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THE AD AGE 2004 MAGAZINE CIRCULATION REPORT
A Troubled Industry Seeks New Solutions

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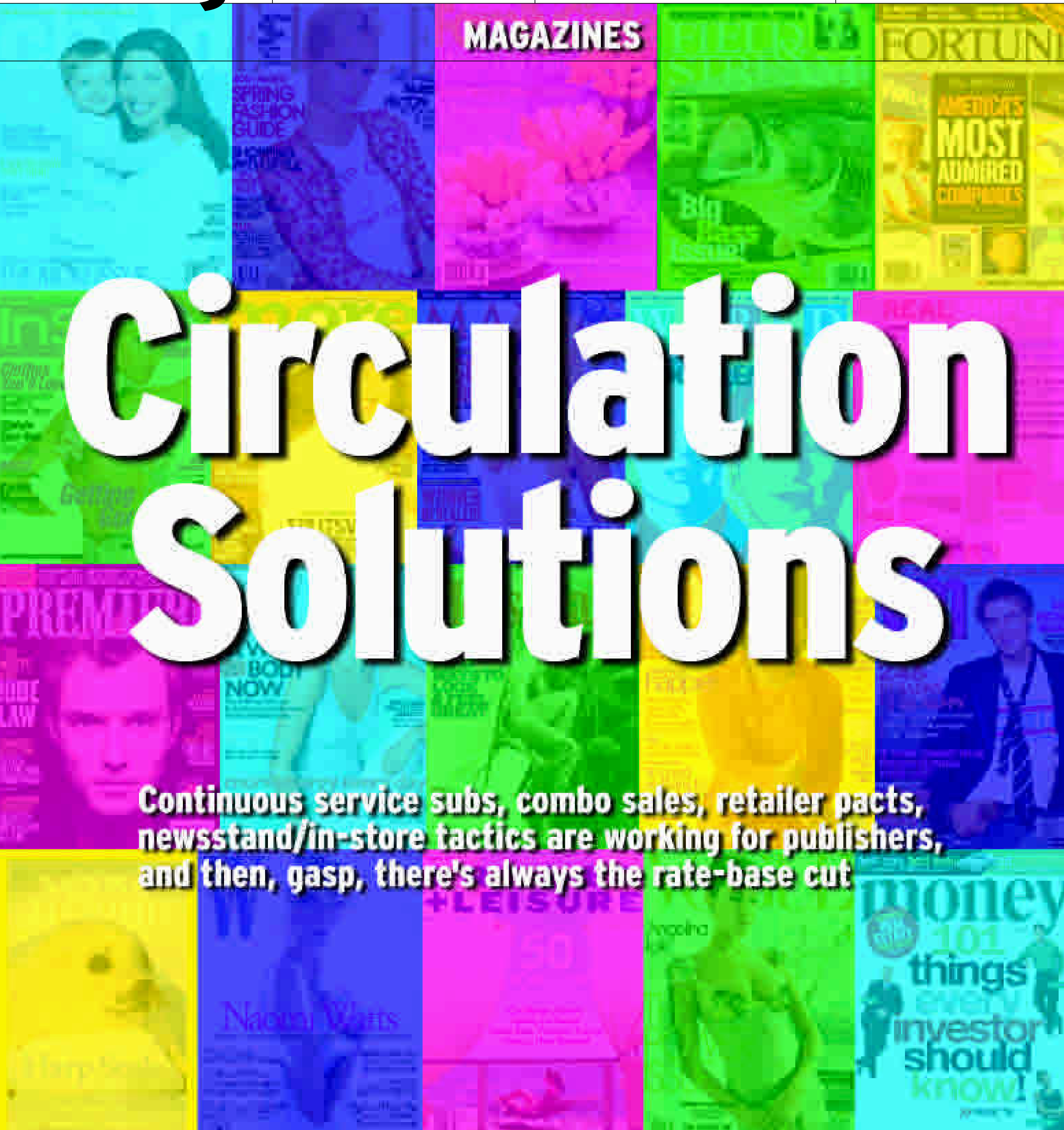
MAGAZINES

Circulation Solutions

Continuous service subs, combo sales, retailer pacts, newsstand/in-store tactics are working for publishers, and then, gasp, there's always the rate-base cut



INSIDE

Circ model cries for hard choices

How magazines got in a jam, and a bevy of hard choices for getting out

By JON FINE

TO PARAPHRASE Ernest Hemingway, magazine circulation got into its current mess two ways: gradually, and then very suddenly.

"Gradually," because newsstand sales of magazines have been on a long, slow decline for around a quarter-century.

"Very suddenly," because that's how quickly the biggest source for magazine subscriptions dried up. In the 1990s, stampsheet players like American Family Publishers, 50% owned by Time Inc., and Publishers Clearing House supplied enormous volumes of subscriptions to subscriber-hungry publishers, then all but disappeared.

The solution to circulation woes, however, will in no way come very suddenly. Various tactics have been tried, and publishers are still looking for ways to repair the damage. The stakes go beyond lost circulation revenue, to marketers skeptical about magazines' value as an ad medium craved by consumers.

Given stampsheets' impressive ability to generate subscriptions, the tactic's demise was a body blow to the magazine industry. In a presentation to 2002's American Magazine Conference, Michael Loeb, Synapse Group president-CEO, said that channel's volume of subscriptions hit 80 million around a decade ago, or more than 25% of the industry's total subscriptions. That let publishers scale back on other sources—like direct mail, which required constant tinkering and faced increasing paper and postage prices anyway.

In the '90s, AFP and PCH allowed publishers to keep circulation high without much effort, and they reaped advertising based on big audiences. Perhaps those rate bases were a bit bigger than a rational market might dictate, but it was easy to nab more subs from the stampsheets whenever they were needed.

And these easy subs changed magazines' revenue mix. Data-crunching by the Magazine Publishers of America based on ad revenue, which its Publishers Information Bureau tracks, and circulation numbers from the Audit Bureau of Circulations finds a marked drop in circulation's slice of the revenue pie. According to MPA, circulation accounted for 37.7% of magazine revenue in 2002, down from 53% in 1992. (This is admittedly an inexact science, as all the ABC-audited titles aren't audited by PIB, but nevertheless presents the broadest universe of magazine numbers available.)

