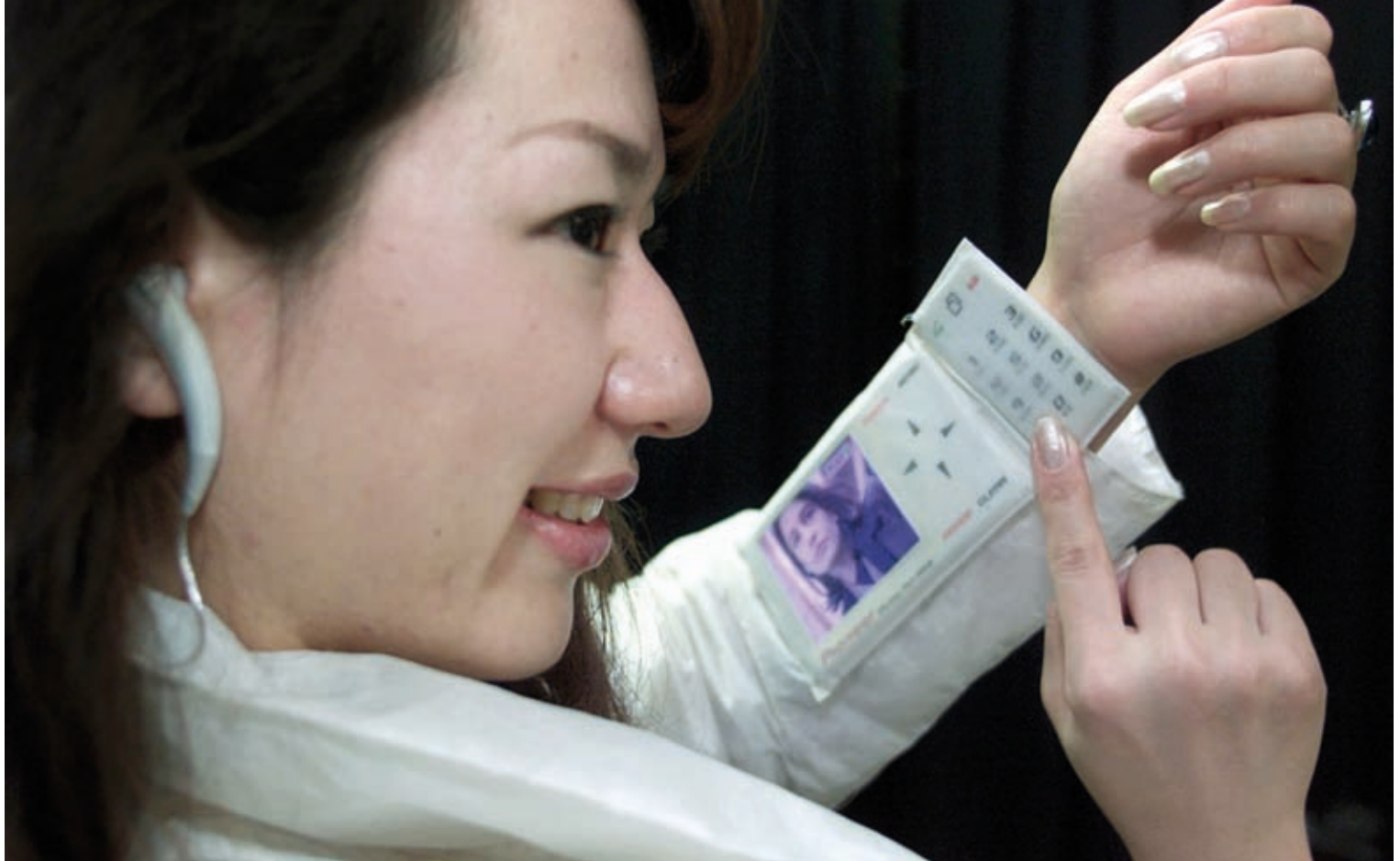


The medium is the message*

Outlook for Magazine Publishing in the Digital Age



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Introduction

The global publishing industry is going through a period of turmoil, as broadband penetration rises and new devices for delivering digital content arrive on the scene. Consumers are increasingly switching from traditional print media to digital media, although the manner in which they are making the transition varies with age, gender and nationality. In this study, we have examined the outlook for consumer magazine publishers and media buyers, as they adapt to the digital revolution.

Our research focuses on two key questions: how is the behaviour of consumers changing, when they read magazines? And how are publishers and advertising agencies responding to these changes? Our conclusions are based on a global online survey of more than 5,000 consumers, and interviews with leading publishers and media buyers. We have supplemented these findings with industry reports, annual reports, analysts' reviews and our own expertise. (For details of our methodology, please see Appendix 1.)

It is an exciting time to be part of the ever-evolving publishing industry. The members of PricewaterhouseCoopers Global Publishing Centre of Excellence are pleased to present you a look at where we see magazine publishing is headed in the future and look forward to working with you and sharing our thoughts with you further.

If we can be of service to your business in any way, please contact one of the PricewaterhouseCoopers Publishing Centre of Excellence team members in the region nearest you (see page 42) or visit our website (pwc.com) for details of the Entertainment & Media contact in your territory.

Finally, we thank you for your support and hope you enjoy our publication.

Sincerely,

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John Middelweerd



Marieke van der Donk

Executive Summary

The global publishing industry is undergoing major changes. A growing number of people are migrating from the printed page to the Internet for information and entertainment. So what should consumer magazine publishers and media buyers do to succeed in the digital age? We have looked at how the behaviour of consumers is shifting, and how the industry leaders are responding.

Our research shows that:

- Most consumers still prefer to read hard copies of magazines, but many are also interested in reading digital content (by which we mean interactive materials, not PDFs or other static formats which can be viewed online) – and younger consumers would *rather* access content digitally.
- A significant number of consumers also express interest in using new digital devices to read digital content, once these devices are commercially available.
- However, consumers expect to pay more for printed content than for content distributed electronically. Indeed, our research suggests that they are not prepared to pay more than *half* the sum they would pay for a printed magazine.
- Moreover, many consumers see digital-only content as a substitute for printed content. So any magazine publisher which launches digital content connected to its brands risks cannibalising subscription and circulation revenues from its traditional print magazines. However, there is no evidence thus far that consumer magazine print products have been cannibalized by the presence of digital versions of the magazine on the title's website. This fear may therefore be groundless.
- A number of magazine publishers have responded to the digital revolution by reshuffling their portfolios through acquisitions, disposals and new launches, or by forming strategic alliances to get access to the skills they need. As progress in developing digital media is being made in mainland Europe, Britain and in North America, we see Eastern European publishers continuing to build up their print portfolios, as this relatively new industry develops.
- British and North American magazine publishers expect to generate as much as 20% of their total revenues from digital platforms within the next five years,

whereas mainland European publishers expect to generate only 10% of their revenues from online activities. This reflects consumers' willingness to pay for digital content in these markets. According to third party research, smaller publishers in Britain and in North America are far ahead of their mainland European counterparts in digital investment and development.

