printing firm Maxwell Graphic, with UK publisher Robert Maxwell keeping a 25-percent interest. Péladeau formed Quebecor Printing, beginning a lucrative strategic alliance with Maxwell, which *Canadian Business* noted "included a noncompetition agreement and effectively carved up the North American market" (Crawford, 1993).

By 1990, Quebecor was described in the business magazine *Forbes* as "one of the most vertically integrated communications outfits in the world."

> It controls a forest products company that supplies two-thirds of the paper for its printing presses, which in turn print Quebecor's mostly French-language publications, including 4 daily newspapers, 44 weeklies and 20 magazines. Quebecor also handles most of the newsstand distribution in the province of Québec (Palmeri, 1990).

In 1988, Péladeau attempted to capitalize on Quebecor's vertical integration by venturing into the English-language daily newspaper market in Montréal. In partnership with Maxwell, who provided design expertise from his Mirror group in the UK, Quebecor launched the tabloid *Daily News* in March of that year in an attempt to fill the void created by the closure of the *Montréal Star* in 1979. Despite initial enthusiasm that saw its first press run of 80,000 copies sell out, circulation of the *Daily News* soon fell below 20,000 and the newspaper ceased publication in late 1989. According to Gorman (2004), the *Daily News* failed because of the city's shrinking Anglophone population and because of the tabloid's inexperienced management and inconsistent content. The *Daily News*, noted Gorman, was barely mentioned in *Quebecor: A Living History*, a book marking the company's fiftieth anniversary that was published in 2000 (Gorman, 2004).

The Maxwell alliance provided a windfall for Quebecor after the British press magnate died after falling from his yacht in mid-ocean in 1991. Following his death, irregularities at Maxwell's businesses became exposed. "Péladeau was suddenly embarrassed with a wealth of opportunities to buy back all of Maxwell's shares in his companies," observed *Canadian Business*. "This he did at bargain prices, noting that he 'made a very good deal' on the remnants of Maxwell's empire" (Crawford, 1993). The $510 million purchase of the remainder of Maxwell Graphics, which printed *Time*, *Sports Illustrated*, and *TV Guide*, was made in partnership with the provincial pension plan Caisse de dépôt et placement du Québec, which contributed $115 million. The powerful Caisse managed more than $100 billion in assets and used its financial clout to support Québec businesses (Pitts, 2002). As the Maxwell partnership ended, thus began another important strategic alliance for Quebecor. Its government-subsidized success, however, took a toll on competition in Canada. As a result of its acquisitions, concentration of ownership in the Canadian printing industry soared, with the five largest companies controlling 35 percent of the domestic market, compared to 19 percent by the top ten commercial printers in the U.S. (Crawford, 1993).

Quebecor also diversified diagonally, sometimes into businesses related to the newspaper industry, and sometimes into unrelated enterprises. It bought its first magazine, *Vivre,* in 1974, and launched *Femmes d'aujourd'hui* in 1980. Quebecor's magazine division became known as Publicor, and was managed by Isabelle Péladeau, the founder's eldest daughter, who was also vice-president of Quebecor Communications. Publicor expanded in 1988, launching several more home décor and renovation magazines (Quebecor, 2000). In 1976, Quebecor branched out into music distribution with the purchase of Service de Musique Trans-Canada, which it merged a decade later with Le Groupe de Musical Experts to form Le Groupe de Musique Trans-Canada. In the early 1990s, it acquired the Ed. Archambault Co. chain of book and music stores and merged it with its existing music holdings into a Groupe Archambault. In 1983, Quebecor bought book publisher Quebec-Livres, along with distributor Nouvelles Messageries Internationale du Livre. In 1994, it bought Québec book publisher Libre Expression, adding the St. Remy Media publishing house the following year (Qubecor, 2000).

FAMILY SUCCESSION

The 1990s saw the inevitable transition from Quebecor's guidance by its founder to new directions under second-generation leadership. Péladeau's sons Érik and Pierre-Karl gradually took more of an active role in company management throughout the decade. In 1991, at age 29, Pierre Karl took over as president of Quebecor's publishing division, while the following year Érik was named senior vice-president of its printing arm. Pierre Karl had worked in the company since age 16, when he was as a summer photographer for the *Journal de Montréal* before attending university for philosophy and law degrees. According to *Canadian Business* magazine, the younger Péladeau's initial foray into Quebecor management brought him a reputation for being "an arrogant busybody who liked to throw his weight around" (Chartrand, 1999). According to the *Globe and Mail,* he became known as "a ruthless cost-cutter and abrasive boss."

