

Magazines

INDUSTRIAL CODES

NAICS: 51–1120 Periodical Publishers

SIC: 2721 Periodicals

NAICS-Based Product Codes: 51–112031510 through 51–112031574

PRODUCT OVERVIEW

The magazine industry, which traces its history back to 1665, faced a time of extreme turmoil and change in the first decade of the twenty-first century. Mergers and acquisitions dominated industry news in 2006, with 2007 expected to be another banner year. *Folio*, a magazine which covers the industry, provided one estimate: more than 150 media deals with a value of \$20.5 billion in 2006. Magazines sold ranged from *American Cowboy* to *Every Day with Rachel Ray* to *Yoga Journal*. Even the venerable *Readers Digest* was sold by Reader's Digest Association to Ripplewood Holdings LLC, a private equity firm, for \$2.4 billion.

Publishers were struggling with new business models involving alternate distribution methods, primarily digital delivery on the Internet, on portable devices such as cell phones, and even on television. Industry leaders talked about a multi-platform approach in which they would create content and deliver it to their audiences in a variety of ways. Publications in many major categories were also pressured by flat revenue figures or declines in circulation and advertising revenues. Executives resorted to cost

cutting, often aided by technology that permitted more automation in the publication process.

It is difficult, however, to generalize about an industry of such size and variety. The term magazines, or periodicals, covers a variety of publications focusing on general interest, news, business, statistical reports, comics, fashion, women's interests and home care, erotic material, religion, regional or city happenings, academic research, organizations and associations, and specialized businesses or trades, among others. However, most periodicals can be divided into three general types:

- Consumer magazines appealing to the general public or to specific segments of the public and generally feature advertising aimed at retail sales.
- Business to business (B-to-B) magazines primarily aimed at business readership and featuring ads in which one business, a financial institution or wholesaler, for example, offers services to other businesses.
- Association magazines published by organizations and mainly aimed at members.

The two leading organizations that assess the circulation of these magazines are the Audit Bureau of Circulation (ABC), whose membership is mostly consumer magazines, and BPA Worldwide, an organization that includes more B-to-B publications.

There are many ways of measuring this industry and many organizations publish information that helps do the same. The measurements used by different organizations tend to differ, but each provides a sense of the industry. The Magazine Publishers of America (MPA) reported that there were 18,267 magazines in North America in 2005,

taking the figures from the *National Directory of Magazines*. Of these, 6,325 were consumer magazines. In terms of companies that publish periodicals, the U.S. Census Bureau reported that in 2002 there were 7,298 such publishers in the United States, with receipts of \$40.18 billion, annual payrolls of \$8.38 billion, and 152.23 thousand paid employees.

The International Federation of the Periodical Press (FIPP) reported in 2005 that its 209 members in 53 countries published 110,000 magazine titles worldwide. In the United States, hundreds of new publications are launched every year, with more than half of them folding within the first 12 months.

The magazine and periodical publishing industry can trace its roots to Europe, where the Renaissance spurred an explosion of interest in learning. The first magazine, *Journal des Sçavans*, was a weekly started in January 1665 in Paris by Denis de Sallo. It included book reviews and news in science, law, and theology. *Philosophical Transactions*, the first English journal, followed in March 1665. The first American periodicals were *American Journal*, founded by the American printer Andrew Bradford, and *General Magazine and Historical Chronicle for All the British Plantations*, founded by Benjamin Franklin. Both appeared in Philadelphia in early 1741, and both failed before the year was over.

Only 16 magazines were published in the United States before the Revolution, and they had an average life of 10 months. During the Revolution, two magazines were published, both in Philadelphia: the *Pennsylvania Magazine* edited by Thomas Paine, and the *United States Magazine*, edited by Hugh Henry Brackenridge. During the remainder of the eighteenth century, approximately 70 periodicals, mostly short-lived, appeared.

By the middle of the nineteenth century, however, there were 600 U.S. periodicals of various types. Some, intended for general audiences, featured essays on the arts, history, and politics. The first monthlies and weeklies for women also were launched, including the influential *Godey's Lady's Book* (1830–1898), as well as *Youth's Companion* (1827–1929). Other new magazines included religious journals, literary reviews, and publications appealing to the antislavery and temperance movements.

The second half of the nineteenth century brought a revolution in magazine publishing, with improvements in illustration and printing and lower prices. New postal laws also provided inexpensive mailing rates. Harper's *New Monthly Magazine* began in New York in 1850, with liberal use of woodcut illustrations and serials of novels by Charles Dickens. The prestigious *Atlantic Monthly* began in Boston in 1857, publishing numerous contributions by the New England School of writers. A few more specialized magazines began in the nineteenth century, including

Scientific American (1845) and *Popular Science Monthly* (1872).

Estimates of the number of magazines include 685 in 1850, 1,200 in 1870, 2,400 in 1880, 4,400 in 1890, and 5,500 in 1900. Advertising also increased, particularly in the boom after the Civil War and in the years that followed with the nationwide distribution of goods and the growing national circulation of the leading magazines.

In the early twentieth century, muckraking publications exposed some of the worst abuses in government and industry. *Reader's Digest* made its debut in 1922. The weekly news magazines appeared next, *Time* in 1923 and *Newsweek* and *U.S. News* in 1933. Publications for those in a particular business or trade and for those interested in areas of technical, scientific, or other professional fields increased in both number and sales after World War II.

