THE·NEW·SINGLE·COPY

A NEWSLETTER ABOUT PUBLISHING AND PUBLISHING DISTRIBUTION
www.nscopy.com

March 19, 2007
Volume XI, # 32

Editor: John Harrington *Associate Editor: Eileen Harrington*

2006: A Strange Year. The Problems Are Not With the Sales, but With the Distribution Channel

By most broad measures, magazine retail sales improved in 2006. Still many observers are quick to dismiss the positive numbers as irrelevant and claim they camouflage a desperate sales environment. However, newsstand history demonstrates that overall numbers have always been skewed by the performance of a handful of magazines, in fact probably more so than they were in 2006. Of greater concern should be the long festering problems of the mass market magazine distribution channel.

As much as we are able to document them (see note at end of this article), these are the facts about magazine newsstand performance in recent years:

- Unit sales for all titles - audited and non-audited - increased 1.5% in 2006, and for the first time the unit rate of growth was greater than that for total retail dollars. This was the third year in a row and the fourth time in five that unit sales did rise, although in the other years, the increase was less than a single point.
- For audited magazines, which regularly account for about 65% of magazine retail dollars, total annual sales also rose, although by a miniscule 0.2%. The unit growth also outpaced the dollar rise, which was an even more miniscule 0.1%. It was the second straight year that audited title units were up, after more than a decade of substantial declines.
- The sell-through rate at retail "improved" in 2006, rising to 36.2% from 35.1% the previous year. It has risen each year since 2003, when it bottomed out at 33.3%. However, remember that as late as 1996, the figure was over 40%, and ten years before that it was over 50%.

We are confident in saying that these are the facts of recent newsstand performance. However, our certainty wavers when we discuss what the facts mean.

Where Did the Growth Come From? Obviously, the growth has been generated by the expansion and success of the weekly celebrity-focused titles. Three that have been introduced in the last five years are among top 10 newsstand revenue producers. That list is headed by *People* and *Us,* both of which have steadily grown despite aggressive competition. Another celeb magazine, two tabloids, and a woman's service title are also weeklies, and the make up the rest of the top ten list, but all of them lost unit sales last year. The only non-weekly on the list, *Cosmopolitan,* also slipped a little, even though its nearly 2 million units-per-issue and 67% sell-through are the industry's best numbers. Yes, the celebrity titles drove the growth, but still five of the top ten magazines lost units last year. Further, sales of the top 25 newsstand players were off by a fraction, while the performance of those ranked 26 to 100 rose 4.6%.

Did Low Cover Prices Drive the Growth? Three of the new and successful celebrity magazines had cover prices below $2.00, a level that most publishers passed by years earlier. *Woman's World,* sixth in total revenues, charges $1.49, and has for five years. Yet, *People* and *Us,* with their steady growth, are priced at $3.49 and higher. Our regular review of price increases and performance has consistently found that a third of magazines improved their units when increasing prices. More significantly, reasonable levels of price rises did not change a magazine's sales trend (a title trending down continued to lose sale at the same rate, growing titles continued to gain). However, something different may be happening here. Traditionally, publishers have not trumpeted their cover prices, tucking them away near the barcode or elsewhere among the fine print. Most of the under $2.00 magazines announce their

(Continued on page 2)

2006: A Strange Year (cont.)

bargain prices in a star-burst, or something similar. When they move the price up, which logic assumes they must someday, will they suffer? At least one of them is going to find out very soon, because they have already gone to $2.49. The question that is harder to answer is, did they have to take the low-price route in the first place?