- The magazine publishers that have proved most successful in entering the digital space are those that have been able to leverage strong brands across multiple media platforms and generate revenues from online advertising, search-engine marketing and e-commerce. In short, they have recognised that digital media require different business models from those they have developed to support their traditional print operations.
- However, only a few magazine publishers seem to have developed business models which make these activities self-supporting. If they are to ensure that they are ready to accommodate the changing preferences of consumers, they will need to consider their future investment plans (and the potential impact on their financial situation) very carefully.
- Most magazine publishers may also have to make major organisational changes. Traditional publishers typically organise their operations around different media types, whereas consumers use multiple channels. If these publishers are to stay close to their readers, they may need to integrate their operations and hire employees with the right blend of creative and technological skills.
- The digital age could have equally significant consequences for advertising agencies. The traditional agencies have already acquired new skills, but many still need to build truly multi-functional teams capable of offering multimedia solutions rather than focusing on a particular medium.
- Both magazine publishers and media buyers will also have to invest in developing effective consumer-tracking and measurement systems. Lack of robust consumer metrics has exposed companies in both sectors to competition from new entrants, some of which (like auFeminin.com and Google) have been very successful.



Contents

Market Outlook	7
The Perspective of Consumers	11
The Perspective of Magazine Publishers	25
The Perspective of Advertising Agencies	33
Conclusion	37
Appendix 1: Methodology	39
Appendix 2: Electronic paper	40
Acknowledgements	42
References	44
Contact	45

Market Outlook

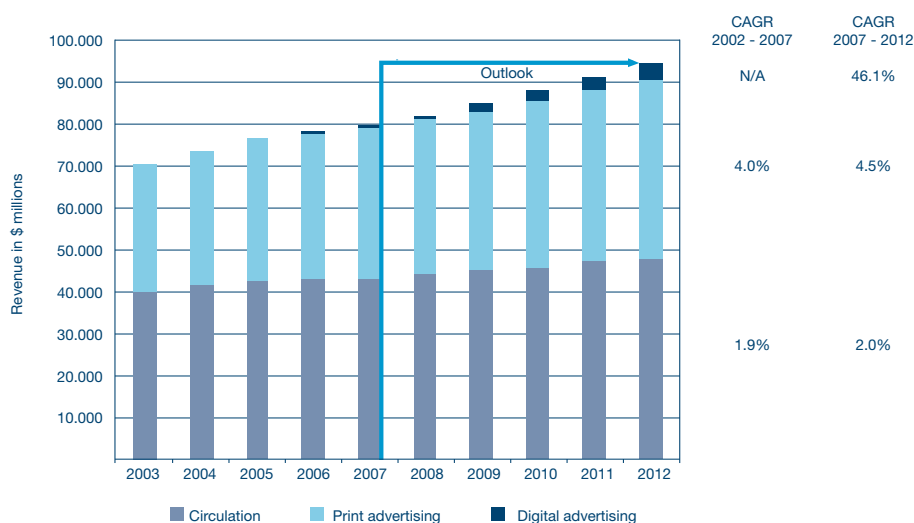
The global consumer magazine market is currently worth about US\$80 billion¹ – up from about \$71 billion five years ago. Advertising accounted for most of this rise. Between 2003 and 2007, revenues from print advertising increased at a compound annual growth rate (CAGR) of 4%. Conversely, circulation revenues grew by just 1.9%.

We anticipate that this trend will continue. Research conducted by the PricewaterhouseCoopers Entertainment and Media Practice suggests that the consumer magazine market will reach about \$95 billion by 2012, and that advertising will once again generate most of the increase. However, revenues from digital advertising will grow at a

very much faster rate than revenues from traditional print advertising (see Figure 1).

Online advertising has already played a considerable part in boosting revenues in the media markets as a whole. Between 2004 and 2008, global expenditure on Internet advertising rose at a CAGR of 38.1%, whereas print advertising in consumer magazines and newspapers grew by just 4.4% and 2.4%, respectively (see Figure 2). The pace at which online advertising expands is likely to slow over the next five years. Even so, we believe that revenues will increase at a CAGR of 19.5% – three times more than the rate at which expenditure on any other form of advertising is projected to grow (except for video games).

Figure 1: Circulation and advertising revenues in the global consumer magazine market (2003-2012)



Source: PwC Global E&M Outlook 2008, Wilkofsky Gruen Associates
 Note: Figures for 2008-2012 are estimates only

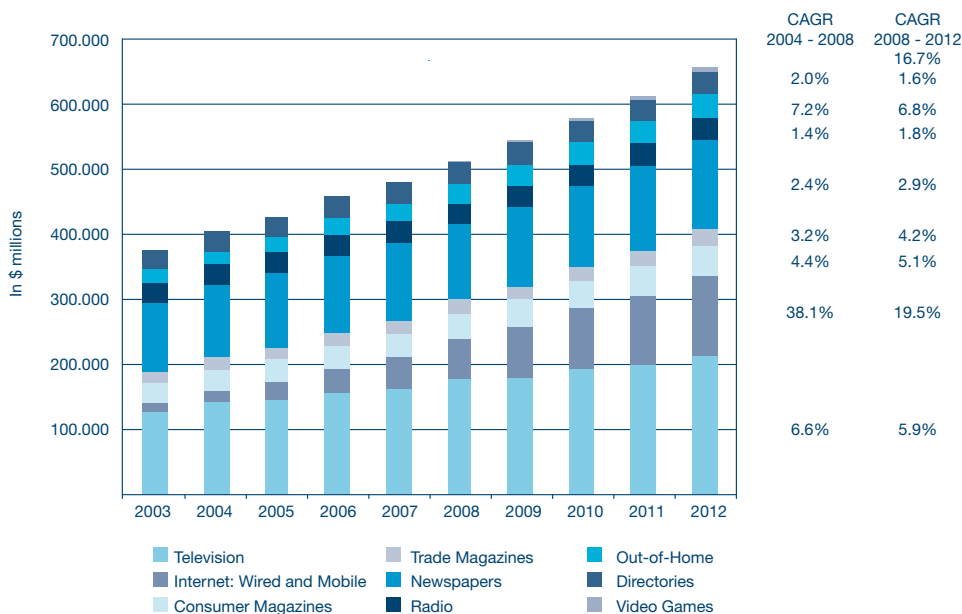
Demand for magazines is also soaring in Brazil, Russia, India and China – the so-called BRIC countries – thanks to the rising number of middle-class consumers who aspire to a particular lifestyle and have the money to purchase publications that cater to their aspirations. Advertising revenues are increasing accordingly; indeed, digital advertising revenues are currently growing at a phenomenal 70% a year (see Figure 3).

Magazine publishers and media buyers are well aware that consumers are shifting towards digital media. Some of the

British and North American publishers we interviewed expect to generate as much as 20% of their revenues from digital platforms by 2012.