Despite the competition from television, magazines prospered through the 1980s, and magazine publishing continued to grow at a moderate pace through the early 2000s. In 1976 an important change in accessing the information available in periodicals occurred when the Information Access Company was formed and began to consolidate indexes to popular magazines into a single searchable electronic file. This meant it was no longer necessary to search through a printed copy of the *Readers' Guide to Periodical Literature* to gather information on a specific topic. Eventually, IAC's technology led to such indexes as Infotrax, Factiva, and LexisNexis.

MARKET

Magazines are marketed to both readers and advertisers, and the two sets of sales are closely related. Given the number and variety of publications in the United States, it is difficult to obtain sales figures for the total market, but data sets from the U.S. Census Bureau, as well as from the two major organizations that audit the circulation figures of their member magazines, ABC and BPA, help clarify the picture.

The U.S. Census Bureau listed 7,298 periodical publishing businesses in the United States in 2002, with receipts of more than \$40 billion. In 2005 members of ABC sold more than 362 million magazines, not counting comics, annuals, and international editions, according to the MPA's Publishing Information Bureau (PIB), which obtained the figures from ABC. The average cost of a single copy was \$4.40, while an average one-year subscription cost was reported as \$26.78. Circulation revenues were \$10.5 billion, with approximately \$7.4 billion from subscriptions and \$3.1 billion from single copy sales.

The ABC and BPA audits are critical to the industry. Advertisers demand accurate, trustworthy information on circulation, both because this information helps them decide where to place their ads and because the costs, or rates,

for ads in a given publication are usually based on a specific level of guaranteed circulation. There are, consequently, strict rules for how various categories of circulation can be counted, as well as for such things as premiums given to subscribers and copies sent even though a subscription has expired. Average paid circulation refers to subscriptions, newsstand sales, and sponsored subscriptions for which the magazine has been paid. Sponsored subscriptions are sold to businesses that use them to provide added value—a high-end department store that provides its best customers with fashion magazines, for example. After some conflict over the question of unpaid circulation, the auditing organizations amended their rules in 2006 to give credit for unpaid copies made available to readers considered valuable by advertisers. ABC calls this verified circulation. Examples include copies sent to doctors' waiting rooms or to passenger airlines.

There are more than 125,000 retail outlets selling magazines in the United States. MPA reports that 46 percent of single copy sales occur in supermarkets, 12 percent in bookstores, 11 percent in drugstores, and 31 percent in other venues.

In the early 2000s magazines were fighting to maintain circulation. ABC, for example, reported that in the first half of 2006 compared with the same period a year earlier, newsstand sales of magazines fell more than 4 percent to 48.7 million copies. Among the newsweeklies, *Time* fell the furthest, 24 percent. Reasons given for the decrease included readers spending more time on the Internet, too many similarly themed titles, and a softer retail market. The men's lifestyle sector, with typical monthly sales of approximately 2 million, was down 13 percent. As with other titles, one cause of this drop was the failure of the industry to attract younger readers, who were more likely to go online for information. Another cause was the decline in teen titles.

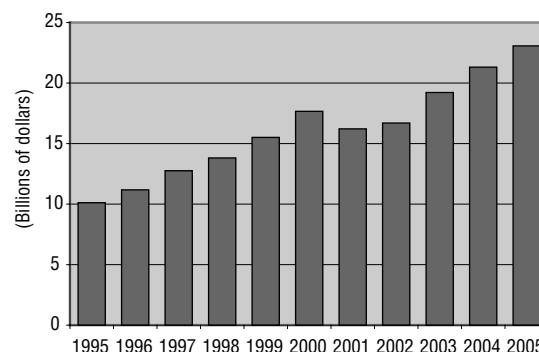
At a Retail Conference sponsored by the MPA in March 2007, Michal Porché, CEO of Distribution Services, Inc., said the increasing number of self-checkout counters was also hurting sales. He said there was a 40 percent decrease in sales to consumers who use self-checkouts. Competition from candy, soda, lip balm, and other similar products for space at the checkout counter was also hurting, he said. Among other things, he recommended pushing for space at the checkouts in buyers' clubs, dollar stores, and supercenters, which were drawing shoppers away from traditional supermarkets.

The concern about flat or decreasing circulation as a potential threat to advertising is easy to understand given the amount of ad revenues at stake. Various sources counted totals differently, but all agreed that billions of dollars were involved. A 2005 PricewaterhouseCoopers Financial Survey of 86 representative magazines for MPA showed

FIGURE 130

Trends in U.S. Magazine Advertising Rate Card Revenue, 1995–2005

Based on the revenue reported to the Publishing Information Bureau in its monthly survey of the industry. The revenue reported is not a total for the industry, rather a summary of revenues if all ad space were sold at the published advertising rate.



SOURCE: *The Magazine Handbook 2006/2007*, Magazine Publishers of America, Inc. January 2006.

that 55 percent of revenues came from advertising and 45 percent from circulation. According to the Census Bureau in 2005 magazines received \$12.9 billion of the nation's \$276 billion in advertising expenditures, or 4.7 percent.

The PIB reported in 2006 that the 239 magazines it had surveyed sold approximately 245,000 pages of ads for reported rate card revenues of slightly more than \$23 billion. The revenue figure is high because it is based on rate cards, which give the standard rate for advertising and do not take into account various discounts given to advertisers. PIB also reported that 2006 advertising revenues rose 3.8 percent above 2005 figures in spite of the fact that the number of pages sold did not increase, an indication of rising ad rates.