> It's not certain which irked Pierre Péladeau the most—his son's smart-ass demeanour or his undeniable brilliance. Either way, he soon discovered he didn't want him around and, in 1994, sent Pierre Karl into exile in Europe (Yakabuski, 2000).

In four years, Pierre Karl spearheaded acquisitions in England, France, and Spain that turned Quebecor into Europe's largest commercial printer, with annual revenue of $800 million (Chartrand, 1999). Érik Péladeau, who never completed university, was named in 1994 to head a new Quebecor Multimedia subsidiary, but his hard-driving younger brother soon emerged as their father's eventual successor. When Pierre Péladeau died in 1997 after suffering a heart attack, Pierre Karl returned from Paris and assumed his father's post as Quebecor CEO, later buying out his brother's ownership interest in the company. Through 2000, he led Quebecor on a spree of annual acquisitions, each more expensive than the last. In 1998, it was the $983-million takeover of the tabloid newspaper chain Sun Media, which his father had bid for but failed to acquire a few years earlier. Included in the purchase was Sun Media's news website Canadian Online Explorer (canoe.ca). In 1999, Quebecor spent $2.7 billion to buy the 58 printing plants of Connecticut-based World Color Press Inc., which made it the world's biggest commercial printer. In doing so, however, Quebecor took on considerable debt, raising the combined company Quebecor World's debt-to-capitalization ratio from 37 percent to 62 percent (Yakabuski, 2000).

The largest Quebecor acquisition of all, however, was the $5.4-billion purchase in late 2000 of Groupe Videotron Ltée, a diversified media company that owned the largest cable provider in Québec and a controlling interest in the provincial television network TVA. The Caisse was instrumental in this acquisition as well, blocking the proposed sale of Groupe Videotron to Toronto-based cable company Rogers Communication through its 17-percent ownership of the company. It wanted to keep Groupe Videotron in Québec hands and approached Quebecor about forming a partnership, in which the Caisse took 45 percent ownership. A new company called Quebecor Media was formed to hold Groupe Videotron's assets, along with the media assets of Quebecor. The new company was owned 55 percent by Quebecor Inc., which also owned 100 percent of Quebecor World. An emboldened Pierre Karl Péladeau vowed to turn Quebecor Media into one of the world's ten largest media companies (Yakabuski, 2000).

Péladeau's hubris did not last long. Quebecor Inc. had financed most of its string of acquisitions, and the Groupe Videotron purchase brought its total debt to about $6.7 billion. A quick sale of Videotron's telecommunications assets had been planned to raise as much as $1 billion to partially reimburse the Caisse and to relieve Quebecor Inc.'s debt load. These included its Videotron Telecom arm and its share of the Microcell Telecommunications mobile phone company. The stock market bubble in technology shares burst soon afterward, however, lowering the value of those companies to less than $200 million and preventing their quick sale (Arbour, 2001). Quebecor Inc. was forced to enter the high-interest U.S. "junk bond" market to raise $1.3 billion in short-term financing and to sell off assets to reduce debt. It sold its 11-percent share in the forestry firm Abitibi-Consolidated Inc. for $600 million and 25 percent of Quebecor World for $500 million (Marotte, 2001). It was forced by the Canadian Radio-Television and Telecommunications Commission (CRTC) to sell the TQS network that Pierre Péladeau had bought before his death in 1997. The broadcasting regulator would only approve Quebecor Media's purchase of TVA if it sold the smaller network, but in the slumping market for media properties it could command a price of only $75 million.

After four consecutive quarters of losses due to the early 2000s recession, Quebecor's debt still stood at $4 billion, which prompted bond rating agency Standard & Poor's to place it on credit watch (Marotte, 2002). From a high of $61.50 before its Videotron purchase, Quebecor stock bottomed out in 2002 at $12.25. By early 2003, however, Quebecor had sold more assets, paid off most of its high-interest debt, restructured other debt, and was taken off credit watch by Standard & Poor's (Gibbens, 2003). With the improving economy, Quebecor Media began turning a modest profit by mid-2003 and was able to pay down more debt, which stood at Cdn$1.4 billion by that fall (Silcoff, 2003).

