

# Magazines: Paper or Silicon?

By John Zarwan

As with other media, magazines are striving to transform their businesses in response to rising distribution costs, changing demographic preferences and, of course, the Internet. In this snapshot, we look at the current state of magazine publishing.

**S**amir Husni of the University of Mississippi, also known as **Mr. Magazine**, insists that the best hope for magazine publishing lies in ink on paper and not in digital alternatives. Columnist and consultant Bob Sacks of Precision Media Group (**BoSacks**) counters that “20 years from now, only the rich are going to be able to afford a magazine or a book.” What’s going on?

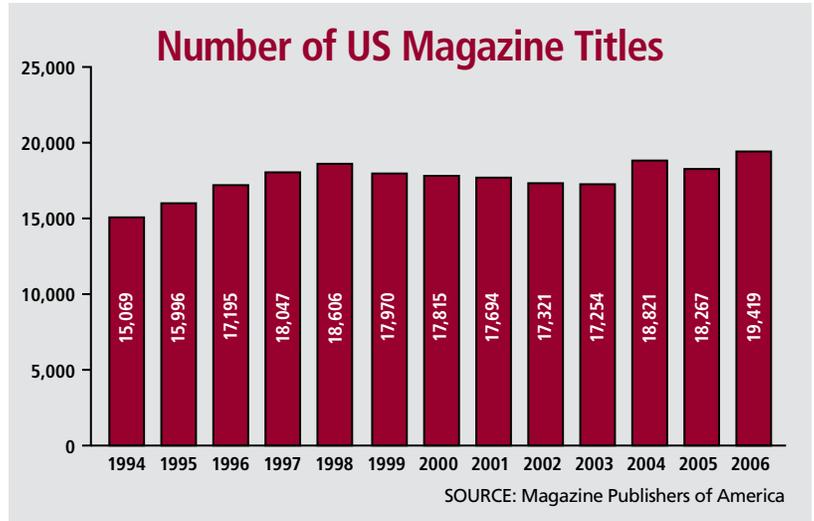
If print is a dying medium, American magazine publishers have not gotten that message. By some measures, the magazine market remains relatively healthy. The U.S. magazine market is approximately \$23 billion, with slightly more than \$10 billion of that representing circulation revenue and the balance advertising. Magazine advertising’s share of media spending has remained relatively constant over the years.

Similarly, the number of magazines continues to grow, with more than 19,000 titles published in North America. More than 400 new magazines were launched in 2003 and 480 in 2004. The rate of introduction of new titles slowed to only 350 titles in 2005, however, but picked up again with a net gain of more than 1,000 titles.

The new titles can be quite eclectic and include magazines targeting female poker players, fashion magazines for men and the first lifestyle magazine designed especially for veterinarians. This diverse mix reflects the ability of magazines to reach audiences with very specific interests. Nevertheless, failure rates are high. Fewer than 40% of magazines survive a year and only one in five last more than five years.

Total magazine circulation has been virtually flat over the past decade. The total figures hide changes beneath the surface. Circulation of the venerable newsweeklies has declined, but celebrity and lifestyle magazines continue to do well.

Naturally, advertising follows this trend. Despite healthy increases in ad revenues, ad pages — a more important indicator for print — have been down for several years and are only now beginning to increase, albeit slowly, reflecting, in part, better economic times. Advertisers are attracted to different types of magazines. Ad pages for the business press and newsweeklies are down, while consumer-oriented magazines are up. This reflects not only changing consumer tastes, but also the ability to receive news in a more timely fashion from the Internet.



Print magazines continue to be important to advertisers. Magazine advertising has consistently proved effective as part of a media mix. Magazines will continue to evolve into a specialized, highly targeted advertisement delivery vehicle. People have a special relationship with magazines. As one observer noted, “Magazines are our guilty pleasures. We make room for them in our lives, even when our lives seem to have run out of room.”

Magazines and their printers are doing everything they can to make ads leap off the page — literally. Magazines have featured ads in which headlights on an illustration of a car flicker as music plays and characters offer sound bites about a new television program. These innovative and bulky ads are encouraged by magazine publishers eager to show advertisers that old media can compete with new media as a showcase for their products.” Extra printing and postage costs are usually part of the equation for such advertising, and publishers say they pass those along to advertisers.

While postage and distribution issues pay off in these cases (one hopes), they do represent a long-term challenge to print magazines that have important implications on page count and run length. The average newsstand sell-through for magazines is about 35%; which means two-thirds go unsold. These numbers are likely to decline as subscriptions become more important and as magazines adjust their production runs to reflect the circulation overstatements.

Despite a high attrition rate, the total number of magazine titles in the U.S. has risen in recent years. New titles generally include specialized consumer publications rather than general interest news magazines.

Secondly, postage and distribution costs for print magazines are high and rising. For example, the average cost to mail a typical weekly magazine is 21 cents and it's going up. The cost of printing is 50 cents and falling. Publishers realize that tightening up their mailing strategies is critical. Smaller publications in particular will feel the impact of postage and distribution costs the most, as many of the options being explored by larger publications are not open to them.