AdWeek reported that in 2005, the top 300 magazines received more than \$27 billion in ad revenues. *People* was the top earner with \$850 million; *Better Homes & Gardens* had \$800 million; *Time*, \$632 million; *Parade*, \$626 million; *Sports Illustrated*, \$624 million; *Good Housekeeping*, \$478 million; and *Newsweek*, \$472 million. In response to flat or decreased circulation, publishers began to sell advertisers the concept of total audience, the estimated number of people who read a magazine instead of the number of copies sold. In a speech to an MPA *Breakfast with a Leader* in April 2004, Jack Kliger, president and CEO of Hachette Filipacchi Media, called on the industry to promote magazines to the ad community as a brand instead of pitting one magazine against its magazine competitors, with, for example, *Woman's Day* attacking *Family Circle*. He said magazines should stress the quality of the readers they deliver and the attention those readers give to their

magazines. To accomplish this, he said, better measurements were needed for total audience. A perceived lack of reliability in magazine audience data caused advertisers to focus on circulation, which made it difficult to compete against other media such as television. Kliger noted that MPA formed a Magazine Promotion Coalition to put forth an aggressive campaign to sell magazines as a more important part of the media mix.

As one part of that effort a 2006 MPA report was commissioned from Marketing Evolution, a market research and consultant firm, on the role of magazines in the media mix. The report concluded that magazine ads were an important part of the mix, and were an excellent way of reinforcing brand recognition developed in television campaigns. It recommended that in most cases, magazine advertising should be increased. Another 2006 study that the organization commissioned from VISTA Print Effectiveness Rating Service supported the idea of counting readership rather than circulation. It showed that readers who received a pass-along copy of a magazine valued it and reacted favorably to its ads just as much as readers who bought their copy, with 18 percent considering purchasing a product after seeing it advertised in a magazine.

According to MPA's *Magazine Handbook*, 35 percent of those polled said reading was their favorite pastime compared to 21 percent who favored television. It also reported that only 28 percent of magazine readers said ads reduced their enjoyment of the magazine while 62 percent of network television viewers said they were bothered by the ads.

In the early 2000s the growth of the Internet created a revolution that was forcing magazine publishers to talk about a multi-platform approach in which they were in the business of selling content, whatever the format. Terry Snow, CEO of World Publications, said in March 2007 at a Roundtable sponsored by *Folio* magazine:

"World Publications sort of distilled it down to three things in terms of what the business is. 1) We aggregate audiences with a common interest so it doesn't really matter what the medium is. 2) We need to connect those audiences to advertisers, and 3) we create content. So at *World* we're not getting lost in the technology so much as trying to stay focused on the content."

Magazines began looking at a range of revenue-producing products including Web sites, content for mobile phones and other handheld devices, and video. They also became more involved in sponsoring special events and trade shows, and improved computer programs that helped them to extract more revenues from their subscriber databases.

Mediaweek reported that online ad spending hit a record high in 2006 of \$16.8 billion, a 34 percent increase from 2005, based on figures from the Interactive Advertising Bureau. The magazine said financial analyst Piper Jaffray forecasted that U.S. Internet advertising would hit \$42 billion in 2011, with a compound average growth rate of 17 percent. The MPA identified more than 150 digital initiatives in 2006 by its magazine members, with community building, video, and user-generated content all well-represented on the new Web sites. New initiatives featured more blogs, mobile applications, podcasts, and video content for Web sites and cell phones. Community-building features allowed audience members to share information with each other. In many cases, Web site visitors were also provided a means to customize the sites so that they would see the information, video, and images they wanted when they logged on. Hearst, Meredith Corp., and Time, Inc. all announced the establishment of in-house production companies for video and Web applications.

For Time, Inc., the largest U.S. magazine publisher, the changes were profound. In January 2007 the company, faced with circulation decreases, announced a cut of 289 people, or 2.8 percent of its workforce, the third round of cuts in less than two years. A large number of editorial staffers were dropped, but online positions doubled in the preceding year. The company announcement said Time, Inc. was transforming its workforce, broadening its digital capabilities in order to become a multi-platform company. Having revamped the *Time* magazine Web site, chairman and CEO Ann Moore said the company would focus on developing the online businesses of *People* and *Real Simple* magazines. People.com, for example, launched a celebrity database with continuously updated celebrity profiles, data, and original editorial content.

Sports Illustrated (SI), a Time, Inc. publication, also moved online aggressively. The *Sports Illustrated* Web site is part of a portfolio of products anchored by the flagship magazine. The Web site, which attracts an audience of 8 million, brings in 20 percent of the group's revenues. The site's success attracts a younger audience and new advertisers to the magazine. Popular Web features include Scorecard Daily, a sports culture and humor news section, photo galleries, and gossip snippets culled from publications around the country. The group has now launched SI On Demand, a new video on demand channel.

At Condé Nast, the country's second largest magazine publisher, the company spent money on its CondéNet division, and a number of new Web sites were launched, including those that offered content from more than one magazine. Brides.com, for example, combines content from three Condé Nast magazines. It includes video of bridal gown runway shows as well as real weddings and a

budget tool that helps brides keep track of their spending. Flip.com, a new teen site, features flipbooks for sharing information, clubs, and offers the ability to design custom Web sites, using drawing, text, soundtracks, and animation. The company's new business magazine, *Portfolio*, was launched in early 2007 with its own Web site.