SUCCESS AND FAILURE

Quebecor Media experienced a financial turnaround in the mid-2000s, and by decade's end it was thriving thanks in large part to its originally-unwanted sideline in telephony. Videotron began to expand into lucrative areas of service such as broadband Internet and 3G wireless, and in 2005 became the first major Canadian cable company to offer cable telephone service. Quebecor was also able to capitalize on the content synergies of media convergence where most other multimedia conglomerates failed. Part of the reason for that was Quebecor's dominance of the Québec market, and part was the unique characteristics of that market. TVA helped demonstrate the cross-promotional potential of convergence in the md-2000s with the hit program Star Academie, which was described as a cross between American Idol and Big Brother. It was heavily cross-promoted in Quebecor's newspapers and in turn boosted its online and cable divisions. Analysts began rethinking the possibilities of media convergence, at least in the Québec market. "If convergence can work anywhere," wrote one, "it should work in Québec, a homogenous island of French-speakers in the New World where Quebecor is Number 1 in most media categories."

> Star Academie boosted TVA's audience share, was the launch vehicle for Videotron's video-on-demand service, pulled thousands of new subscribers to Videotron's high-speed Internet service, and yielded Quebecor-produced CDs, DVDs and books that were peddled in the company's music, books and video-rental shops (Olive, 2003).

Its improved fortunes enabled Quebecor to embark on another expansion program. In 2004, it bought TV station Toronto 1 for $46 million (Brent, 2004). In 2005, it bought Quebec's largest book publisher, Sogides Ltée, for an undisclosed price and merged it with Libre Expression (Marotte, 2005). In 2007, it won a takeover battle with Torstar for Osprey Media, which owned 54 Ontario newspapers, including twenty dailies. The $414-million purchase, when added to its Sun Media chain, gave Quebecor more daily newspapers than any company in Canada (Robertson, 2007). Quebecor had thirty-seven dailies, well more than the thirteen owned by Canwest Publications, although their total weekly circulation of 6.4 million was less than Canwest's 8.2 million (Canadian Newspaper Association, 2010). In 2008, Quebecor acquired seventeen licences for 3G advanced wireless services, including spectrum in the Toronto area as well as in Quebec. Péladeau called Quebecor's $1-billion wireless play a "watershed event" in the company's history and said it would be "the cornerstone of our business model and strategy for years to come" (Péladeau, 2008).

Quebecor's serendipitous diversification into telecommunication saw it prosper during the late 2000s recession while Canada's other multimedia giants faltered. It announced in early 2009 that while its newspaper and television revenues dropped in the fourth quarter of 2008, its telecommunication revenue rose 11 percent, resulting in a 4 percent rise overall. Customers paid more for faster Internet, video-on-demand, and packages that included home phone service. Vidéotron added a record number of digital cable subscribers in the quarter and said half of its cable customers had adopted its residential phone service, with most switching from Bell Canada (Avery, 2009). In 2010, Videotron announced an online television service called Illico Web, which offered customers who subscribed to both its cable television and Internet services access to thirty-two Internet channels, including twenty-four in French (Krashinsky, 2010). That fall, it launched a new mobile service that included "quadruple-play" discounts for its cable, Internet, and telephone customers. It offered mobile streaming video for its Illico subscribers, including NHL hockey games (Hadekel, 2010). NHL hockey was something Péladeau tried to bring into Quebecor directly, bidding unsuccessfully in 2009 for the Montréal Canadiens franchise. In 2011, Quebecor pledged up to $200 million for the naming rights to a new arena planned for Québec City in an attempt to bring an NHL franchise there (White, 2011).

Not all financial developments were positive for Quebecor, however. Quebecor World never recovered from the recession of the early 2000s, which made it increasingly difficult to service the large debt load it took on in acquiring World Color Press. Industry overcapacity led to downward pressure on prices, and the emerging technology of the Internet depressed demand. Quebecor's European acquisitions were beset by labour problems and suffered from outdated equipment. The company closed ten plants and cut more than 3,000 jobs, but it wasn't enough to reverse the financial tide that engulfed Quebecor World. In 2008, the company filed for bankruptcy and was later spun off into a separate entity and sold. For Péladeau, noted the *Montréal Gazette*, the failure in printing was more than balanced by the success brought by Quebecor Media's diversification into telecommunication.

> Now, Quebecor World is virtually worthless, while Quebecor Media has staged a stunning comeback thanks to Vidéotron's entry into the local telephone market in Quebec. Investors have been so optimistic about Vidéotron's future that the Péladeaus were close to becoming billionaires again last year as Quebecor's shares hit a high of $43.25 (Delean, 2008).