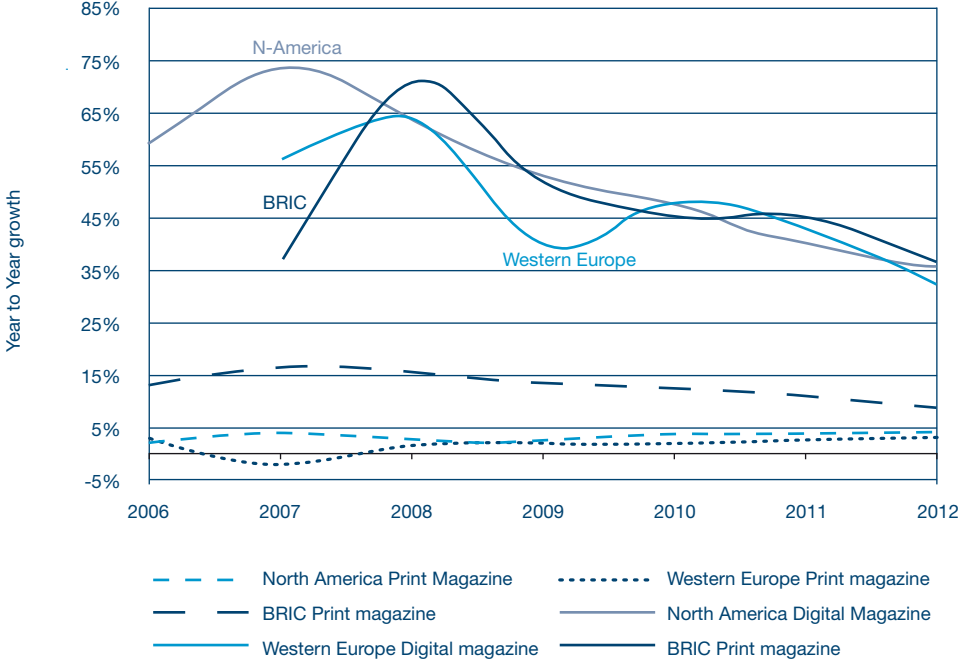
But any traditional consumer magazine publisher that wants to capture a share of the booming online market will have to make major changes in the way it operates and charges for its products. Moreover, if it is to make these changes, it must first understand what digitally enabled consumers *really* want.

Figure 2: Advertising expenditure by segment (2003-2012)



Source: PricewaterhouseCoopers Global Entertainment and Media Outlook, 2008
 Note: Figures for 2008-2012 are estimates only

Figure 3: Annual changes in advertising revenues by region (2006-2012)



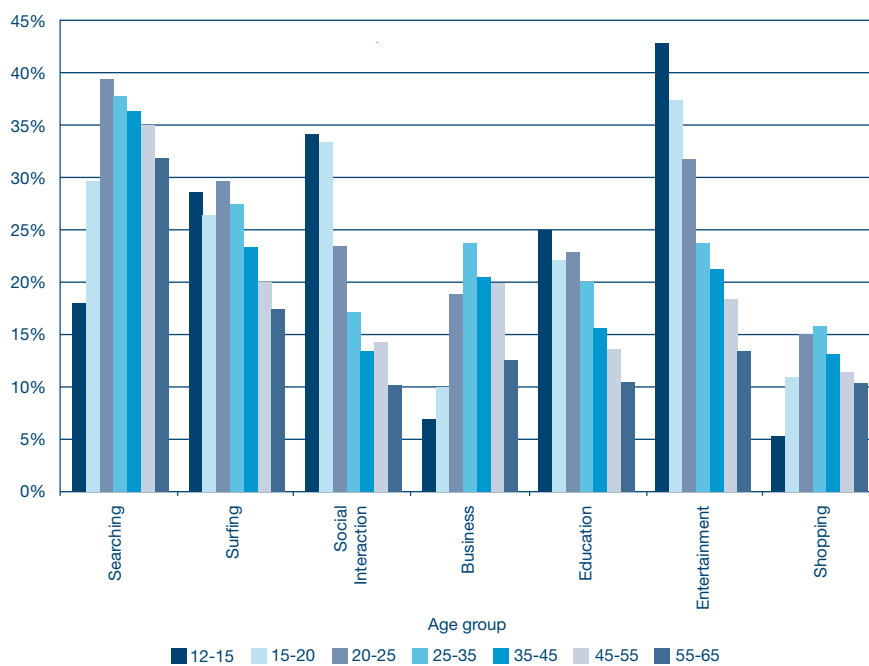
Source: PwC Global Entertainment and Media Outlook, 2008, Wilkofsky Gruen Associates
Note: Figures for 2008-2012 are estimates only

The Perspective of Consumers

We asked the respondents participating in our consumer survey to give us their views about reading digital content (by which we mean interactive materials, not PDFs or other static formats which can be viewed online). We also asked them which devices they would prefer to use to access digital content, assuming that the technological and operational hurdles associated with these devices had been completely overcome. (Our survey did not cover the cost of the devices.)

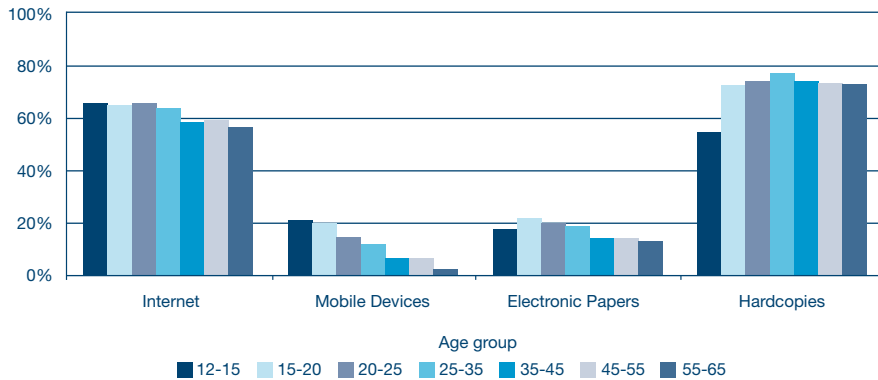
The results of our survey show that motivations for using the Internet differ substantially from one age group to another. Young consumers typically log onto entertainment and social networking sites, whereas older consumers are more likely to surf, search for information or shop. On this basis, improving e-commerce solutions is an area that publishers should consider (see Figure 4).

Figure 4: Reasons for using the Internet



Source: PricewaterhouseCoopers Consumer Media Usage Survey

Figure 5: Consumer interest in accessing digital content versus reading hard copy



Source: PricewaterhouseCoopers Consumer Media Usage Survey

Most consumers still prefer to read hard copies of magazines, but 60% of all respondents would like to access content on the Internet, too – and very young respondents (those aged 12-15) would *rather* read digital content (see Figure 5).