Consumer magazines were not the only ones profiting from online business. In *Folio* magazine's 2006 survey of B-to-B magazine executives, the CEOs reported increased online revenues, although print remained the most important, representing 62.6 percent of revenues in 2005. Of those surveyed, 35 percent said online was their fastest growing revenue source, 34 percent said print, 25 percent said events, and 11 percent said data/market information sales. Only association magazines lagged behind. These publications, with circulations ranging from less than 1,000 to more than 500,000, generally lacked substantial revenues from electronic media and events.

Despite the growing importance of online advertising, standards for measuring the online audience have continued to be in flux. BPA reported significant increases in audits across all platforms and in-person events, as media owners increasingly tried to sell integrated, multi-platform packages to advertisers. There was an effort to focus on unique visitors rather than hits, but accuracy was damaged by technical problems such as the realization that many visitors were deleting cookies from their computers. *Cookies* are markers set on a computer after it has logged onto a particular Web site. The tracking of these cookies helps the Web site host identify a visitor as either a first time visitor or a returning visitor. When cookies are deleted it becomes impossible to tell if a visitor is a new, unique visitor or a returning visitor.

KEY PRODUCERS/MANUFACTURERS

Time Warner, Inc. This division of Time-Warner is the leading magazine publisher in the United States and the United Kingdom. In addition to publishing approximately 130 titles worldwide, the company delivers content by Web sites, television, satellite radio, mobile devices, events, and branded products. Its 2004 net revenues were \$4.85 billion.

At the close of 2006, the company reported that it received 22.6 percent of all domestic magazine advertising spending, and that its Web sites had been visited by more than 19 million unique visitors during the year.

Time's most popular titles include *People*, *Time*, and *Sports Illustrated*. In 2005 Time, Inc. completed the acquisition of Essence Communications Partners, a joint venture between Time and ECI Holdings. Essence Communications Partners publishes *Essence*, a women's lifestyle magazine read by more than seven million African-American adults a month. In 2005 Time, Inc. also ac-

quired Grupo Editorial Expansión, publisher of high-end business and consumer magazines in Mexico.

Time, Inc. launched five of its 10 most profitable magazines in the last 20 years, including *Real Simple*, which has spun off Real Simple TV on PBS and Real Simple 2-in-1 cleaning tools. CNN and Time, Inc.'s joint business and financial Web site CNNMoney.com, relaunched in 2006, is the online home for all of Time, Inc.'s business and financial magazines, including *Fortune*, *Fortune Small Business*, *Business 2.0*, and *Money*.

In 2007 Time, Inc. sold Time4 Media, a multimedia company involved with magazines, Web sites, television and radio, feature films, and live events, to Sweden's Bonnier Magazine Group. Time4 Media magazine titles include *Field & Stream*, *Popular Science*, *SKI*, *Yachting*, and *TransWorld SKATEboarding*.

Advance Publications. This privately held communications company is owned by Samuel and Donald Newhouse and owns Condé Nast Publications, Fairchild Publications, American City Business Journals (more than 40 weekly papers), the Golf Digest Companies, and newspapers in more than 20 American cities. Advance also has extensive interests in cable television and in Web sites related to its publications. The company's 2004 net revenues were estimated at \$2.42 billion. Its Condé Nast magazines include *Allure*, *Architectural Digest*, *Glamour*, *The New Yorker*, *Parade*, *Self*, *Vanity Fair*, *Vogue*, and *Wired*. Fairchild magazines include *Jane*, *Women's Wear Daily*, *Salon News*, *Elegant Bride*, *Bride's*, and *Modern Bride*.

Hearst Corporation. With nearly 200 magazines around the world, Hearst Corporation's collection includes *Cosmopolitan*, *Esquire*, *Good Housekeeping*, *Harper's Bazaar*, *Popular Mechanics*, *O The Oprah Magazine*, *Redbook*, *Seventeen*, *Smart Money*, and *Travel*. Other Hearst properties include newspapers; television stations; joint venture interests in leading cable networks, including Lifetime, A&E, The History Channel, and ESPN; business publishing; Internet businesses; television production; newspaper features distribution; and real estate. Hearst's 2004 net revenues were estimated at \$1.837 billion.

Meredith Corp. Meredith is a media and marketing company focused on women and it had 2004 net revenues of \$1.534 billion. Its magazine division, with 15 magazines and more than 200 special interest publications, has a combined circulation of 30 million. Meredith magazines include *Better Homes and Gardens*, *Family Circle*, *Fitness*, *Parents*, *Child*, *Baby*, and *Country Living*.

Primedia. This is a targeted media company with 2004 net revenues reported at \$1.2 billion. The company's properties include print publications, Internet, events, merchandise, and video programs. In its Enthusiast Media division, Primedia has more than 70 special interest magazines including *Motor Trend*, *Automobile*, *Hot Rod*, *Snowboarder*, and *Surfer*. Its Consumer Source Inc. unit distributes free consumer guides to more than 60,000 locations through its proprietary distribution network, DistribuTech.

Reader's Digest Association. The private equity firm Ripplewood Holdings LLC bought Reader's Digest Association in 2006 for \$2.4 billion. Net revenues in 2004 for Readers' Digest were \$917 million. Reader's Digest claims 80 million readers with 50 editions published in 20 languages. The company also uses its extensive consumer database to market books, special interest magazines, music, videos, and financial and health products.