Now let's return to 2002. According to Mr. Loeb's presentation, the stampsheet players' volume totaled just 7 million that year, after taking hits at the end of the century from legal actions. This happened while consolidation of magazine wholesalers and changes in the retail landscape put newsstand sales under severe pressure, which accelerated declines.

In 2001, an ad recession began a years-long clampdown. Belt-tightening procurement procedures came to marketing in a big way; media buyers were forced to justify anew each dollar spent on advertising.

A new wave of marketers and media buyers grew adept at reading the fine print of magazine circulation statements—which, starting in 2001, required greater detail from publishers in exchange for broader rules on what circulation could be counted as "paid." Magazine publishers were left with oversized rate bases, no easy means to fill them and no upside on the ad front.

This brings us to 2004. An ad recovery remains just out of reach. On the circulation side, the first half of 2003 left many publishing executives wincing. And then the second-half numbers came in.

HORRIBLE NUMBERS

"The most horrible set of numbers I've ever seen, and I've been tracking [circulation] for 25 years," says Dan Capell, editor of the industry newsletter *Capell's Circulation Report*. "Seventy percent of magazines were down in newsstand sales," Mr. Capell says, adding that it was the largest drop-off he'd seen by at least 10 percentage points.

The push toward do-not-call legislation threatens significant volume of subscriptions sold through that channel. And while it appears to be an isolated case, the testimony of a former Gruner & Jahr USA Publishing circulation executive that the company knowingly overstated newsstand sales of *Rosie* did little to inspire faith.

The current circulation model "is broken, for publishers and advertisers," says Karen Jacobs, exec VP-print at Publicis Groupe's Starcom MediaVest Group, Chicago. "Circulation directors get focused on delivering the wrong goals. By that I mean the publisher goes out and makes a rate-base promise and then the circulation director has to deliver, no matter what it takes, because God forbid they underdeliver."

So what's the way out? Nothing that's simple or easy. There is no one silver bullet to magazines' circulation woes. There is, also, no cheap way to do it. The solutions involve arduous trial and error among several options.

There's the Web, though publishers admit it hasn't lived up to its high expectations.

There are promotional strategies on the newsstand side, which are expensive. Some publishers are investigating alternate placement of magazines in non-traditional retail locations, though this is more of a niche-player move.

See **OVERVIEW** on Page **S-10**

SCOTT GRIES

ALL ABOUT WANTEDNESS

DONNA CAMPANELLA
Director-team leader, media, at Pfizer

"WE DO AN ANNUAL print meeting with all of our magazine reps. I said to them, 'If you have any issues or you consider bringing [circulation] down, don't be afraid to let us know. We are more interested in quality, and if that's the right thing to do, then fine with us.'

"We look at wantedness. Everything is wantedness. How do people want [the magazine], and what are they willing to do to get it? We like to see, first of all, that a magazine achieved rate base. But then more important is [whether a magazine made rate base] issue by issue. Because we may have some brands that are in some [magazines] across the year. It doesn't help if overall the magazine is delivering but we see huge variables in months that we are advertising.

"Big is not what it used to be anymore. Think about it: When magazines had huge circulations, there were three networks and 50% shares [of TV audience for key programs]. Just like fragmentation in the TV industry, there are so many special-interest publications. Smaller circulation is not a bad thing. And large isn't bad as long as it's targeted and as long as it's delivering audience."

HIGH PRICE TO PAY

HOW BADLY do they want it?

In theory, "wantedness" is marketers' Holy Grail of reader accountability. And many say the best way to measure it currently is by average price paid for subscriptions.

"It's not the total story," says Michael Browner, executive director-media and marketing operations at General Motors Corp. "But it's the easiest thing to measure right now."

A mere mention of "wantedness" rarely fails to evoke heated comments from magazine executives. But a better way of knocking down its value is to point out, as some publishers do, that the "average price paid" statistic can be manipulated fairly easily and in ways that bring in the least desirable readers of all.

If a publisher wants to jack up average subscription price, the fastest way to do it is to opt for a quick call to what are called "cash field agents," who supply subscriptions for a price—albeit with no guarantees of where those readers are or what they may do to a magazine's demographics. Renewal rates of such subscriptions are virtually non-existent.

ANOTHER MEANS: stop selling long-term subscriptions, which often involve getting extra years at a slightly discounted rate. Or sell eight copies, rather than 12, for a year's subscription price. Both techniques ultimately drive up average price paid. They also significantly increase circulation costs, executives say.

The first wave of a multiyear study, released last October by the Magazine Publishers of America, found no correlation between price paid and reader involvement. The research, called the "Reader Experience Study" and conducted by Northwestern University, has thus far elicited a wary response from many advertisers. They're reserving judgment until more detailed data covering specific magazine categories are released.

Still, some media buyers are stepping back from linking wantedness to the average-price-paid figure.

"We do not spend a whole lot of time with average price paid. We haven't found it to be, yet, a really useful thing to look at," says Karen Jacobs, exec VP-print at Publicis Groupe's Starcom MediaVest Group, Chicago.

BUT A MORE jaundiced view is espoused by Robin Steinberg, who buys for Pfizer as VP-director of print at Aegis Group's Carat North America, New York: "How are we supposed to evaluate wantedness when a consumer's annual subscription can be purchased for less than a CD or a movie ticket?"

—JON FINE

Time's tactics show a way out

Initiatives such as sharp marketing partnerships, sampling put publisher 'in a different game'

By JENNA SCHNUER

BRIAN WOLFE CAN'T understand why many publishers view circulation as, at best, a break-even proposition rather than a potential revenue source.

At Time Warner's Time Inc., where Mr. Wolfe is president of Time Consumer Marketing, circulation is practically a religion. TCM has 350 staffers and "we are counted on to provide a substantial amount of revenues and profits," he says. While Mr. Wolfe wouldn't cite a specific number, he says his division contributes between 40% and 60% of Time Inc.'s profits.