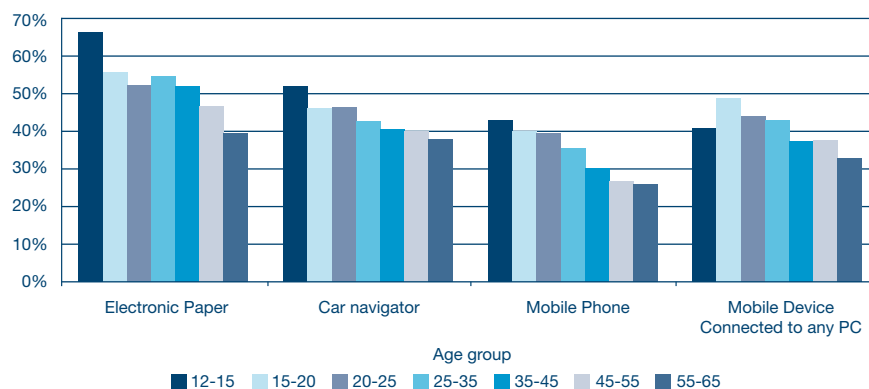
Given that the younger generation uses the internet more for purposes of entertainment, magazines will need to carefully consider how they deliver content to this age group. The decision by EMAP to close, after 28 years, its “Smash Hits” pop music magazine points to some of the problems the industry is facing. As the younger generation grows up, this phenomenon is likely to affect other genres as well and we will begin to see publishers focusing on titles that are designed to have shorter lifespans.

Other channels for reading digital content are much less popular; fewer than 25% of respondents currently want

to read digital content using mobile devices or electronic paper. (For more information on e-paper, please see Appendix 2.) Nevertheless, many consumers are clearly willing to consider using such devices. In the short term, publishers should focus on online delivery solutions for these devices. These solutions may differ by genre and age group, with titles targeting the younger age groups focusing more on the mobile offerings.

We asked the respondents to our survey whether they thought that they would spend more time or less reading paper magazines within the next five years, if various devices for accessing digital content were commercially available. (We provided pictures of each device.) The majority of respondents anticipate spending less time reading paper magazines and more time accessing digital content, particularly if they can access that content via e-paper (see Figure 6).

Figure 6: The percentage of their time respondents expect to spend accessing digital content via different devices in 2012



Source: PricewaterhouseCoopers, Consumer Media Usage Survey

Moreover, more than half of all respondents said that they would go on buying their favourite magazines, even if those magazines were only published in digital formats (see Figure 7). This trend is particularly pronounced in India and China; 60% of Indian respondents and 80% of Chinese respondents have a favourite magazine, and at least 70% of these respondents said that they would continue to buy it if it were only available online – a response which may reflect the fact that many consumers in emerging economies purchase magazines for “aspirational” reasons.

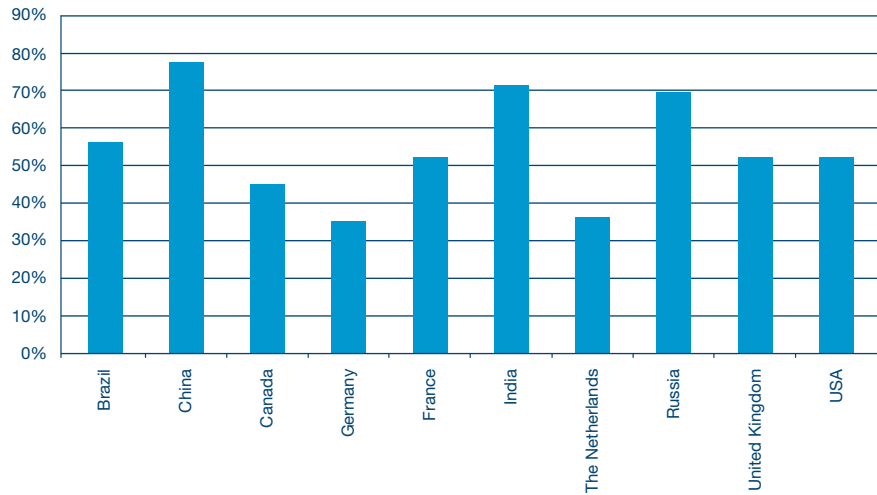
Conversely, readers living in the industrialised West are generally less loyal to a specific brand and less willing to make the transition. Only 35% of Dutch and German respondents, for example, said that they would continue to buy their preferred publications if they could not get hard copies. It may therefore make sense for many consumer magazine publishers to focus on building digital platforms in

the BRIC economies before venturing into more established markets, where consumers are more fickle in their tastes and more likely to migrate to other brands if they cannot get the materials they want in print.

Willingness to buy digital content also varies with gender and genre. Forty-one percent of male respondents would be prepared to pay for a subscription for content that is only published on the Internet, compared with just 29% of female respondents (see Figure 8).

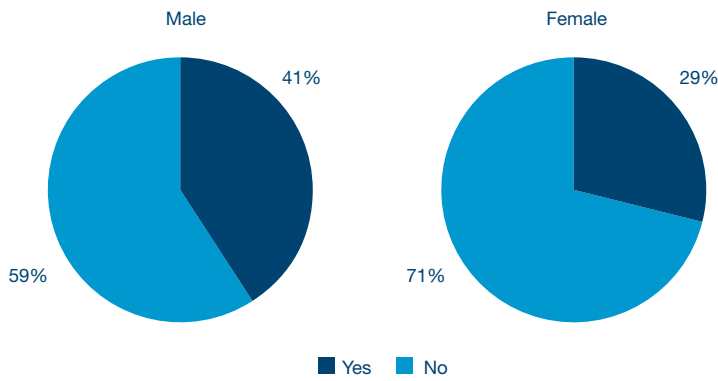
This may indicate that titles aimed at a male audience are likely to generate more online subscription revenue than those aimed at the female audience. Over time we will see a number of innovative approaches taken to grow online subscription revenue such as Disney-owned ESPN which offers an “insider” subscription which gives the subscriber more detailed sports data and insight on the ESPN website.

Figure 7: The percentage of respondents who say that they would continue to buy their favourite magazines, if those magazines were only published online



Source: PricewaterhouseCoopers, Consumer Media Usage Survey

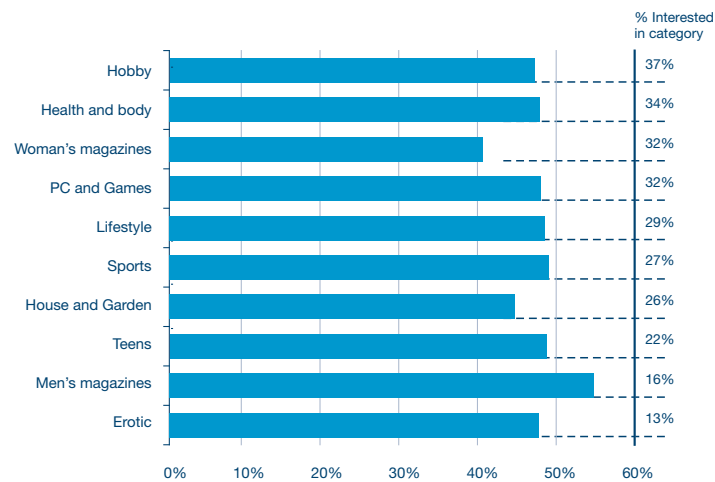
Figure 8: The percentage of male and female respondents who say that they would be willing to pay for content that is only published on the Internet



Source: PricewaterhouseCoopers, Consumer Media Usage Survey

This bias is reflected in the degree of interest respondents express in purchasing different types of digital content. Readers who like magazines on women's issues and houses and gardens, for example, are more reluctant to consider subscribing to digital alternatives than those who like magazines on men's issues and sports (see Figure 9). These divergences in taste suggest that magazine publishers will need to adopt different digital strategies for different audiences, as they already do when segmenting customers for print publications.