MATERIALS & SUPPLY CHAIN LOGISTICS

The United States was once the leading producer of magazine-grade paper, but that has shifted with most magazine paper in the early 2000s coming from Canada. This places an additional burden on U.S. publishers with the strong Canadian dollar forcing them to pay more in U.S. dollars. Demand for paper is down, with many advertisers buying fewer magazine pages as they switch their business to the Internet. Paper manufacturers have responded by controlling production. Demand dropped 2 percent in 2005 and was flat in 2006, with predictions that demand would be down in 2007. Despite the decrease in demand, there were a number of price increases, including a hike in 2005 that ranged from 14 to 20 percent, depending on contracts. Paper manufacturers achieved flat or increased pricing in an industry that had previously been known for price volatility with a strategy they called *rightsizing*. This included eliminating excess capacity, improving the operating rate on the most efficient machines, reducing costs, and cutting the supply available in the marketplace.

Analysts said the higher prices were needed for the mills to stay in business. In addition to the strong Canadian dollar, an increase in wood costs in Eastern Canada and the rising cost of energy were pressuring the paper mills. In the face of these pressures, companies such as International Paper began selling their magazine-grade paper mills. The number of suppliers dropped dramatically, until the top four companies controlled approximately 75 percent of the market. In addition to International Paper, traditional papermakers that left the coated paper market included Mead, Westvaco, Boise Cascade, Blandin, and Consolidated. U.S. and Canadian suppliers are losing

some control over the market, however, as more paper mills are built in developing areas of the world and imports increase. In early 2007 approximately 30 percent of all paper used in the United States was imported.

In an effort to keep costs down, publishers have been looking at cutting the quality or weight of the paper they use. Coated paper is widely favored for its printing quality and glossy appearance, but some magazines are looking at cheaper supercalendered paper to cut their costs. Supercalendered paper is made in a process in which specialized rollers create a very thin, flat sheet with high sheen. Many designers, editors, and publishers, however, worry that the paper is not as glossy and that it will not match the bright colored pictures that can be printed on coated paper, nor give the overall appearance of quality that is desired.

Another cost-saving approach for the publishers has been to cut the weight of their paper, particularly because this reduces mailing and shipping expenses at a time when postal rates are rising. Time, Inc. shifted some titles from 35-pound to 25-pound paper in 2005, but in 2007, apparently unhappy with the resultant products, increased the weight to 30-pound. Postal rates went up 5.4 percent for all customers in January 2006, with a recommendation by the Postal Regulatory Commission for an additional 11.7 percent increase for magazines in 2007. A further hike was considered possible before June 2008, when postal reform legislation would cap future rate hikes, requiring them to be no greater than the consumer price index.

The paper weight versus quality arguments continue in the industry. At the March 2007 Primex (Print Media Executive) Conference, a representative from Condé Nast attributed part of the success of Teen Vogue to high production standards, saying the magazine used 45-pound, #4 paper, which is a brighter, whiter sheet than the paper some of the other magazines were using. A related issue concerning the industry in 2007 was uniformity of paper standards, particularly given the demands of new digital-production processes and the increased amount of imported paper. IdeAlliance (International Digital Enterprise Alliance, a non-profit industry group) formed a task force to look at the issue, explaining that one supplier's #3 paper did not always give the same results as another's #3.

An additional pressure on publishers in the early 2000s was demand by environmentalists that they use more recycled paper. In 2006, 95 percent of all magazine paper contained no recycled content. The non-profit Co-Op America's Magazine Paper Project estimated that U.S. magazines were using roughly 35 million trees per year, or one tree per second. Some magazines are going green such as *Shape* and *Natural Health*. These magazines used 30 percent postconsumer recycled paper. The June 4, 2007 issue of *U.S. News & World Report* was printed on

85 to 100 percent recycled paper. As of 2006, however, only 100 magazines in North America were being printed on recycled paper. In most cases, the recycled paper added to costs. Mark Spellum, publisher and editor-in-chief of *Plenty*, said the magazine was paying approximately 7.8 percent more for the 30 percent of its paper that came from recycled sources. When *Surfer* started using recycled paper as a portion of its paper, it was forced to raise the newsstand price from \$3.99 to \$4.99 although the subscription price remained the same.

In March 2007 MPA, clearly concerned about environmental criticisms of the magazine industry, announced a major initiative urging readers to recycle. Logos asking readers to "Please Recycle this Magazine" were created and began appearing on magazines.

DISTRIBUTION CHANNEL

Distribution of magazines is accomplished through a complex mix of freight services and the U.S. Post Office, managed by a network of national distributors, regional wholesalers, and retail outlets. Like almost all other aspects of the publishing business, traditional distribution practices are being rethought in many cases because of price pressures or the availability of new technology.

For many magazines, distribution to subscribers is handled by the printer, who works with publishers to optimize a system for cost and for reliable delivery on the desired day. Techniques such as co-mailing or co-palletization are increasingly used to cut costs. Co-mailing is designed to take advantage of postal policies that give discounts for magazines already sorted by zip code. A minimum number of publications must be included within a zip code to win the discount, and the minimum can be met in more zip codes by merging databases of two or more publications and sorting them together. Similarly, discounts are available if sorted magazines are placed on pallets, and combining publications can help fill more pallets.

Mail discounts are also available if the pallets are delivered to postal facilities that are geographically close to the intended recipients. Publishers and printers work together to decide if such a discount is desirable in a given case, or if freight costs to the postal facility will be greater than the savings from the discount.