IDEOLOGICAL ABOUT-FACE

Pierre Péladeau relied to a considerable extent for his success on keeping labour unions on his side. His first major enterprise, the *Journal de Montréal*, was enabled by a strike at *La Presse*, which Péladeau eventually surpassed by keeping labor peace through making generous contract concessions. In the printing business, he similarly preferred to keep the presses rolling by keeping the unions on the job. A seminal moment in his relationship with his son Pierre Karl, and one that foreshadowed an eventual change in philosophy at Quebecor, reportedly took place in 1993. As head of Quebecor's media arm, Pierre Karl Péladeau prepared for negotiations with press operators at the *Journal de Montréal* by secretly training managers to run the presses and refurbishing an abandoned factory in Ontario to print the newspaper. After a five-month lockout, however, Pierre Péladeau stepped in and acceded to the union's demands, sending his son off to head Quebecor's European operations shortly thereafter (Chartrand, 1999). When Pierre Karl Péladeau took over as Quebecor CEO following his father's death, a change in philosophy was inevitable. The direction it took was somewhat surprising, however, given the scion's past as a student Marxist. According to *Canadian Business*, Pierre Karl Péladeau was "fascinated with communism and Marxism" as an undergraduate and even distributed leaflets for the Communist party (Chartrand, 1999). The *Globe and Mail* saw the rejection of capitalism as a rebellious youthful phase.

> He chose to study philosophy at the left-leaning Université du Québec à Montréal, spurning the establishment Université de Montréal, his father's alma mater. It was at UQAM that Pierre Karl, né Pierre-Carl, adopted the current spelling of his name, apparently in honour of Karl Marx. But Péladeau seems to have abandoned his leftist convictions as quickly as he embraced them (Yakabuski, 2000).

One of the longest-running projects in Pierre Karl Péladeau's tenure as Quebecor CEO was bringing the company's unions to heel. In 2003, Quebecor locked out workers at its newly-acquired Vidéotron subsidiary for ten months to force contract concessions on their unions that included a three-year wage freeze, increased working hours for no additional pay, and the elimination of more than 200 jobs (King, 2003). In 2007, Quebecor locked out editorial and office staff at the *Journal de Québec* for fifteen months to force contract concessions on them that included increased working hours and requiring reporters to create content for the Internet (Surridge & Malhomme, 2008). Six weeks after firing the CEO of Sun Media in 2008 and taking management control himself, Péladeau laid off 600 of its staff just before Christmas. Quebecor had recently announced a $45 million quarterly profit (Shalom, 2008).

Convergence was both an end for Quebecor in its labor relations and a means to achieving that end. In early 2009, Sun Media locked out more than 250 workers at its *Journal de Montréal* and continued to publish with management personnel while demanding contract concessions. These included lengthening the workweek by 25 percent without additional pay, reducing benefits by 20 percent, laying off 75 staff, and introducing an "unlimited convergence plan." The plan would require newsroom staff to produce content for all Quebecor media, including its canoe.ca websites and its television outlets (Derfel, 2009). Quebecor continued to publish the *Journal* with only management and contract personnel by using content from its other myriad media outlets that was distributed electronically through a new QMI news agency. As the lockout entered its third year, Péladeau was called before public hearings held by the Québec National Assembly into whether the province's labour code should be revised to prevent what some called the "perfect lockout." Québec law prohibited the use of replacement workers during a labour dispute, but Quebecor exploited a loophole that allowed it to set up QMI using information technology (Sequin, 2011). Later that month, *Journal de Montréal* workers finally capitulated by agreeing not only to the concessions originally demanded by Quebecor, but to the loss of 191 out of 253 jobs (Magder, 2011).

Péladeau's ideological disposition also became apparent in his choice of senior Quebecor management. Soon after taking over as CEO, he recruited former Progressive Conservative Prime Minister Brian Mulroney, who was a long-time Quebecor director, to help him run the company. Mulroney, a Montréal lawyer who in 1970 had negotiated the first labour agreement at the *Journal de Montréal*, took over as temporary head of the company's Sun Media unit in 1999 (Doughtery, 1999). He was instrumental behind the scenes in both the Sun Media purchase in 1998 and the acquisition of World Color Press the following year (Yakabuski, 2004). In 2001, as Quebecor struggled to make convergence work, Mulroney reportedly traveled to New York to introduce Péladeau to senior media executives with whom he was acquainted through his directorships on numerous other boards (Yakabuski, 2003). In 2002, the *Globe and Mail* reported that Mulroney had "shouldered more and more of the consultative burden" at Quebecor and had acted as "chief mentor" for Péladeau. Mulroney's former communication director, Luc Lavoie, also joined Quebecor (Pitts & Marotte, 2002).