Figure 9: The percentage of respondents who are interested in accessing digital content, by genre

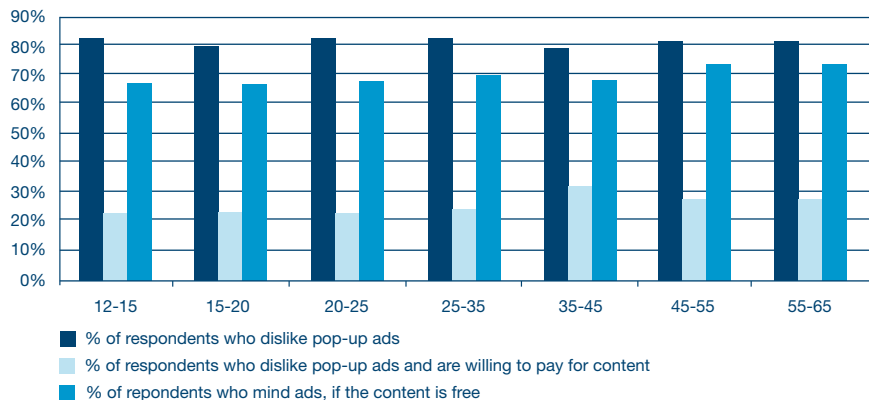


Source: PricewaterhouseCoopers, Consumer Media Usage Survey

But though consumers differ by age, gender and nationality in their attitudes towards digital publishing, they are almost unanimous on one point: their aversion to intrusive online advertisements. More than three-quarters of all respondents, regardless of age, dislike pop-up ads (see Figure 10). Young respondents are more tolerant of pop-up ads when the content is free, while older respondents are more willing to pay to avoid them. Even so, only 30% of those aged between 45 and 55 are prepared to dip into their own pockets to escape such interruptions.

Given our earlier observations, publishers will have to balance the need for digital advertising against the consumer's dislike of it. Solutions that limit advertising avoidance (e.g. online publishing platforms like those powered by Cerosmedia) are likely to increase as contextual advertising is improved. Publishers may also want to explore ad-free subscription content as an incremental revenue stream.

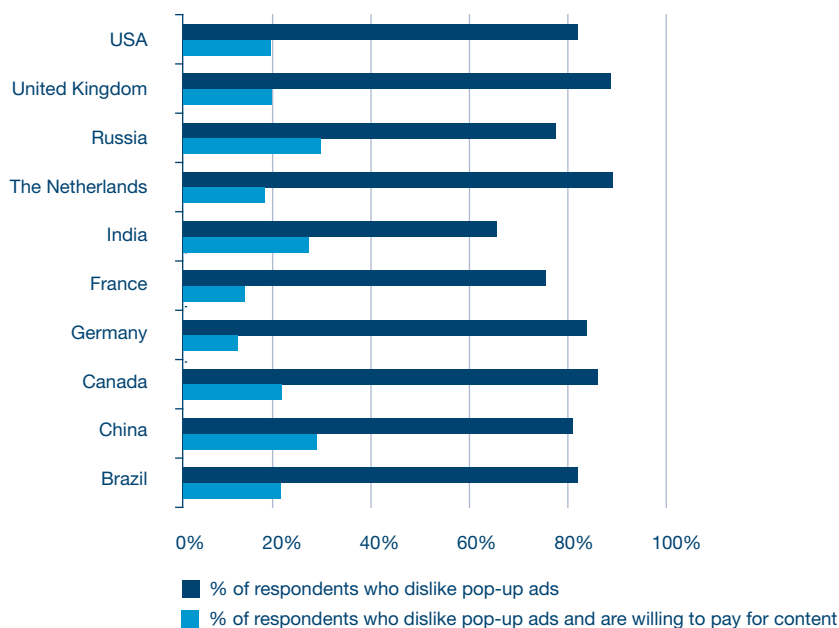
Figure 10: The percentage of respondents who dislike pop-up advertising, by age



Source: PricewaterhouseCoopers Consumer Media Usage Survey

This pattern is true throughout the world. The vast majority of respondents dislike pop-up ads, although Indian respondents find them somewhat less offensive than respondents in other countries (see Figure 11). Hence the fact that more sophisticated and less invasive forms of online advertising – such as peel-away ads and context ads – are now more common in some markets, like North America, as online advertising evolves in response to the reactions of consumers.

Figure 11: The percentage of respondents who dislike pop-up ads, by nationality



Source: PricewaterhouseCoopers Consumer Media Usage Survey

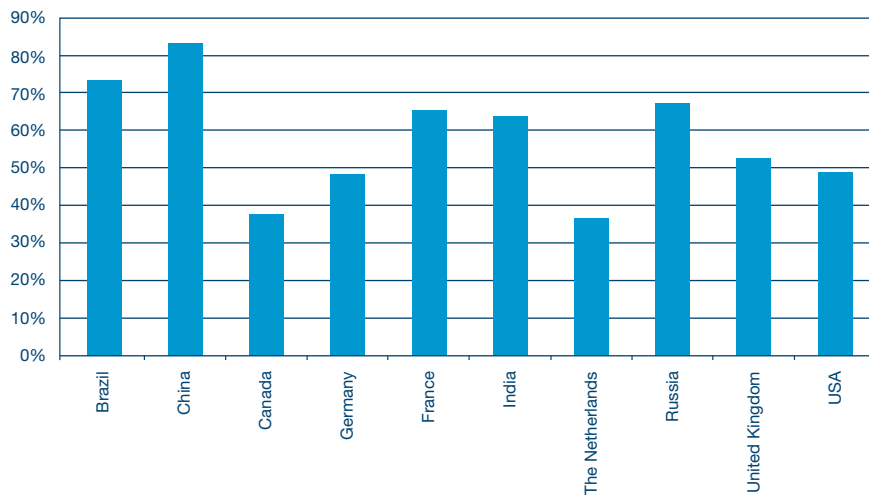
On this basis, we see that the BRIC countries are more willing to pay for content to avoid advertising.

However, most consumers are much more open to the idea of digital direct marketing and e-commerce. Sixty percent of respondents say that they would be willing to consider buying goods or services via the digital platforms of publishers whose content they access. Respondents in the BRIC countries are especially receptive (see Figure 12). In fact, several global publishers have already enjoyed enormous success with online stores and direct marketing operations, Reader’s Digest being one such example. The company sells a wide range of books, music and videos, home accessories and gifts on its national websites, as well as operating an insurance and financial services arm.

In short, our survey findings show that many of those consumers who are already using the Internet are ready to start accessing digital content. It also shows that many of them would be interested in buying products and services through the digital platforms of the publishers of that content, but they are much less tolerant of online advertising in its most intrusive forms. This echoes the fact that the opportunity for e-commerce is perhaps stronger than publishers have historically exploited. The key question, however, is how much they will pay for digital content – and here the news is much less encouraging.