The business drivers for digital editions are clear: postal rate increases, increasing paper costs and environmental issues. Add to those factors shorter production cycle times and the ability of digital editions to compete with other interactive media.

Magazine publishers are responding to electronic distribution in a number of ways. Most magazines, of course, have their own Web sites. Some are beginning to experiment with really simple syndication (RSS), a format designed for sharing content. Others deliver digital editions that are essentially facsimiles of the print issue. The Magazine Publishers of America even reports that more than 400 of their members have blogs.

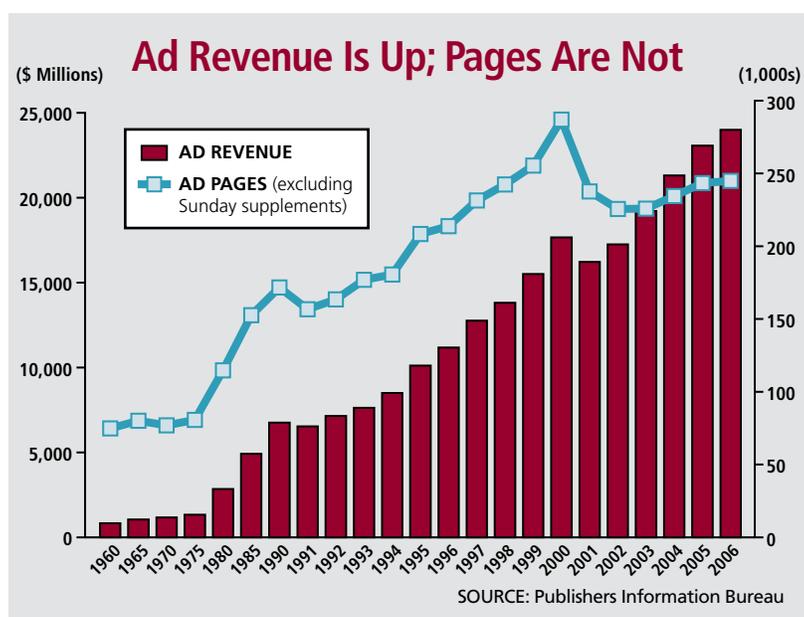
To the consumer, a major advantage is delivery time, but others include weight (for travelers, for example), the ability to search and link, and archiving. At one time, these services were considered good matches for e-book readers or tablets, but they are now appropriate for conventional personal computers, laptops and, perhaps, with improved screen technology, PDAs and similar devices.

Magazine industry executives now suggest that the Internet represents a greater prospect for stable advertising revenue growth than the pages of a publication. For some types of publications, such as business to business, the online channel will become increasingly important. In one recent survey in Great Britain, one-third of B2B publishers indicated that their Web site generated more than 30% of their revenues and almost twice as many expect the online channel to reach those levels within two years.

*Fortune* redesigned its Web site last year. In announcing the re-launch, Executive Editor Peter Petre said: "It's built to be a resource for anyone who does business with companies, works for a company or invests in companies...[It] is designed to work as a syndication engine, packaging *Fortune* content for Web and e-mail distribution and spreading it widely across the Internet and mobile world."

"It's the first time for our ad sales people to talk something new to advertisers in 82 years," said Peter Meirs, director of alternative media technology for Time Inc.

For magazine publishers and their advertisers, print is a channel. While there might be readership issues for certain types of magazines and the industry overall, it is equally clear that an electronic delivery and Internet strategy will be an increasingly important component of a magazine publisher's success. For those with a vital



interest in the print version, however, the impact of electronic channel delivery is critical and will differ by magazine class.

The impact of digital distribution on most consumer, lifestyle, celebrity and general interest magazines will be minimal, as the reasons for reading them tend not to be information related or time sensitive. Print editions connect with the consumer in a way the news and business magazines do not. News-related and business-to-business titles, on the other hand, will be affected the most. The Web will continue to be the primary source for news, drawing readers. No one suggests that these titles will disappear, but the impact on advertising and page counts will be significant. The widespread availability of the same information on the Internet will make it much harder to reverse this trend.

Print and electronic versions will coexist. Print publications are limited by weekly, bi-weekly or monthly production cycles. The Web sites supplement these cycles by publishing breaking news on the site and by adding opt-in e-mail news alerts and newsletters. Even the most optimistic (or pessimistic) forecasts are for digital delivery to replace perhaps 20% to 25% of a magazine's circulation over the next 10 to 20 years.

The Internet and digital delivery will transform magazine company strategies and economics. No other technological advancement affects the magazine industry more. The digitization of content, already a fact in print production, offers the opportunity to reduce the expense and time of physical materials while at the same time providing new revenue sources. However, the issue for magazine publishers is not primarily technological. Economic decisions and finding the right business model are the keys to success. **TSR**

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Good news; bad news? Before 2001, ad revenue and the number of printed pages were roughly parallel. However, the recent surge in ad revenue has not translated into a corresponding rise in print volume. If the trend continues or worsens, media-savvy magazines could prosper, but their printing partners will not.

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