The largest pressure on this distribution system is rising postal rates. To try to stabilize postal rates, MPA backed comprehensive postal reform legislation that was approved in December 2006. The bipartisan legislation contained a number of beneficial provisions for the magazine industry. One returned responsibility for the military pensions of postal employees back to the U.S. Treasury. Another capped rate increases after June 2008 to the consumer price index.

In addition to postal delivery to subscribers, publishers must deliver their product to single-copy sales outlets. Distribution to retail outlets has long been plagued with inefficiency. In the early 1990s sell-through at retail outlets was approximately 50 percent, but by 2003 it fell to 34 percent, and it has stayed at that level. That means that retail outlets are selling only one-third of the magazines they receive and are returning two-thirds to be destroyed. Publishers are paying to print and distribute large numbers of magazines for which they never receive a cent of the purchase price.

At the same time, the industry was undergoing a shakeup, with consolidation of wholesalers and changes in basic financial arrangements. In the traditional distribution system, publishers deal with national distributors who then contract with various wholesalers to deliver magazines to retail outlets. An early step in the shakeup occurred in 1995 when the Safeway market chain in Seattle announced it would no longer accept magazines from the four wholesalers that had been servicing its stores but would instead take bids for one wholesaler to handle all of its magazines. Other Safeway stores and a number of other chains, including Wal-Mart, Albertson's, and Grand Union, followed suit. This led to a major shakeout, shrinking the number of wholesalers from 320 to a handful. By 2000 the four biggest wholesalers were distributing 90 percent of the magazines, but they had paid a heavy cost for their victory. Spending heavily to buy out smaller competitors and bidding low to win contracts left them in a shaky financial position.

The retailers took advantage of their new power by demanding better discounts on the magazines they bought from the wholesalers. They had been paying 10 to 20 percent off the cover price, but in the highly competitive atmosphere of the early 2000s, discounts went as high as 30 percent. Two of the largest national distributors then came forward with changes in basic financial arrangements. Time Distribution Services (TDS), which distributes Time, Inc. magazines and a number of others, proposed a cost-to-serve model. The company said that instead of paying wholesalers commissions on magazines sold, it would pay fees for their services. Time argued that this would allow the wholesalers to make money even on titles that did not sell well. The Comag Marketing Group, a national distributor owned jointly by Hearst Magazines and Condé Nast, proposed a plan in which key distributors would be named in geographic areas. These distributors could earn additional money by providing extra services to retailers.

In the midst of this shakeout, Wal-Mart, which sells 15 percent of all single-copy magazines in the United States, announced in late 2002 that it would institute a new system in keeping with its usual practice of eliminat-

ing the middle-man wherever possible. Wal-Mart began negotiating directly with publishers as much as possible, reducing the role of national distributors and wholesalers. This model reduces some wholesalers to logistics providers—truckers—and it allows Wal-Mart to squeeze producers and logistics providers for discounts. Many other retailers, however, don't have the size or clout to deal directly with publishers and still need the distribution system. In another unusual arrangement, Wal-Mart and Time, Inc. reached an agreement in which Time launched *All You*, a monthly women's magazine that is distributed exclusively in Wal-Mart stores.

An important factor that is slowly being adopted is scan-based trading for magazines. In the traditional system, sales are measured by counting the returns. With scanner technology, it is possible to automatically measure sales. Large retailers like Wal-Mart and Barnes & Noble adopted scanning for magazines, but the technology is far from industry-wide. Among problems preventing adoption is the fact that many stores have not invested in the technology needed to tell which issue of a magazine is being bought. Their systems can tell them, for example, that a copy of *Family Circle* is being purchased but not what issue of that magazine. Scanning offers substantial advantages to retail outlets, however, eliminating much of the in-store labor, inventory, and administrative costs associated with magazine sales. Scan-based technology also offers a major advantage to publishers, a chance to improve the sell-through rate.

In a 2006 interview with *Folio* magazine, Richard Lawton, Comag senior vice president, said a million copies per year (4 percent of the total) are being delivered to stores that sell not a single one, and 300 million copies a year go to stores that sell one or fewer. New information-management companies are taking the raw data and making store-level data available, which, if used properly, can result in substantial savings by eliminating deliveries to inefficient outlets. Comag worked with one publisher of a mid-tier checkout monthly, which realized \$600,000 in annual savings by reducing its print order by eliminating unprofitable stores.

KEY USERS

Given the variety of magazine titles available in the United States, almost any group can be a key user for some special-topic magazine, whether it be surfboarders, frequent travelers, service club members, or new mothers. In 2006 Hall's Reports, LLC, a company that specializes in analyzing editorial content for the magazine industry, listed Entertainment and Celebrity news as the top selling category for magazines in the United States. Figure 131 shows a ranking of the magazine industry by category as reported by Hall's. Although the primary theme of a magazine does

FIGURE 131

Top Five Subject Categories of U.S. Magazines in 2005

Based on the percentage of editorial pages by subject category as measured by the Hall's Magazine Reports Company in its annual study covering 141 magazines.

Subject Category	Percent
Entertainment and Celebrity	16.7
Wearing Apparel and Accessories	13.4
Home Furnishings and Management	7.8
Travel and Transportation	6.9
Food and Nutrition	6.7

The remaining subject categories include, in this order, Business/Industry, Culture, Health/Medical Sciences, Beauty/Grooming, Sports/Recreation/Hobby, General Interest, Self Help/Relationships, National Affairs, Personal Finance, Building, Fitness/Beauty, Gardening/Farming, Consumer Electronics, and Children.