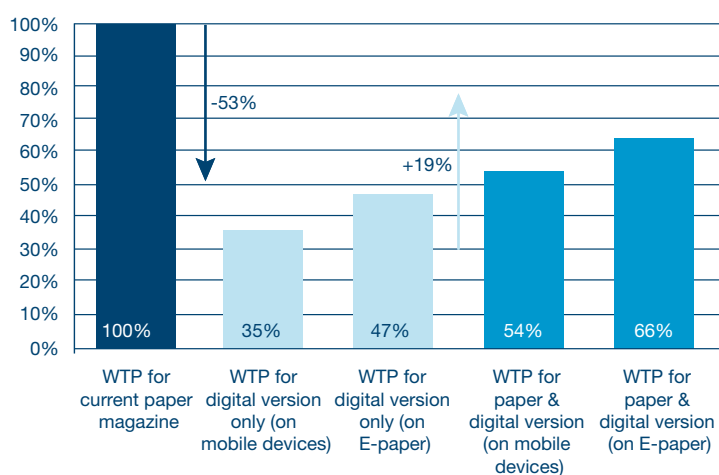
We asked respondents how much they would be willing to pay (WTP) for a digital version of a particular magazine that is currently published in hard copy in the country in which they reside, if they could buy a digital version of the same

Figure 12: The percentage of respondents who are receptive to the idea of shopping via the digital platforms of magazine publishers whose content they access



Source: PricewaterhouseCoopers Consumer Media Usage Survey

Figure 13: The percentage of the cost of a printed magazine which respondents are willing to pay for digital content and digital/print combinations



Source: PricewaterhouseCoopers Consumer Media Usage Survey

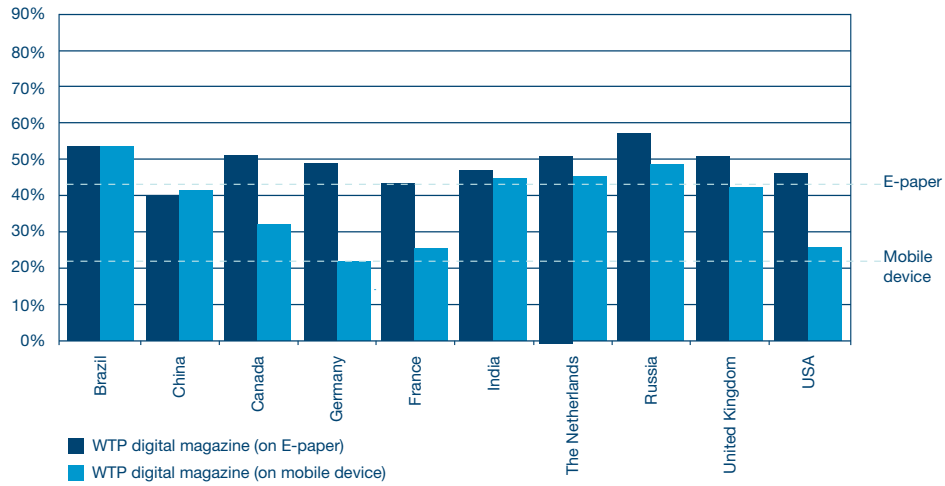
Note: We have taken the cover price of a printed magazine currently published in each of the 10 countries in our survey as a reference point, and used conjoint analysis to assess the average amount respondents are willing to pay for a digital version. Our analysis excludes the cost of purchasing the devices required to read a digital magazine.

magazine. We also asked them how much extra they would be willing to pay for a printed version of that magazine, if they already had an electronic subscription.

On average, respondents are only willing to pay 35% of the price they pay for a hard copy to receive a digital version of the same magazine on a mobile device, and 47% of the price they pay for a hard copy to receive a digital version of the same magazine on e-paper. And they are only willing to pay an additional 19% to receive a paper copy of content they have already bought in a digital format (see Figure 13). In fact, respondents in the BRIC economies are only prepared to pay an additional 15%.

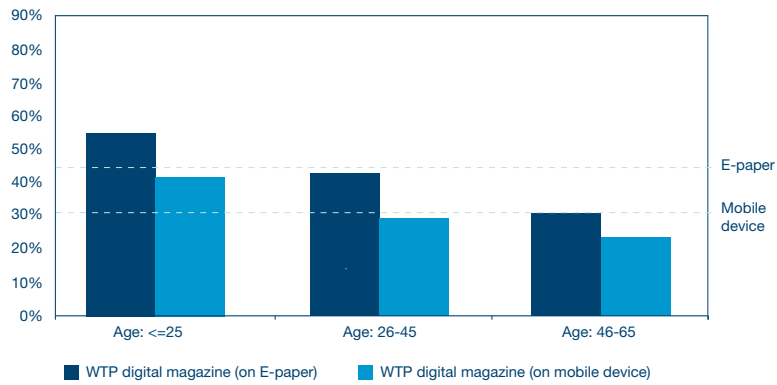
In other words, respondents believe that digital content should cost *less than half* the price of printed magazines. And once digital alternatives to a printed magazine are available, they expect to pay a maximum of two-thirds of the cover price for hard *and* soft copies of the same magazine. This probably explains why many magazine publishers provide digital content that differs from the content in their print publications, since they might otherwise come under considerable pressure to reduce the prices of their printed versions.

Figure 14: The percentage of the cost of a printed magazine which respondents are willing to pay for digital content, by nationality



Source: PricewaterhouseCoopers Consumer Media Usage Survey

Figure 15: The percentage of the cost of a printed magazine which respondents are willing to pay for digital content, by age



Source: PricewaterhouseCoopers Consumer Media Usage Survey

The same pattern prevails regardless of nationality, age or gender. Consumers in every country we surveyed expect to pay less for digital content than for printed magazines (see Figure 14). Indeed, German and Chinese respondents are not prepared to pay more than 40% of the amount they currently pay for hard copies.

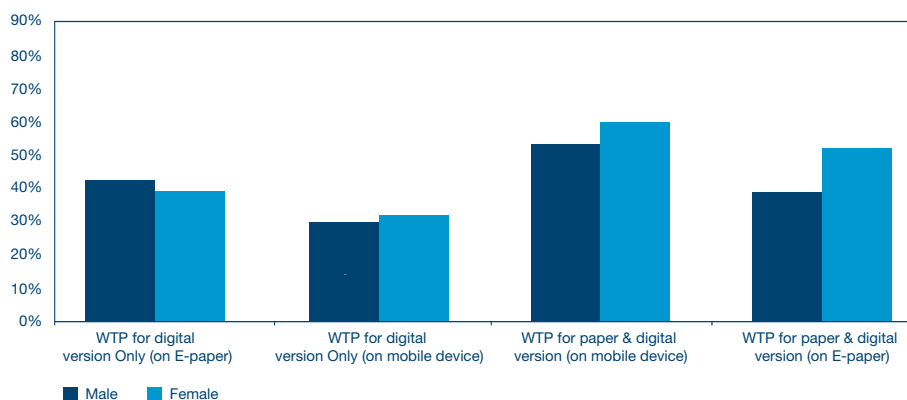
Younger respondents are willing to pay more for digital content than older respondents (although they often have less money than older consumers). They are also much more willing to consider reading digital content on mobile devices. Even so, they are only prepared to pay about 55% of the price they would pay for a printed version (see Figure 15).