The question of Péladeau's ideology became of concern to some Canadians in 2010 as Quebecor applied to the CRTC for a licence to start a national all-news television channel called Sun News Network, which others dubbed "Fox News North" for its avowed populist temperament. "We're taking on the mainstream media," said network head Kory Teneycke, a former communication director for Conservative Prime Minister Stephen Harper. "We're taking on smug, condescending, often irrelevant journalism. We're taking on political correctness" (Wells et al., 2010). The network was expected to promote a conservative perspective as a result not only of its corporate pronouncements, but also because of the rightward turn taken by Quebecor's other media outlets. *Maclean's* magazine noted that the *Journal de Montréal* had recently "veered considerably to the right," while TVA's 24-hour news channel LCN was "decidedly more opinionated" than its competition at Radio-Canada.

> The Journal, observers say, has largely abandoned its left-leaning roots and adopted the populist conservative voice typical of the Sun papers – a voice echoed on Quebecor's television assets. With a few notable exceptions, its stable of columnists is on the right side of the spectrum (Wells et al., 2010).

FINANCIAL DISCLOSURE

As Quebecor locked out workers at the *Journal de Montréal* in early 2009, union official Raynald Leblanc called it "incomprehensible" that the younger Péladeau would end the 45 years of labour peace on which his father had built the newspaper's success. "This is a newspaper that makes a lot of money and that is in excellent financial shape," Leblanc said, claiming that the *Journal* had earned more than $50 million the previous year on revenues of $200 million, for a profit margin of more than 25 percent. The company denied those figures but would not disclose the *Journal*'s financial results, saying they were confidential (Derfel, 2009). While the details of each individual newspaper's performance were not outlined in its financial reports, as a publicly-traded company Quebecor was required by law to publish its earnings for investors. An analysis of its annual reports from 2004 through 2010 shows that not only did Quebecor Media increasingly prosper during that period, its newspaper division also did well. The main driver of Quebecor profits, however, was its telecommunications division, including cable and telephone services.

Quebecor Media revenues increased 40 percent over the seven-year period, rising steadily from $2.386 billion in 2004 to $4 billion in 2010. Newspaper revenues rose as well, from $888 million in 2004 to $1.181 billion in 2008, although most of that increase was from the 2007 acquisition of Osprey Media, which reported revenues of $230 million in 2006. Newspaper revenues at Quebecor declined after 2008, to $1.055 billion in 2010. More than three quarters (78 percent) of Quebecor's $1.634 billion revenue increase from 2004 to 2010 was due to higher telecommunications revenue, which rose $1.27 billion (See Table 1).

While Quebecor's telecommunication revenue more than doubled over the period, rising 135 percent, its operating earnings[1] from telecommunications almost tripled, rising 185 percent. Its earnings from newspapers and broadcasting fluctuated during the period. While telecommunications provided just over half of Quebecor Media earnings

[1] Operating earnings equals revenue minus expenses, before interest payments, taxes, depreciation, or amortization charges, which is a common accounting measure known as EBITDA.

(52 percent) in 2004, it was responsible for more than three quarters of total earnings (78 percent) by 2010 (See Table 2).

The reason for the growth in Quebecor Media's earnings from telecommunications is apparent from its operating profit margins (earnings as a percentage of revenue). From less than 40 percent in mid-decade, Quebecor Media's profit margin in telecommunications reached almost 50 percent by decade's end. Its profits in newspapers eroded slightly over the period, but during the final three years held steady at about 19 percent. Quebecor Media's newspapers were consistently more profitable than its television operations, and in 2006 were more than twice as profitable. Profit margins in the Other category were reduced by head office expenses (See Table 3).

Table 1. Quebecor Media revenues (millions)

	2004	2005	2006	2007	2008	2009	2010
Telecommunications	937	1,080	1,309	1,552	1,804	2,001	2,209
Newspapers	888	015	928	1,028	1,181	1,055	1,035
Broadcasting	358	401	393	415	437	439	449
Other	206	311	370	371	778	505	307
TOTAL	2,386	2,606	3,000	3,366	3,730	3,806	4,000

Source: Quebecor annual reports

Table 2. Quebecor Media operating earnings (millions)

	2004	2005	2006	2007	2008	2009	2010
Telecommunications	364	413	512	643	798	973	1,036
Newspapers	228	222	207	226	227	199	200
Broadcasting	80	53	42	59	66	80	76
Other	27	48	27	21	30	25	17
TOTAL	699	736	788	949	1,121	1,277	1,329