While Mr. Wolfe doesn't pretend to have hard-core solutions to all the magazine industry's ills and he readily admits that some initiatives didn't hit as big as he'd originally hoped, he strongly believes that pushing ahead with new circulation strategies is one of the best ways to counter the "big body blows" the industry has taken.

Current Time Inc. circulation initiatives include marketing partnerships, free-to-paid offers, continuous subscriptions and combination sales.

"They take it much more seriously. They almost play in a different game," says Chip Block, vice chairman of USAPubs, a direct marketing company specializing in magazine subscription sales.

Time Inc.'s circ focus comes from the top down. The company's executive ranks are loaded with consumer marketing types. Mr. Wolfe and his predecessors, including his direct supervisor, Exec VP John Squires, "tend to be smart and risk takers. They're willing to gamble and try new things," says Dan Capell, editor of *Capell's Circulation Report.*

One of TCM's trademarks is aggressive testing of circulation initiatives. "A key to what we do is we have a test and learn culture," says Mr. Wolfe.

The other key for Time Inc., the world's largest magazine publisher, is the company's scale. "A lot of what they [are able to] do is because of their bigness, their staffing," Mr. Capell says. TCM hires go through extensive circulation training, including an overview course taught by Mr. Capell.

While Time Inc. has long been viewed as one of the industry leaders on the circulation innovation front, the company has ratcheted up its efforts since the stampsheets were licked. Mr. Wolfe declines to quantify the loss from the demise of stampsheets, which garnered large amounts of cheap subscriptions. However, Mr. Capell says that in the mid-1990s, stampsheets provided about 25% of new subscriptions across the magazine industry. As for Time Inc. making up the overall stampsheet losses, Mr. Wolfe says, "I'm not sure we've made up 100 %, but we're close."

CIRCULATION SAMPLER

Time Inc. says it publishes more than 130 magazines. In an overall weak market, many of these titles manage to eke out gains. Below are the Time Inc. magazines that were among the top 50 titles in paid circulation for the second half of 2003, according to the Audit Bureau of Circulations. Also shown is Time Inc.'s hot *Real Simple*, which came in at No. 52.

MAGAZINE	SINGLE-COPY/ % CHNG. VS. YEAR EARLIER	SUBSCRIPTIONS/ % CHNG. VS. YEAR EARLIER	TOTAL PAID CIRCULATION/ % CHNG. VS. YEAR EARLIER
Time	165,644 / -13.0%	3,946,667 / 0.7%	4,112,311 / 0.1%
People	1,481,706 / 1.6%	2,121,409 / -2.4%	3,603,115 / -0.8%
Sports Illustrated	81,878 / -9.0%	3,128,162 / -0.9%	3,210,040 / -1.1%
Southern Living	221,747 / -12.8%	2,386,885 / 3.4%	2,608,632 / 1.8%
Parenting	44,131 / -29.8%	1,995,961 / -3.7%	2,040,092 / -4.5%
Money	97,075 / -19.3%	1,931,144 / 3.1%	2,028,219 / 1.8%
Entertainment Weekly	88,789 / -7.3%	1,703,018 / 9.8%	1,791,807 / 8.8%
In Style	911,368 / -6.2%	741,538 / 6.1%	1,652,906 / -1.1%
Cooking Light	256,182 / -10.0%	1,358,841 / 5.4%	1,615,023 / 2.6%
Teen People	443,000 / -13.5%	1,128,272 / 3.4%	1,571,272 / -2.0%
Real Simple	369,543 / 10.2%	1,130,703 / 40.4%	1,500,246 / 31.5%

Source: Audit Bureau of Circulations

MICHAEL CHENG

"We're pushing for more [retail partnerships]. The affinity has to be there and make sense. If it doesn't make sense, it's a non-starter"

—Brian Wolfe, president, Time Consumer Marketing

Mr. Wolfe says the loss of the stampsheets was a "double hit" because, along with losing the outside source of subscriptions, the same rules that killed the stampsheets put the kibosh on Time Inc.'s own sweepstakes direct mail.

SOME HICCUPS

"It took some time, and there were some hiccups," Mr. Wolfe says, but "we've done a nice job on the direct mail." The challenges included the creative development of non-sweepstakes packages and the cultivation of new lists. "It took a couple years to flesh the whole thing out," he says.

One of Time Inc.'s most successful subscription strategies is its marketing partnerships. Buy a compact disc at Best Buy and end up with an offer for *Entertainment Weekly* or *Sports Illustrated.* "We've had some success with retail partnerships in particular," Mr. Wolfe says. Other existing partnerships include Mothers Work maternity stores for *Parenting* and Musicland for *Entertainment Weekly*.

"We're pushing for more. They're very successful," says Mr. Wolfe. The deals bring in "hundreds of thousands" of new subscriptions annually. Most of the partners get a cut of each subscription sold.

Retail partnerships depend on several factors for success. "The affinity has to be there and make sense," Mr. Wolfe says. "If it doesn't make sense, it's a non-starter." The partner also needs to have stable management that supports the program. One program, with an office supplies retailer, failed because the management didn't get behind it; they flipped it out to their sales team but didn't give incentives for selling the subscriptions.

Mr. Wolfe says offering a benefit to the customer helps capture the sale. Time Inc. has put free-to-paid offers to work with great success. Developed by Synapse Group, which Time Inc. partially owns, free-to-paid offers give readers a chance to sample a magazine for a few months before the subscription is charged to a credit card.

"Free is a pretty powerful word," Mr. Wolfe notes. Synapse and in particular its president-CEO, Michael Loeb, are widely regarded as the most innovative players in the subscription sales space.

Time Inc. is also pushing ahead with continuous subscriptions, in which subs are automatically renewed on a consumer's credit card without a blizzard of renewal notices. "It's been a dream for 10 years, and [companies] have been really working on it for five," says Mr. Capell.