Similarly, men are willing to pay marginally more than women for digital content on e-paper, while women are prepared to pay more for digital content on mobile devices,

possibly because it is easy to fit a mobile device in a handbag. (This may suggest that publishers targeting male readers should focus on producing digital content that is suitable for e-paper whereas those that are targeting female readers would do better to produce digital content that is suitable for mobile devices.) Again, however, both men and women still expect to pay much less for digital content and combined print/digital formats than they would for hard copies alone (see Figure 16).

Most respondents would also prefer to read digital content on standalone devices with direct access to the Internet than on devices which must first be linked to a computer to download the content. And they favour e-paper over mobile devices. Conversely, very few respondents are willing to pay extra for spoken text.

Figure 16: The percentage of the cost of a printed magazine which male and female respondents are willing to pay for digital content and digital/print combinations



Source: PricewaterhouseCoopers Consumer Media Usage Survey

These findings have major implications for magazine publishers everywhere. It is clear that interest in digital content is growing rapidly, and that no publisher can afford to ignore the online channel, since new entrants will otherwise erode its market share. Moreover, experience in the music industry shows just how quickly the transition can take place. Between 2000 and 2006, global sales of CDs fell by 23%, and the switch to digital music is accelerating; in 2007, sales of CDs fell by 19% in the US alone². Yet any magazine publisher that starts offering its content online may have to charge much less than the respective hard cover price.



The Perspective of Magazine Publishers

So how is the industry responding to these changes? Some magazine publishers have acquired other publishers or titles in a move to increase their critical mass. In August 2006, for example, Wenner Media purchased the 50% of the shares in *US Weekly* it did not already own³. In late 2007, Sanoma bought *Mood for Magazines*⁴, while APN News & Media acquired *Simply You*, New Zealand's leading fashion title⁵. And, in February 2008, Heinrich Bauer Verlag acquired EMAP's consumer media division for \$1.4 billion⁶.

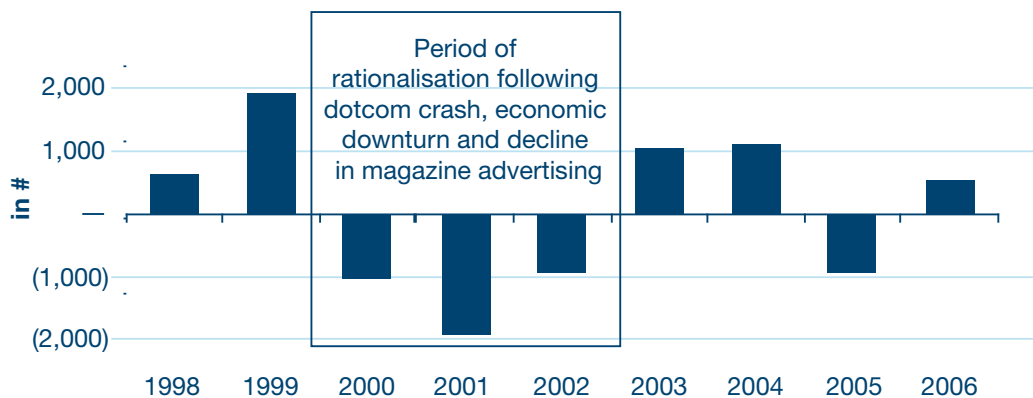
Other magazine publishers have concentrated on launching new titles – typically niche publications for consumers with specialised interests (see Figure 17). German publishing giant Gruner + Jahr has recently launched two such titles: a magazine for dog-lovers and a magazine for people who are interested in developing their “personal life” skills⁷.

This trend is likely to persist, as the online competition increases and the average product lifespan continues to contract in mature markets, forcing many magazine publishers to refresh or renew their offerings more frequently.

As implied by the findings from our research above, some of the largest magazine publishers have also moved into the digital space and started trying to leverage their brands by launching multimedia formats from which to generate additional revenues. The BBC has been particularly successful in this respect; it has, for example, created various spin-offs from its popular motoring television series *Top Gear*, including a monthly car magazine now available in 17 international editions, newsletter and website⁸.

A number of North American publishers have taken the same route, and we anticipate that many other publishers will follow suit. They will use their specialist titles to create

Figure 17: Annual net new titles published in the US, Canada and UK (1998-2006)



Sources: MPA 2007, Magazines Canada 2007 & PPA 2007

online social networks and generate transaction revenues – i.e. revenues from advertising, search-engine marketing and e-commerce – from these communities (see Figure 18).

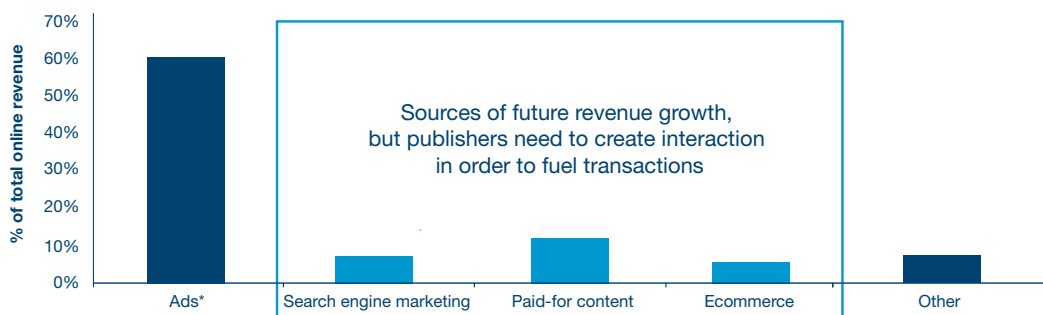
However, the industry faces some significant challenges in making this transition. For a start, most of those magazine publishers that are developing an online presence currently have to subsidise their digital activities with revenues from other parts of their business. This is true even in the US, which is one of the world’s most advanced digital markets (see Figure 19).

Moreover, the vast majority of print publishers outsource their printing and fulfilment, so their capital expenditure is relatively low. Conversely, creating and sustaining a compelling web presence requires significant capital investment and thus has major implications for a company’s financial position. Any magazine publisher that wants to succeed in the online world will therefore need to think very

carefully about how it should invest in building a digital platform and be prepared to invest for the long term, since it cannot expect to cover its costs for some years.