Source: Quebecor annual reports

Table 3. Quebecor Media profit margin (percent)

	2004	2005	2006	2007	2008	2009	2010
Telecommunications	38.9	38.2	39.1	41.4	44.2	48.6	46.9
Newspapers	25.6	24.2	22.3	22.0	19.2	18.0	19.3
Broadcasting	22.3	13.2	10.7	14.2	15.1	18.2	16.9
Other	13.0	15.4	6.0	3.7	3.8	4.9	5.5
TOTAL	29.3	28.2	26.3	28.2	30.0	33.7	33.2

Source: Quebecor annual reports

DISCUSSION AND CONCLUSIONS

The average annual profit margin of a Fortune 500 company has historically been 4.7 percent (Tully, 2010). Profits in the newspaper business have been higher than in most other industries due to their greater vertical integration (Morton, 1994). Widespread predictions of the demise of the newspaper business have been made since the Internet began competing for the attention of readers and for the advertising dollars that usually follow them (Meyer, 2004). Quebecor's financial results belie those predictions, at least in the short term, as despite the economic downturn of the late 2000s, its newspaper earnings have remained robust.

CRTC data show that the revenues of privately-owned conventional television broadcasters declined 7.8 percent from 2005 to 2009, while their average profit margin fell from 18.3 percent to 11.1 percent. Revenues of cable companies, by contrast, grew by 7.4 percent from 2007 to 2009, when their average profit margin rose to 45.1 percent. The average profit margin for wireless telephone providers was 44.9 percent in 2007 and 2008, falling to 43.1 percent in 2009. Cable companies increased their revenues from high-speed Internet service from $1.38 billion in 2005 to $2.42 billion in 2009, for an annual growth rate of 15.1 percent. Subscription prices in the unregulated cable and satellite television industry rose at more than twice the level of inflation from 2002 to 2009 (CRTC, 2010).

The magnitude of earnings by media companies in Canada has occasionally been a source of amazement. A Special Senate Subcommittee on Mass Media that was formed in 1969 forced media companies to open their books and described what it found as "astonishing." From 1958 to 1967, average before-tax profits at Canadian newspapers ranged from 23.4 percent to 30.5 percent, while between 1964 and 1968 they ranged from 21 percent to 26 percent in radio and from 36 percent to 64 percent in television (Canada, 1970). A Senate committee on news media reported in 2004 that between 1999 and 2003 average profits ranged from 18.5 percent to 22.7 percent in radio, and from 13.6 percent to 18.6 percent in television (Canada, 2004). It found that profits for the major newspaper chains ranged in 2005 from 17 percent to 24 percent (Canada, 2006).

Their reduced revenues in the late 2000s prompted the CTV and Global Television networks to demand that the CRTC order the unregulated cable and satellite providers to pay them a per-subscriber "fee for carriage." The CRTC twice denied the request before finally agreeing in 2010 to allow carriage fee negotiations following the intervention of the Conservative government after station closures and a publicity campaign by the networks (Edge, 2011). Canwest Global Communications was forced to declare bankruptcy in 2009 as a result of its high debt load, which proved unsustainable with reduced revenues. Its newspaper division and television network were sold separately, with cable company Shaw Communication buying the latter. Bell Canada reacquired the CTV network in 2010, separating its ownership from that of the *Globe and Mail* (Edge, 2010).

Quebecor is an example of successful diversification into both related and unrelated lines of business. Its diversification into the high-growth areas of cable television and digital telephony, while intended in 2000 to be short-lived, was a key to Quebecor Media's robust finances by decade's end. When those assets could not be divested quickly due to the recession of the early 2000s, they ironically came to play a role in the firm's recovery. Another key to Quebecor Media's success was the insular nature of the French-language media market in Quebec, where its dominance allowed for a level of convergence not attained by other Canadian or U.S. multimedia giants. Quebecor Media's financial success, however, has come to some extent at the expense of its workers, who have been forced, in large part by the company's provincial dominance, to accept lower wages and work longer hours. It has also allowed Quebecor Media to potentially impact the Canadian political system by financing creation of the Sun News Network, the effect of which should attract subsequent study.

REFERENCES

Ahrens, Frank. (2007a, 6 December). Post Now an 'Education and Media' Company. *Washington Post*.