As the dream has become a reality, it's become clear that continuous subscriptions are not the shiny penny Mr. Wolfe once hoped they would be, but it's not too shabby either. "When we first started, we were thinking we could convert 80%-100% of our file," he says. "That's just not going to happen. Some people are just not comfortable" with continuous subscriptions. The company goal for continuous subs is now 50% of total subscriptions. Right now, they're at 20%.

GET SUBSCRIBERS EARLY

Though Mr. Wolfe originally thought business magazines would be an easy sell for continuous subscriptions, it turns out it's not what the customer reads that's key—it's who they are. Younger subscribers are more likely to sign on for the program. "It's easier when you get them from the beginning," he says.

Younger is also better for online subscriptions. Mr. Wolfe says he originally thought online sales would replace stampsheets, but that hasn't panned out. Online accounts for 5%-10% of Time Inc.'s subscriptions. "It's a nice source and it's growing," Mr. Wolfe says. The good news on the online front is that the credit card sales result in retention rates that are "quite good."

Thanks to an Audit Bureau of Circulations rule change in 2001, Mr. Wolfe has a new circ love—combination sales. When subscribers renew one title at full price, they're offered a second title for free. One example: *People* subscribers are offered *Teen People.* The idea so intrigues Mr. Wolfe that they've run 20 combination sales tests over the last year.

"It's pretty powerful over the phone," he says. The offer benefits both magazines—it's a value-add for the host and the free magazine gets a yearlong test run.

Mr. Wolfe, who's spent his 20-year career with Time Inc.—including a stint running one of the company's holdings, former sweepstakes giant American Family Publishers—is concerned for the state of the industry but says he's "bullish" about Time Inc.

One problem he's especially concerned about is that the "perceived value of a magazine is declining" with customers. Though Time Inc. has maintained higher subscription prices for its titles, some publishers continue to lower prices to drive subscription numbers up. Says Mr. Wolfe: "You and a date can go to a movie and eat popcorn and spend less than you would for two one-year subscriptions. We need to restore the value of magazines." ■

Overview

From Page S-2

Reader's Digest Association and Time Inc. cite successes via combination sales of subscriptions, though advertisers raise eyebrows at low-price offers for established titles.

Most promising—and most time-consuming—is a partnership. Some magazines are seeking out partnerships with retailers and businesses with which they share clear affinities. This, too, isn't easy, as those familiar with the tactic will testify. But there are successes across a number of companies, and for Time Inc., the numbers are starting to add up.

But that has not reached the levels that replace the subscriptions once generated by stampsheets, as even Brian Wolfe, president of Time Consumer Marketing at Time Inc., admits. Publishers must struggle with piecemeal, ground-war approaches to a complex problem—unless publishers are willing to do the simplest thing of all. "Solution No. 1 is to lower rate bases," says Tom Ryder, chairman-CEO of Reader's Digest Association and the current chairman of the MPA.

NO MAGIC IN WEB

Is an answer ever that easy? Rarely. Just ask some of the industry's top players, who once thought the Web would neatly replace the subscription deficit left by the death of the stampsheet sources.

"We at one time thought the Net would turn out to be a magic new source," says John Klingel, president-consumer magazine marketing at Reader's Digest Association. "That's not turned out to be the case."

Circulators today view Web-generated subs as a solid part of the subscription mix but a far cry from being the dominant player. John Hartig, senior VP-consumer marketing and development for Hearst Magazines, says he expects his company to notch around 1 million subscription orders from the Internet this year, up from around 800,000 in 2003. Meredith Corp. VP-Consumer Marketing Karla Jeffries says she expects a similar showing.

Encouraging numbers to be sure, but market dynamics, circulators say, mean those million orders might ultimately total 500,000 paid-for subscriptions. In 2003, subscriptions across Hearst's portfolio of titles topped 17 million in the U.S., and Meredith flagship *Better Homes & Gardens* alone carries 7.3 million subscriptions.

The average magazine with a decent Web strategy, circulators say, might reasonably expect to score about 5% of its new paid subscriptions from the Web. This figure can skew significantly higher for smaller magazines in the tech or computing arena and can rise for titles that leverage an unusually rich and relevant Web presence, like those built around enthusiast titles.

"It's working best where we have a market-dominant place, where we have brands that are very well-established," says Steve Aster, exec VP-consumer marketing at Primedia.

Circulation-savvy marketers have long accepted the Web as a source of desirable circulation, viewing it as analogous to direct mail. A few, though, express concerns about one key byproduct of Web sales that publishers favor: the continuous-service subscription, where no order is needed for the subscriber to renew and annual charges turn up on credit card statements.

"I'm not a big fan of it," says Jan Weinstein, senior VP-group media director at Interpublic Group of Cos.' Foote Cone & Belding Worldwide, New York. "The consumer should be given a yes or no choice."

A more controversial source among buyers than Web subscriptions are combination sales, in which companies bundle two or more publications in one offer. The 2001 loosening of Audit Bureau of Circulations rules governing what constitutes paid circulation—specifically, rules that previously prohibited subscriptions sold for less than half of a magazine's "basic" price—gave rise to such efforts.

Reader's Digest, according a company executive, has already netted around 150,000 paid subscriptions this way in 2004 by offering the venerable publication alongside titles belonging to its Reiman Publications unit, an ad-free portfolio of titles like *Taste of Home*. Time Inc.'s *Health*, according to its most recent circulation statements, netted more than 40,000 subscriptions in 2003 via combination sales with bigger brethren *Southern Living*, *Cooking Light* and *Time*.

The downside is that marketers are carefully scrutinizing circulation reports to watch for heavily discounted offers via this channel. "For some it actually works," said George Janson, who buys for Masterfoods USA as director of print for WPP Group's Mediaedge:cia, New York. But in some instances "the question becomes, if a magazine is testing [such circulation offers], how much do I really want to pay for?"

MIXING RIGHT COMBO OFFERS

One fruitful combination offer for *Health*, for instance, made that magazine available with a year's worth of *Southern Living* for a total price ranging from $16 to $36. The suggested price for a year of *Southern Living* is $36; the corresponding figure for *Health* is $19.97.