SOURCE: *The Magazine Handbook 2006/2007*, Magazine Publishers of America, Inc. January 2006.

not define its readers, the breakdown does provide one perspective on the magazine audience.

Statistics gathered by the MPA provide another way of studying the audience for magazines. MPA research found, for example, that heavy magazine readers who watch little television spent more money than average on various product categories such as automotive, health and beauty aids, and electronics. According to MPA, an average magazine reader is 43 years old with average annual household income of \$75,247 and ownership of a home valued at \$294,870. The average heavy television viewer, on the other hand, is 50 years old with \$53,399 in household income and a home value of \$222,888. A total of 82 percent of those polled read magazines in their own homes and 76 percent also read magazines out of their homes. Locations include: doctor/dentist office (35%), someone else's home (26%), newsstand/store (24%), beauty/barber shop (12%), library/club/school (8%), and on an airplane (6%).

ADJACENT MARKETS

A number of media compete for the billions of dollars advertisers spend each year in the United States. The U.S. Census Bureau reports that advertisers spent a total of \$276 billion in 2005. Magazines are estimated to have received \$12.9 billion of that, a relatively small piece of the pie compared to most other media.

Television is by far the biggest earner of ad dollars with \$69.8 billion in 2005—\$45.3 for broadcast television and \$24.5 billion for cable. Newspapers brought in \$47.9 billion in ad sales and almost \$20 billion was spent on radio advertising. A total of \$14.3 billion was spent on yellow page ads. The figure for Direct Mail is \$52.2 billion. The Census Bureau lists Internet advertising at

almost \$6.9 billion, but the category is growing fast, having come from \$800 million in 1997, the first year it was listed.

RESEARCH & DEVELOPMENT

In one sense, many magazines conduct constant research in that their reporters investigate various topics thoroughly in order to write their stories. Research on issues and technology that affect the magazine business, however, is more specialized. One question of major interest to publishers is readership. To stay in business, they need to know and understand their audience.

An example of this sort of research and development can be seen in the work of *Car and Driver* and *Road & Track*, two Hachette Filipacchi magazines. They conduct e-mail reader research polls every three weeks in their efforts to hold a car-obsessed audience in a highly competitive field. The automotive group has a 10,000-person volunteer panel of readers. A segment of these members receives a subscriber poll or survey, almost always by e-mail, every three weeks. In addition to using the information gained to tailor the magazines to readers' interests, the publications are able to offer clients and advertisers information on how readers perceive their products.

More in-depth research on a variety of issues is conducted by the MPA on behalf of its magazine members. MPA studies have included such varied topics as a Hispanic/Latino market profile, advertising positioning, media effectiveness, and circulation. The MPA Web site also contains links to other magazine research such as a study at Ball State University showing that consumers tend to be more engaged with print than with electronic media.

IdeAlliance conducts research in five tracks: XML (Extreme Markup Languages, a play on the more usual Extensible Markup Languages) and Frontier Technologies; Content Creation, Management, & Delivery; Advertising & Production; Supply Chain Management; and Newsstand & Postal Distribution. Under XML and Frontier Technologies, for example, the group conducts the News Standards Summit, which brings together technical experts and technology users to look at ways to set standards for publishing XML and metadata projects. One effort of the Newsstand & Postal Distribution track is to conduct an annual Print Distribution Conference to look at issues and possible innovations in addressing, mail preparation, newsstand supply chain, and other distribution topics.

While product developers conduct most of the research involved in the technology that is transforming the industry, individual magazines must have technical experts on hand and conduct constant research on the technology

marketplace in order to print and distribute their publications in the most efficient and cost-effective way.

Issues of software compatibility, for instance, can create headaches. One complaint notes that although XML is a software program widely used for file sharing and Web publication, Microsoft Word cannot export an XML file. Microsoft offers another software program, Info Path, to translate XML files, but to use this software editors are obliged to keep an additional program open on their computer screens.

The need to offer content on multiple platforms demands the integration of Web and print systems as well as databases, and the education of the staff members who will use them. Print people have to learn to use a Content Management System to store, sort, and shuttle content from one platform to another. Adding video requires yet more technology. *Forbes*, for example, has created its own studios and a teleconferencing system that allows reporters to conduct on-camera interviews on location.

As they adopt new technologies those who produce magazines do not always agree on the reliability of various approaches. Some, for example, feel that virtual proofs are sufficient, while others, concerned about such issues as color reproduction, are willing to pay for printed proofs. Some also point out that even if contractors boast that they have equipment that meets standards, the results aren't guaranteed if the equipment is not regularly calibrated and the settings are not correct.

CURRENT TRENDS

The trend toward multi-platform publication of content continues to be the major force reshaping the magazine industry. Some have already begun to describe their business as something more than just magazine publishing. Ad-supported e-media, subscription-based on-line services, and events all are hot. As a result, increased revenues are flowing into electronic media, and the number of online-only publishers is growing. Both consumer and B-to-B magazines are hiring staff for their online business development, both for content creation and for advertising sales.

Mergers and acquisitions also will continue to roil the industry. In fact 2007 opened with a number of major deals, including the acquisition of 40 magazines from Time, Inc. by the Swedish media giant, Bonnier. The purchase price was estimated at between \$200 million and \$300 million.