Ahrens, Frank. (2007b, 11 January). Newspaper-TV Marriage Shows Signs of Strain, *Washington Post*.

Amit, Raphael & Livnat, Joshua. (1988). Diversification Strategies, Business Cycles and Economic Performance, *Strategic Management Journal* 9, 99-110.

Arbour, Pierre. (2001, 2 October). Rein in Québec Inc., National Post.

Avery, Simon. (2009, 26 February). Cable, telecom drive Quebecor growth. *Globe and Mail*.

Brent, Paul. (2004, 21 August). Quebecor buys Toronto 1 TV station from CHUM, *National Post*.

Burd, Stephen. (2010, 7 November). 'The Washington Post' and the Perils of For-Profit Colleges. *Chronicle of Higher Education*.

Canada. (1970). *The uncertain mirror: Report of the Special Senate Committee on Mass Media*, Vol. I. Ottawa: Information Canada.

Canada, Standing Senate Committee on Transportations and Communications. (2004). *Interim report on the Canadian news media*. URL: http://www.parl.gc.ca/Content/SEN/Committee/373/tran/rep/rep04apr04-e.htm

Canada, Standing Senate Committee on Transportations and Communications. (2006). *Final report on the Canadian news media*, Volume 1. URL: http://www.parl.gc.ca/Content/SEN/ Committee/391/tran/rep/repfinjun06vol1-e.htm

Canadian Newspaper Association. (2010). Circulation Data Report 2009. URL: http://www.newspaperscanada.ca/sites/default/files/2009CirculationDataReport_3.pdf

Canadian Radio-Television and Telecommunications Commission (CRTC). (2010). Communications Monitoring Report 2010. URL: http://www.crtc.gc.ca/eng/publications/reports/PolicyMonitoring/2010/cmr.htm

Chan-Olmsted, Sylvia. (2006). *Competitive strategy for media firms.* Mahwah, NJ: Lawrence Erlbaum.

Chan-Olmsted, Sylvia & Chang, Byeng-Hee. (2003). Diversification strategy of global media conglomerates: Examining its patterns and determinants, *Journal of Media Economics* 16(4), 213-33.

Chartrand, Luc. (1999). Chip off the old crock, *Canadian Business* 72(9), 28-31.

Crawford, Michael. (1993). Prey for the paper tiger, *Canadian Business* 66(11), 22-28.

Delean, Paul. (2008, 22 January). Printing firm was world's largest. *Montréal Gazette*.

Derfel, Aaron. (2009, 25 January). Journal de Montréal locks out staff. *Montréal Gazette*.

Dougherty, Kevin. (1999, 24 December). Mulroney to be Sun Media chairman, *Montréal Gazette*.

Doyle, Gillian. (2002). *Media Ownership: The Economics and Politics of Convergence and Concentration in the UK and European Media*. London: Sage.

Edge, Marc. (2010, December). De-convergence and re-convergence in Canadian media, *The Convergence Newsletter*. URL: http://www.sc.edu/cmcis/news/convergence/v7no10.html #27

Edge, Marc. (2011, November). Convergence after the collapse: The "catastrophic" case of Canada. *Media, Culture & Society* 33(6). Forthcoming.

Gibbens, Robert. (2003, 12 February). Quebecor Media taken off credit watch, *National Post*.

Gorman, Brian. (2004). Quebecor and convergence, a case study. Master's thesis, Carleton University, Ottawa.

Gunther, Marc. (2007). Hard news, *Fortune* 156(3), 80-85.

Hadekel, Peter. (2010, 10 September). Quebecor shakes up wireless, *Montréal Gazette*.

Jin, Dal Yong. (2011). Deconvergence: A Shifting Business Trend in the Digital Media Industries, *Media, Culture & Society*. Forthcoming.

Jung, Jaemin & Chan-Olmsted, Sylvia M. (2005). Impacts of Media Conglomerates' Dual Diversification on Financial Performance, *Journal of Media Economics* 18(3), 183-202.

King, Mike. (2003, 27 March). Videotron workers vote on new deal, *Montréal Gazette*.

Klein, Alec. (2003). *Stealing Time: Steve Case, Jerry Levin, and the collapse of AOL Time Warner*. New York: Simon & Shuster.

Krashinsky, Susan. (2010, 17 June). Videotron brings online TV to subscribers, *Globe and Mail.*

Magder, Jason. (2011, 1 March). Bitterness, relief for Journal staff, *Montréal Gazette*.