Offers like this inevitably raise in buyers' minds the issue of "wantedness" and its relation to the price paid for magazines—a topic of hot debate between publishers and marketers (see story on Page S-2).

One potentially intriguing wrinkle on this move, albeit one that underperformed, was making combination offers across different publishing companies. Executives at companies that tried this concede such offers rarely worked. Buried, for instance, deep in the ABC audit for the year ended June 30, 2002, is a note saying that combination offers with *Reader's Digest* netted Meredith's *Better Homes & Gardens* just under 6,000 subscriptions. This is but a drop in the bucket for two titles that then claimed a combined circulation just shy of 20 million.

A magazine might do better than that by pumping up newsstand numbers via in-store promotions and serious study of sales patterns in that venue. The newsstand remains brutally challenging for virtually every magazine not named *Real Simple*, *O* or *Us Weekly*. One attempt to stem this tide would be to hire Bonnie Fuller. (But the newsstand numbers for her *Star* indicate even this isn't fail-safe.)

GOING STORE-BY-STORE

Others, like Hearst's Mr. Hartig, talk about going store-by-store to key newsstand locations to see how rejiggering pockets and placement can goose sales. "Cracking the code there requires some fairly detailed analytical work," he says.

Peter Armour, senior VP-consumer marketing for Advance Magazine Group, speaks of seeing double-digit spikes in newsstand sales at Wal-Mart Stores, where its bridal magazines were placed in the key non-checkout store location called the "power alley."

Seen in this light, the brewing Time Inc. magazine project with Wal-Mart-only distribution is a novel approach to steady newsstand promotion.

A less ambitious strategy comes from simply seeking different placements for magazines in retail environments. "What we've done is place magazines where non-traditional traffic goes" in addition to traditional locations, Mr. Aster says. So at sporting goods stores Primedia will place its gun titles at checkout but also near hunting equipment. He cites sales lifts of "30% and up" thanks to this method.

More broadly, newsstand promotions may be limited by retailers' desire to focus on higher-margin and pricier items. "I understand where magazines fit into the pecking order," says Mr. Aster. "They're really important to Steve Aster. For the retailers, they're a convenient impulse buy."

What works better in partnering with retailers are broader marketing initiatives that go beyond seeking to boost newsstand sales. Key examples, perhaps unsurprisingly, come from the two biggest magazine companies.

Time Inc. is the unquestioned industry leader in this space (see story on Page S-6). At Conde Nast Publications, shopping title *Lucky* started a partnership with shopping channel QVC near the end of last year, and this linkup has already paid off in significant subscription volume.

"We provide them with content and on-air support"—via appearances by Special Projects Editor Meredith Barnett—which nets *Lucky* "access to customers" both through the channel and its database, says Conde Nast CEO Charles Townsend. There's also a special edition sent to subscribers who come in via QVC, featuring special "*Lucky* Shops QVC" sections. Insiders

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GLENN TRIEST

AUTO REPLY

MICHAEL BROWNER

Executive director-media and marketing operations at General Motors Corp. and the chairman of the Audit Bureau of Circulations

"THE CIRCULATION MODEL isn't broken. It's bent a little, but it isn't broke. The parts of the model getting a lot of press, which we too watch, are the parts of circulation where consumers receive the [magazine] without making the financial commitment they make via a traditional year or two-year subscription.

"The magazine publishing industry looks for increasingly creative ways to put magazines into the hands of people. Sometimes, [it's] into the hands of attractive people in ways that our research tells us are pretty effective. But sometimes it's in ways that concern us. In those cases, I and my media team talk directly with the publications, and we come to a meeting of the minds about the total valuation we put on the publication, taking into consideration the different types of circulation they have on their books. That does not mean we automatically discount anything.

"WHEN [MAGAZINES] are going to offer up circulation in some of the newer or less traditional methods, I think what they need to do is disclose the details of that circulation very thoroughly, very fully. They need to subject it to audit by ABC, and they need to be prepared to explain to us why we should think that's good circulation. The burden, in my opinion, falls to them to explain why it is attractive. In some cases, they can do a very effective job, in which case we accept it. Sometimes they don't, and we downgrade or reject [it].

"If [magazines] have some circulation that advertisers don't find attractive, and they don't find profitable, and they make a business decision to get rid of it—I am very supportive."

Beating up on paid circ model

Expert asks titles to stop selling space, start selling marketing solutions

By CHIP BLOCK

SCOTT GRIES

CHIP BLOCK: Circulation expert believes publishers need to learn how to profit from the multiplatform world.

Is paid circulation dead?

I posed this question in the November 2001 issue of *Circulation Management.* Since then, I have seen no evidence to weaken my belief that the paid circulation model for magazines is dying.

Total retail sales of magazines continue to decline, both in units and revenue. The expense of marketing subscriptions continues to rise and margins fall. I don't know a single circulation practitioner who would claim that circulation margins for the industry as a whole have done anything but decline over the last decade.

You may think I'm crazy for questioning the viability of products that generate more than $10 billion from consumers. However, if it costs publishers more than $9 billion in marketing expense to generate that revenue before product costs, you do have to question that viability, especially since that expense is increasing at a faster rate than the revenue.

If you recognize these facts, the next question is "Why?"

Some in the industry would say it's because we've taught consumers that magazines shouldn't cost very much and that we've relied too much on sales gimmicks such as sweepstakes to promote subscription sales.

While there is some truth to this, it's far too simplistic to chalk up response declines and consumer price resistance to these practices alone. The current paid circulation picture is being shaped by several far-reaching and unprecedented factors. And, far from being passing trends, these factors will have an increasingly pronounced impact in the years ahead.

The most fundamental of these is a major shift in consumer attitudes about paying for advertiser-sponsored content. Consumers have been receiving free, advertiser-supported content through network TV and radio for decades, and they're now accustomed to getting virtually any information that they need or want "free" from the Internet—also an advertising-sponsored medium.