B-to-B publishers, under pressure from loss of revenues to electronic media, are seeking new income from a number of small, low-risk strategies. Ad pages accounted for 52 percent of total revenues for these publishers in 1997, but by 2002, the figure had fallen to 47 percent. Trade shows, on the other hand, jumped from 19 percent

of revenue to 26 percent. The Internet, generating almost negligible revenues in 1997, had climbed to 3 percent by 2002. Custom publications, database, and reprints, surprisingly, fell from 9.6 percent to 7.9 percent.

To offset the advertising losses, B-to-B magazines have turned to a number of revenue streams ranging from continuing education to custom publishing to licensing and partnering. Conferences and seminars increasingly are held online, making it possible to cut costs substantially. These Web conferences often draw a hundred or more participants, earning revenues both through sponsorships and paid attendance.

Even with brand extensions, new products generally are being brought out carefully and with low budgets by B-to-B magazines. American Lawyer Media, for example, put together the first issues of *Law Firm Inc.*, which covers law-firm management, with freelancers and contributors from sister magazines. When the publication netted \$150,000 in its first year, it earned its own full-time staff and increased frequency of publication.

Another area beginning to grow is rich data products, with consumer and B-to-B magazines both turning subscriber data into high-profit products, such as data on court verdicts and settlements collected by *American Lawyer*. In another example, AARP publications is offering to connect advertisers to the valuable 50-plus market.

A useful view of other industry trends can be surmised from the issues occupying MPA lobbyists. Rising postal rates are having a major impact on the industry, although the successful effort to have rates capped in 2008 should ease this problem. The industry is watching privacy initiatives and supporting anti-spam legislation, both of which could impact its ability to extract revenues from its databases.

Other legislative issues that interest the magazine industry include efforts to limit automatic subscription renewals, which the industry calls *advanced consent* marketing, and concerns about direct-to-consumer pharmaceutical advertising, ads for weight-loss products, and ads aimed at children.

TARGET MARKETS & SEGMENTATION

Almost all magazines are aware of their target audience and try to adjust their content and design if this audience changes. Increasing fragmentation in the media, however, has encouraged publishers to look at a number of market segments as potential sources of new circulation and ad revenues, with new magazines being launched to serve these segments.

MPA has created in-depth market profiles on the African American, Asian American, Hispanic/Latino,

and teen markets. Each is a growing segment of the U.S. population with impact in areas such as food, apparel, and music. In its study of African American adults, MPA discovered that 83 percent read magazines. The number of African Americans was up almost 22 percent between 1990 and 2000, and this group represented 13 percent of the U.S. population in 2006. The African American market wielded an estimated \$723 billion in purchasing power in 2003, up from \$318 billion in 1990 and expected to reach \$965 billion in 2009.

MPA reported that there are 113 Asian American titles published in the United States and that Asian magazine readers are younger, more affluent and better educated than magazine readers overall. The Asian American population is growing fast. In the early 2000s it made up 5 percent of the U.S. population, and it is expected to more than triple to 34 million in the next 50 years. This group had over \$253 billion in spending power in 2001. In at least one projection, Asian American spending power is expected to reach \$528 billion by 2009.

The rapidly growing Hispanic population is projected to achieve buying power of \$1.2 trillion by 2011. A number of publications and other media cater to this fragmented, fluid market. The celebrity-oriented *People en Español* remains the category leader, with 500,000 in guaranteed circulation. Meredith Corp. launched *Siempre Mujer* for women in 2005 and the title quickly reached 375,000 in guaranteed circulation. Other titles by the publisher of women's service magazines include *Ser Padres*, *Espera*, and *Healthy Kids en Español*.

MPA reported that 81 percent of teens read magazines, a rate similar to the adult population. This population is expected to climb from 32.4 million in 2000 to 33.5 million in 2010. Teens have money to spend, with annual discretionary income of nearly \$4,500 by age 16 to 17, and they also can impact adult decisions on spending, with parents frequently asking them to go online to research a product.

The three biggest teen magazines are *Seventeen*, *CosmoGirl*, and *Teen Vogue*. Time, Inc.'s *Teen People* and Hachette Filipacchi's *Elle Girl* did not survive, but their Web sites are still strong. In fact, all of the publishers are paying particular attention to Web sites, branded products, events, contests, and mobile tie-ins in an effort to attract the teen audience. In early 2007 Hearst acquired eCrush, a group of entertainment and social networking sites, launched a prom shopping site, and put up new Web versions of its *Seventeen*, *CosmoGirl*, and quarterly *Teen* magazines. Condé Nast combines information from its teen magazines on its Web site Flip.

Farther along the age scale, *Prevention* concentrates on its core readership of women 45 and up. The Web site offers *Faces of Prevention*, a forum for readers to pose

questions to the magazine's experts, and *Body by Design*, which lets readers select exercises at one of three levels of intensity.

Meanwhile, men's magazines are adapting the service concept that has long worked for women's publications. The goal for such outlets as *Men's Health*, *Maxim*, and *GQ*, according to their editors, is to offer practical information that busy men can absorb quickly. Fashion and style guidance is a major emphasis, and ads from this sector are helping the publications make up for the drop in automobile advertising in the early 2000s.

RELATED ASSOCIATIONS & ORGANIZATIONS

IdeAlliance (International Digital Enterprise Alliance), <http://www.idealliance.org>

International Federation of the Periodical Press (FIPP), <http://www.fipp.com>

Magazine Publishers of America, <http://www.magazine.org/home>

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