Marotte, Bernard. (2001, 16 June). Quebecor Media taps junk bonds, *Globe and Mail.*

Marotte, Bertrand. (2002, 17 September). Quebecor Media on credit watch, *Globe and Mail*.

Marotte, Bertrand. (2005, 13 October). Quebecor Media to buy Québec book publisher, *Globe and Mail*.

Meyer, Philip. (2004). *The Vanishing Newspaper: Saving Journalism in the Information Age*. Columbia, MO: University of Missouri Press.

Morton, John. (1994 , October). Why Are Newspaper Profits So High? *American Journalism Review* 16(8), 72.

Motavalli, John. (2002). *Bamboozled at the revolution: How big media lost billions in the battle for the Internet.* New York: Viking.

Munk, Nina. (2004). *Fools rush in: Steve Case, Jerry Levin, and the unmaking of AOL Time Warner*. New York: Harper Business.

Olive, David. (2003, 12 September). Convergence gets personal at Quebecor, *Toronto Star.*

Olive, David. (2004, 29 January). Atkinson principles work as Torstar's corporate credo, *Toronto Star*.

Palmeri, Christopher. (1990, December 10). Nietzsche's out, God's in, *Forbes* 146(13), 40-41.

Péladeau, Pierre Karl. (2008, 24 October). Celling the information age, *Toronto Sun.*

Picard, Robert G. (2001). Effects of Recessions on Advertising Expenditures: An Exploratory Study of Economic Downturns in Nine Developed Nations. *Journal of Media Economics* 14, 1-14.

Picard, Robert G., & Rimmer, Tony. (1999).Weathering a recession: Effects of size and diversification on newspaper companies. *Journal of Media Economics* 12, 1-18.

Pitts, Gordon. (2002). *Kings of Convergence: The Fight for Control of Canada's Media.* Toronto: Doubleday.

Pitts, Gordon & Marotte, Bertrand. (2002, 30 November). The Mulroney-Péladeau team: Ex-PM increasingly carries Quebecor, *Globe and Mail*.

Quebecor. (n.d.). From 1950 into the Third Milennium. URL: www.quebecor.com/Quebecor/History.aspx

Quebecor. (2000). *Quebecor: A Living History.* Montréal: St. Remy Media.

Robertson, Grant. (2007, 4 August). Quebecor triumphant in Osprey battle, *Globe and Mail*.

Scherer, Michael. (2002, September/October). The Post Company's New Profile. *Columbia Journalism Review* 41(3), 44-45.

Scherer, Michael. (2008, 19 March). What Do The Washington Post, The Financial Times and El Pais All Have In Common? Hint: Think Textbooks. URL: www.followthemedia.com

Sequin, Rheal. (2011, 2 February). Unions urge Québec to end newspaper lockout, *Globe and Mail*.

Shalom, Francois. (2008, 17 December). No holiday cheer at Sun Media. *Montréal Gazette*.

Siklos, Richard. (1991, May 6). Romance softens recession's punch for Torstar, *Financial Post*.

Silcoff, Sean. (2003, 10 October). Quebecor cutting media division debt, *National Post*.

Stephan, Michael. (2005). Diversification strategy of global media conglomerates: A comment, *Journal of Media Economics* 18(2), 85-103.

Surridge, Grant & Malhomme, Stephane. (2008, 3 July). 438-day Journal de Québec strike over, *National Post*.

Swisher, Kara. (2003). *There must be a pony in here somewhere: The AOL Time Warner debacle and the quest for a digital future.* New York: Crown Business.

Thornton, Leslie-Jean & Keith, Susan M. (2009). From Convergence to Webvergence: Tracking the Evolution of Print-Broadcast Partnerships Through the Lens of Change Theory. *Journalism & Mass Communication Quarterly* 86(2), 257-276.

Tully, Shawn. (2010, 3 May). Fortune 500: Profits bounce back, *Fortune* 161(6), 140-144.

Wells, Paul, Patriquin, Martin & Gohier, Philippe. (2010, June 28). Picking fights, slaying sacred cows, *Maclean's*, 123(24), 18-20.

White, Marion. (2011, 2 March). Quebecor puts up cash for Québec City arena, *Montréal Gazette.*

Yakabuski, Konrad. (2000, 26 May). The Conversion of Pierre Karl Péladeau, *Globe and Mail*.

Yakabuski, Konrad. (2003, 5 September). A Beautiful Machine, *Report on Business Magazine*, 50.

Yakabuski, Konrad. (2004, 30 April). The prime of Brian Mulroney, *Report on Business Magazine*, 36.