What Does It All Mean? The preceding two questions imply that while newsstand sales have risen in each of the past three years, the growth of a single category, celebrity, and low cover prices, are masking a generally depressed marketplace. Without being a Pollyanna, you can make a reasonable argument that, for most magazines, success on the newsstand is as achievable as it was, say, 20 years ago. In 1987, annual retail unit sales were 2.192 billion, which means that they have fallen nearly 34% since then. That same year, 15 magazines averaged over 1 million units-per-issue. In fact, one magazine, *TV Guide's* sales were 8.3 million. Two others were selling around 5 million, two more over 3 million, and another two were better than 2 million. Last year, only five averaged more than 1 million newsstand units-per-issue, and not one of them exceeded 2 million. However, for the rest of the magazine publishing world, the environment has not changed that much. In 1987, 116 titles averaged more than 100,000 single copy sales, and in 2006, the number was 108. At the 50,000 level: 1987, 179 publications; last year, 177. Almost all of the business's losses over nearly two decades have come at the expense of a few very large sellers. And, the reasons for the massive declines of those titles are sociological and not failings of the newsstand. For the vast majority, the opportunities for achievement are about the same.

Certainly there are a host of other issues that make newsstand more difficult than it was in the past. Still the improved unit sales of the past three years are real, and it is disingenuous to brush them off as aberrational.

Can the Distribution System Survive? The minor sales growth of the past three years should demonstrate that newsstand sales, viewed as products, are still viable. Convinced of their viability, hopefully the players in the magazine distribution channel will now begin, in an aggressive fashion, to deal with its many serious problems. For more than ten years, the channel has floundered along, dealing with an economically fragile wholesaler level. Some minor adjustments have been enacted by publishers and national distributors. However, broadly speaking, the attitude seems to be that if the channel has managed to survive this past decade or so, despite acknowledged problems, then it will probably continue to do so. That is not exactly a comforting long-term strategy.

Over the last two years, the footprint of magazine wholesaling changed considerably. Through a series of a acquisitions, The Source Interlink Companies evolved from being a direct distributor, utilizing third-party delivery services, to becoming one of the leading traditional format wholesalers, primarily using their own vehicles. Two other companies, Anderson News and The News Group, while remaining competitors for retail contracts, formed two joint logistics companies, ProLogix, East and West, to provide warehousing, delivery, merchandising, and return services in some of the market areas where they operate. With its new shape, Source Interlink found that the economics of traditional wholesaling were as damaged as its competitors had been claiming and added their now-considerable voice to the call for some forms of change in the terms offered by publishers and national distributors. The ProLogix experience, while still promising, has apparently made the partners even more convinced that, overall, the terms they receive from suppliers do not support a viable distribution system. Both Anderson and The News Group have initiated aggressive sales efficiency programs, that many publishers fear are not in their best interests. However, the wholesalers insist they have to take action if they want to survive any longer.

Although some publishers and their national distributors, notably Comag and Time Warner, have been working on improving efficiencies, there is a general sense that many publishers have come to accept lower sell-through figures as part of their operation. Too often, improved flow of data from retailers and wholesalers is used primarily to target new sales opportunities and only secondarily to eliminate returns. Most wholesalers feel they have the capability of improving sales and, also, improving sell-throughs. They also are convinced that, financially, they must do it, or not survive.

The anomaly of seeing unit sales grow faster than dollar sales is strange for the entire industry, but for wholesalers it means their costs are growing more than their revenue. They are distressed by low-cover prices, particularly on high volume titles, insisting that it is impossible to make a profit on them, no matter how many sales they create.

In fairness, leaders of major publishers and national distributors acknowledge that these are real problems and they are trying to work on them. They also recognize that the long-term strains on the distribution channel may be reaching a critical point. The question is can they solve them now, when they have not been able to during the past ten years?

Notes on Data: Total magazine sales are essentially based on data supplied by Magazine Information Network (MagNet), a database of wholesaler sales. Information of audited sales is from reports of the Audit Bureau of Circulations and BPA Worldwide. We used to also collect information from the International Periodical Distributors Association (IPDA), however those reports are no longer made available beyond the association's membership of national distributors.

THE•*NEW*•SINGLE•COPY © is published 45 times a year, by Harrington Associates, LLC., P. O. Box 670, Norwalk, CT 06852-0670. 203-838-1701. FAX 203-838-1861. E-mail: jharrington@nscopy.com. ISSN 1521-1169. Subscription price: $395 per year. Delivered by FAX and e-mail. Overseas FAX: price varies by region. Single copy: $20. www.nscopy.com