Yes, they're paying a service provider for access to Internet content. And many are paying for access to cable TV. But the perceptual dynamic of paying a monthly charge for a wide variety of content is different from the one at play in being asked to make direct payment for specific content, such as a TV program, an ad-supported basic cable channel or a single publication.

CONDITIONED TO GET FREE CONTENT

Now, I don't believe that people consciously say to themselves, "I'm not going to pay for advertiser-sponsored content." But I do believe that they have been conditioned to get such content free or for a nominal price. Aside from a few newspapers, paid publications are the only advertiser-supported national media that now ask people to make direct payment for content.

If you doubt my premise, ask yourself what would happen if the producers of "Friends" required viewers to subscribe for $1 per episode. I submit that instead of enjoying an audience of many millions, it would dwindle to a few million or even less. Or if a basic cable channel such as ESPN charged $20 per year for a subscription, how many people would subscribe? On the other hand, there does not seem to be a problem in charging for ad-free premium channels such as HBO.

I am certainly not opposed to advertiser-sponsored content—that would practically be un-American! I am merely making an observation based on what seems to be overwhelming empirical evidence. Just last month, for example, Chairman-CEO Terry Semel floated the idea that Yahoo! might establish premium services free of advertising. And Chris Kimball, publisher-editor of Boston Common Press' *Cook's Illustrated*, is successfully charging readers top dollar for his publications that are ad-free.

Another major factor making the paid circulation model problematic is the competition for time and consumer dollars posed by new media. When we ponder the decline in newsstand sales of the teen girl category, we should consider the usual structural reasons, but also realize that in the Internet, DVDs, cell phones, MP3s and other new media, girls might be finding other ways to spend their time and money than on magazines.

Exacerbating these factors are others:

- An antiquated, inefficient retail sales system.
- Increased competition, costs and regulation for direct marketing, the major channel of subscription sales.
- Industry-imposed scrutiny of circulation sales practices, which has impeded the ability to find new, creative sources of subscriptions.

Having said all this, I'm a great believer in the utility and value of print. If the Internet had been around for 500 years and someone just invented the printing press, we'd all be talking about this valuable, highly functional new medium called print that is going to transform the way people receive and use information.

Do people still read and enjoy magazines?

Of course. Then, what are the implications for publishers and advertisers if my premise is correct?

First, if the consumer continues to value magazines but is less willing to pay directly for ad-supported content, we must develop new ways of generating consumer revenue. For example, an "ISP" for magazines that would charge a monthly fee to the consumer for a variety of magazines and replace the tired old subscription model.

Second, while publishers understand that we live in a multiplatform world, too few understand that our customers want to receive information and entertainment in a wide variety of ways. Publishers need to cater to that and find ways to profit by it. We are content-providers, and print is only one of many media in which to present it. We need to think of media beyond the printed page as more than "brand extensions" or a chance to create a little ancillary income.

TURN CUSTOMERS INTO READERS

Third, more publishers should stop selling space and start selling marketing solutions for our advertisers. Most advertisers now have Web sites, databases and participate in some form of direct marketing. We can help ourselves in creating new readers for magazines by turning our advertisers' customers into our readers. In fact, I'd like to ban the word "advertiser" and replace it with "strategic partner."

Fourth, advertisers, rather than quibbling over the meaning of circulation statistics and frothing at the mouth over "wantedness," should question the current publishing model because every year, more and more of advertiser dollars are required to subsidize the cost of publishing. In continuing to place a premium on what pink sheets say, advertisers are abetting an antiquated business model.

If you ask me whether I am an optimist or pessimist, my answer is simple: I am optimistic about the future of magazines as a medium, but I know that the publishing model that has served publishers and advertisers so well for so long is soon going to be as extinct as the buggy whip. ■

Mr. Block is vice chairman and co-founder of USAPubs, a direct marketing company specializing in magazine subscription sales. His wide-ranging career of more than 30 years in publishing includes being president-consumer marketing at Petersen Publishing.

Overview

From Page S-10

claim this partnership has already gotten *Lucky* "tens of thousands" of subscription orders.

Partnerships like this may not come cheap, though Conde Nast executives wouldn't discuss how or whether money changes hands in such a deal. "Some savvier partners now want to get paid a lot of money," says Marti Schiff, who works on partnerships through her New York-based company, Strategic Media.

These deals "might completely be about building programs for each other. They may be about money changing hands, too," says Steve Sachs, Time Inc.'s VP-consumer marketing. Mr. Sachs has assembled a number of these partnerships for *Real Simple* with the likes of Pottery Barn and the Container Store.

At the latter retailer, with which *Real Simple* just began the second year of a joint program, Mr. Sachs says *Real Simple* is the sole magazine for sale in the company's stores, and it appears at each checkout counter. "They feature us in their catalog," he says, "and they have marketed us to their customers of other channels" like the company's Web site. Benefits for the Container Store include getting its catalog polybagged with subscribers' copies of *Real Simple*, as well as access to the magazine's database.

MUCH MORE TARGETED

More than any other new source, marketers nod in approval at such partnerships. "I go into a Container Store and see *Real Simple* brochures. What a perfect place," says Starcom's Ms. Jacobs. "How much more targeted can you get?"

The downsides are simple: time, effort and money. As circulators bemoan, tough times in the industry have led to cuts in circulation departments, and such deals can't be assembled without staffing sufficient to shepherd them to fruition.

There are also issues of competition, as Ms. Schiff's comment suggests. The real estate in targeted arenas, be they upselling opportunities at the end of a Ticketmaster phone order or space at retailers' front ends, is extremely desirable to potential partners.

"The sales cycle is very long. Sometimes six months or even a year," says Mr. Sachs. "For every 100 potential clients, you're going to have a really low number" that end up signing on. Nor are they huge. Mr. Sachs says that such deals might account for 5% to 10% of new subscription starts in a given year. But a few of those for a magazine add up.

The key, Mr. Sachs says, is "not to look for the silver bullet. Look for a number of smaller sources that are still significant enough so that, when you add them together, they have enough scale to become what the silver bullet might have been."

Then again, perhaps the best approach is the most radical. Think smaller.

If publishers broadly embraced rate base cuts, says Mr. Ryder, it would "take price pressure off the industry. People can begin to charge fair prices again ... They can create a more economical enterprise, charge less in absolute dollars but slightly more in the unit terms because the quality is higher. And you've got a better world."

But there's enormous institutional ego at stake in not cutting rate bases, only some of which stems from the conditioning publishers received from the market in the '90s: bulk up circ, fatten ad revenues, use ad dollars to underwrite more rate base expansion, repeat.

Now, though, those ad dollars are long gone, and media buyers aren't shy about expressing displeasure over paying freight they feel should be borne by consumers.

"I have said this many times: Magazines cannot rely on advertisers to support them," says Robin Steinberg, VP-director of print at Aegis Group's Carat North America, New York. "Consumers have to take a little more of the responsibility."

CUTS NOT SIGN OF WEAKNESS

Some key marketers now say they won't view rate base cuts as a sign of weakness—and one even implicitly accepts part of the blame for creating the current system. "I'd like to see a magazine with a million passionate readers" rather than "a magazine with a million passionate readers and a million who couldn't care less," says Michael Browner, General Motors Corp.'s executive director-media and marketing operations, and the current ABC board chairman. "In some cases, advertisers and agencies can be held partially to blame at least for creating an environment where magazines think they have to be bigger than their natural circulation."

Veteran circulators, though, question how much elasticity there is in the current consumer pricing model (see essay on Page S-12). And some marketers make clear they're rarely thrilled to see rate base cuts.

"If [magazines] start taking rate bases down, that's when audit statements become that much more critical," says Matthew Spahn, director of media planning for Sears, Roebuck & Co., adding that such moves raise simple concerns: "What am I paying for?"

Nevertheless, several marketing executives praised *The Atlantic Monthly*, which just cut its rate base 27.8% to 325,000 and plans to double its average subscription price to $30. The wisdom of that move will be tested later this year, when ABC reports consumer response. And observers will then see if advertisers have stayed with the product despite the rate base cut.

The circulation landscape of the future will be significantly reshaped as magazines mix and match among the options noted. Or, rather, it could be. What's still unknown is whether magazines have the courage to attempt the more gutsy and ambitious moves, and whether marketers will have the honor not to punish magazines for attempting the bold changes they claim to support. ■

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SUSTAINED VALUE

MATTHEW SPAHN
Director-media planning at Sears, Roebuck & Co.

"AS A RETAILER, we get concerned when we see a lot of pass-along readers outside of the home. A retailer has to be time-sensitive in terms of offers we're putting out there. By the time [a magazine is] passed through the doctor's office to the eighth [or] 15th reader, it's probably not as valuable.

"We aren't trying to limit publications' ability to market themselves. We're not saying they shouldn't come up with unique marketing programs that can grow circulation. It's how you qualify that in terms of paid circulation and how is that reported. [It's] critical that what they do that might be non-traditional is reflected correctly and accurately and understood: Paid at what price?

"IDEALLY, IT'S ABOUT more than just circulation. It's about audience. And I think one of the issues, frankly, with magazine audience measurements is, unlike TV, it doesn't have a passive technology to measure it. It's a survey. And one of the concerns I have is that oftentimes when the survey is conducted is not when [respondents] are consuming the medium. As far as what the [measurement] device is, that's for the industry to figure out. There's a lot of new technology out there."

Flexibility constantly tests Black

Hearst president adapts to changing circulation, advertising environment

CATHLEEN BLACK: Battles with newspapers and TV for share of the market.

CIRCULATION IS only half of it. Magazines continue to reel from a sustained ad downturn. All this makes it a fine time to hear the state of the industry from Hearst Magazines President Cathleen Black, whose publishing career spans both newspapers (including a stint as publisher of *USA Today)* and magazines. *Advertising Age's* Jon Fine discussed the challenges her company and magazines face. (For the full text of this interview go to **AdAge.com at QwikFIND aap45c**.)

ADVERTISING AGE: *Magazines had a disappointing fourth quarter 2003 and first quarter 2004, advertising-wise. Why?*
CATHLEEN BLACK: We've talked about this internally a million times. A lot of advertisers just haven't felt steady confidence about their own businesses. And advertising budgets are cash expenditures, and I think they have sat on it wherever they could. If they felt just a little bit unsteady, or if they're publicly held and have to go face Wall Street, it's an easy place to find tens of millions of dollars.

AA: *At the same time, newspapers—your old stomping grounds—seem to be turning around a little quicker.*
MS. BLACK: Well, [newspapers are] very immediate. It's tomorrow. When [retailers] know they didn't do well on a weekend, they can turn something around in 48 hours. An automotive dealer can run an ad in a couple of days. Although at magazines we joke and say that "Now we never close." I mean we really do roll from one closing to another.

AA: *What are the ramifications for this just-in-time media buying on magazines?*
MS. BLACK: Every magazine publisher would tell you that the amount of change going into what used to be thought of as an official closing date for a magazine is incredibly flexible. Our editors [are] shaking their heads. You know, 20 pages can come in, 20 pages can go out, and they're not all the same 20 pages. Everyone's got to do a lot of adjusting.

AA: *Since you came to Hearst in 1996, how have magazines' place in the media culture changed?*
MS. BLACK: Magazines have to fight harder. But I was in the newspaper business for 12 or 13 years, when every headline was "Would anybody ever read a newspaper anymore?" When I was at magazines and cable first came out, [people] said, "Oh, my God, cable will put magazines out of business."

But there is no question that there's a lot of product out there. You need only to walk by some newsstands to realize that. It's one reason that we were very interested in launching a *Lifetime* magazine, because we figured we could have the halo of the Lifetime [cable] brand, it was going to be important today.

AA: *So is there something you think that hasn't been communicated to marketers?*
MS. BLACK: We're always asked to prove the effectiveness of print, I think in a different way than if you look at the television numbers, I mean, it's amazing that advertisers are still willing to pay higher prices, you know, $2.5 million for commercials [on the Super Bowl], and half of them bombed. What did the $2.5 million get them?

AA: *Well, we're still talking about them.*
MS. BLACK: But if you went out to the consumer, they may name one or two, and they forget all of the rest of them. We need to do a stronger and better job of continually showing why the combination of television and magazine advertising is the most effective buy. The data are there.

Am I going to tell you that that's an easy sell to an advertiser who's totally sold on television? No. But look at the fashion community. Look at the beauty business. They have by and large built their brands on the effectiveness and that continuity and consistency of their message [in print].

It's really compelling, the experience that one has in sitting down and reading a magazine in one sitting or multiple sittings. All you need to do is get 10 people and to have them talk about their TiVos. I suppose advertisers in television behind closed doors are trying to sit and think through what is the impact of TiVo going to be. Anybody I know that's got TiVo is like an evangelist: "I can't believe you don't have it yet. You've got to. You'll be able to look at any program in 22 minutes."

AA: *One way the marketers are dealing with TiVo is product placement. Is there any comparable mechanism for magazines?*
MS. BLACK: Our response to that is being able to create event-type marketing; you know, working with the marketer to do something in-store, or something that's in the magazine that is a completely created product. The sales side of broadcasting, I don't believe by and large, has ever had to do most of this.

AA: *We've seen the rise of one magazine—Conde Nast Publications'* Lucky*—that, in the eyes of some, blurs the line between ads and editorial in ways they find distressing. How significant are such concerns with regard to Hearst's upcoming shopping title,* Shop Etc.*?*
MS. BLACK: They are not significant. We are looking at *Shop Etc.* from a completely different point of view. We are saying, "This is not a magazine about readers. It is for shoppers." The more interactive we can make it, the more it's a useful tool for the shopper.

What [the American Society of Magazine Editors] wants—and what their rules are—are irrelevant to *Shop Etc.*

AA: *Don Logan, chairman of Time Warner's Media & Communications Group, told* Ad Age *late last year Time Inc. would launch, or at least test, several new magazines in 2004. How about you?*
MS. BLACK: We've got some stuff in the petri dish but nothing that we're going to be public about at this point. We want to make sure our shopping magazine is off on its right legs and looking good. But I'd love to be putting something out in 2005.

AA: *You recently changed the top editor at* Lifetime, *and I get the sense from talking to advertisers that there was some confusion ...*
MS. BLACK: Right.

AA: *Where should* Lifetime *magazine be?*
MS. BLACK: What we need to do, even more, in the pages of the magazine is we have to make that experience, that connectivity, that sort of "girl friend-liness" of the television network come real in the ways to the reader. We want it to be packaged and presented in an even prettier, more open, more contemporary-looking format. What we don't want to do is have another magazine in the traditional women's magazine. We wanted to break out of that category and be seen more in the newer lifestyle magazines.

AA: *Like Time Inc.'s* Real Simple?
MS. BLACK: Right, that's the look. I don't think *Lifetime* was well-executed enough. We were a little women's service and a little lifestyle, and we want to go more toward the newer women's lifestyle. The taste level of women has really been raised. They expected to be treated in a certain fashion.

AA: *Last year, a lot of big magazines all seemed to be taken by surprise by weak newsstand sales. Is this trend continuing?*
MS. BLACK: Trying to put it in a nutshell, whether people will return to the newsstand in the ways that have been bankable—I would suggest that it's unknown. On the other hand, [Hearst's] *Oprah* magazine is averaging 950,000 copies a month. It's over a 40% increase over the year before. [Hearst's] *Cosmo* has reached 1.9 million, 2 million copies [on the newsstand], so it's able to sell. You've got a lot of just different things going on, and a tough economy.

AA: *Some of the more prestigious titles that took serious hits at the newsstand included Hearst's* Good Housekeeping *and* Redbook.
MS. BLACK: I don't think it's the product at all. There are times when the cover or the coverlines just miss. Sometimes a celebrity falls out at the last possible second or their movie gets moved. And you can't get the celebrity you want. This goes on all the time. The people responsible for getting cover celebrities, they'll be bald in three months because they are pulling their hair out.

AA: *Can you stop using celebrities on the cover?*
MS. BLACK: We talk about this internally constantly. The answer is we don't know. We are in the world of celebrity-everything and one would like to imagine it will run its course. But your guess is probably as good as mine as to when the winds begin to shift.

AA: *You tested last year a non-celebrity cover for* Good Housekeeping, *a pumpkin for the Halloween issue.*
MS. BLACK: It did very well. *Country Living* had never put a food picture on the cover, and around the same time they put this gorgeous layered cake on the cover. It was one of the best-selling issues of the year. Once in a while [you] can really strike the exact right note. [But] if you look back to what [Conde Nast's] *Vogue* started three, four years ago, with maybe one or two issues with a celebrity on the cover. And practically overnight, there's a celebrity on every cover. The models didn't sell.

AA: *Are magazine brands transitioning to a time in which key titles, once established, are less annuities than more perishable products?*
MS. BLACK: There are magazines tied to celebrity personas. They're on the cover every month. I don't think we've moved off our belief that investing in a brand over a period of time will bring more resonance, and have a stronger ad and reader franchise over a period of time. Look at *Cosmo*. Now, it's an international franchise [and spawned *CosmoGirl*]. I don't think we've seen yet that the momentary hit has that kind of staying power.

AA: *You've mentioned the level of details marketers want from magazine circulation, and you've likened what they wanted to being like Coca-Cola telling Pepsi about marketing strategies.*
MS. BLACK: You've got it exactly right. But it really is about the changes that marketers want on the [Audit Bureau of Circulations] statement, which we would suggest is far too demanding. It's like saying, "How do you do it and what do you do and what are your pricing strategies?" Circulation is a lot about pricing strategies, what we—or Coca-Cola or Pepsi—would call sampling. We need to put our copies into the hands of potential readers.

AA: Good Housekeeping *Editor in Chief Ellen Levine says you have a motto in your company: "It's better to beg for forgiveness than ask for permission."*
MS. BLACK: Only for me. They can't do it. ■