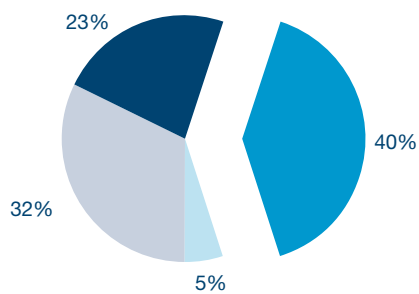
A number of powerful new competitors – both content providers and advertising vehicles – have also emerged. One such instance is web portal auFeminin.com, now Europe’s leading publisher of interactive women’s magazines and an increasingly serious rival to the long-established glossy magazines. In the past five years, the group’s net turnover has more than quadrupled, to €22.5m, while its operating profits have grown at a CAGR of 141%, to reach nearly €13.1m, far outstripping the pace at which traditional print publishers have been expanding⁹. Internet search provider Google has been even more successful. It has built a multi-billion-dollar business by tapping into demand for niche products and converting the millions of consumers who use its search engine into highly targeted advertising opportunities¹⁰.

Figure 18: Composition of the digital revenues of US publishers (2006)



Source: International Federation of the Periodical Press, “Routes to Success” (2008)

Figure 19: Sources of investment in building a digital presence in the US magazine publishing sector (2006)

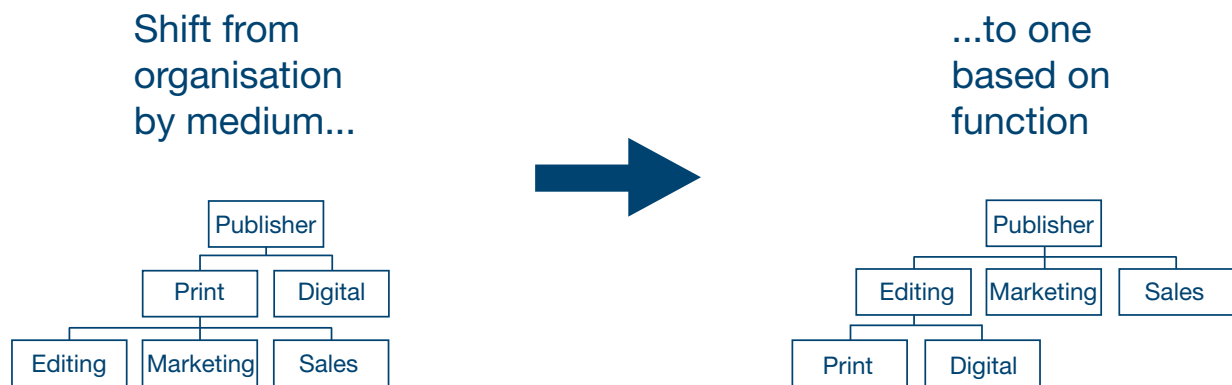


Internal (central)
 Internal (print magazines)
 Web Revenue
 Other

Source: International Federation of the Periodical Press, "Routes to Success" (2008)

The competition is getting tougher, then, but many magazine publishers must contend with organisational issues, too. A few companies have integrated their print and digital media operations – and they are typically the publishers that have made the greatest progress in developing digital offerings. "Our journalists learn to write and produce content for different media," says one executive working for a successful Dutch publishing house.

Figure 20: The organisational changes required to build an integrated multimedia platform



Source: PricewaterhouseCoopers

But the vast majority of magazine publishers still maintain separate editorial teams for producing print and digital media. This is partly because traditional print journalists often find it difficult to write copy for digital formats and partly because the editorial workforce is heavily unionised in some countries. Such publishers are ill-equipped to address the changing preferences of their audience. As more and more consumers gravitate towards the Internet, these companies will need to integrate their print and digital operations, both to capitalise on any back-office synergies and to stay close to their readers (see Figure 20).

The transition to digital media also requires different skills. “The Internet is not about shoving a magazine down a wire. It is a totally different medium,” remarks one Canadian publisher. Any magazine publisher that wants to build a multimedia platform must therefore recruit employees who can write for, market or sell advertising space in multiple media.

However, it is often very difficult to find people with the right blend of talents. “We ask for a technology background or at least an interest and ability. The issue is legacy employees, who are somewhat resistant to the technologies that their children and grandchildren take for granted,” says a US publisher. Several other publishers also note how hard it is to recruit people with creative and technical skills.

A number of magazine publishers have tried to overcome this problem by acquiring companies with a strong track record in digital media or entering into partnerships with new players. In 2007, for example, German media conglomerate Axel Springer bought a 68% stake in auFeminin.com¹¹. (Table 1 includes other recent cases in which magazine publishers have bought “digital” companies.) Similarly, in early 2008, Condé Nast, Hearst, Rodale and Time Warner formed a partnership with Internet service provider Yahoo! to provide a women’s portal called Shine¹². We believe that there will be many more such transactions over the next few years.

The ability to track consumers and deliver a demonstrably effective advertising platform is yet another issue. “Metrics are going to be brand attributes,” says an executive at one global media buying agency.

However, most magazine publishers are still struggling on this score. “The ‘metrics’ of traditional advertising are weak compared to the possibilities offered by online instruments,” says a senior manager at one German publishing house. But “online tracking methods are still relatively weak. There is currently no generally accepted ‘currency’ in the online world.”

Lack of standardisation is certainly a problem at present. Nevertheless, it may be a smaller problem than many magazine publishers realise. Measures like cost per lead, cost per sale and cost per visit are arguably just as robust as traditional measures like reach and frequency, gross rating points and rate base. Search engines like Google are also developing increasingly sophisticated systems for tracking how consumers behave online, while digital technology company Phorm recently announced that it

Table 1: Selected recent deals in which magazine publishers have bought “digital” companies

Date	Acquirer	Acquirer Country	Target	Target Country	Transaction Value (US\$ millions)
Feb-07	EMAP Consumer Media	UK	Yospace Technologies (multimedia messaging)	UK	28
Aug-07	Lagardère	France	Nextedia (Internet advertising)	France	136
Sep-07	Hearst Magazines	USA	RealAge (personalised information provider)	USA	N/A
Oct-07	IPC Media	UK	Trusted Reviews (online recommendation site)	UK	N/A
Dec-07	Penthouse Media Group	USA	Various Inc. (social networking)	USA	500
Feb-08	Lagardère	France	Doctissimo (healthcare websites)	France	107
Dec-07	Bertelsmann	Germany	Pixelhouse (ISP)	Germany	N/A
Mar-08	Hearst Magazines	USA	Answerology (online information services)	USA	N/A
Apr-08	Hachette Filipacchi	UK	Digital Spy (search engine service)	UK	N/A

Source: PricewaterhouseCoopers, Thomson One

had developed a way of using “deep packet inspection” to monitor people’s browsing habits and deliver personalised ads¹³.

Indeed, some of these online tracking systems are so effective that they have provoked considerable concern. In late 2007, for example, nine privacy organisations asked the US Federal Trade Commission to consider implementing a “Do Not Track” list to protect people from having their online activities unknowingly tracked and used by marketers¹⁴. Plans by several large British Internet service providers to use behavioural targeting tools like that developed by Phorm also sparked a storm of protest¹⁵. Any magazine publisher that wants to succeed in the online world, then, will need to adopt better systems for tracking and targeting the consumers who visit its websites, without violating their privacy or jeopardising their security.

One last issue is vital: namely, much greater vigilance when it comes to the protection of digital intellectual property. Few magazine publishers seem to take the risk of digital piracy very seriously. Only five of the 30 publishing executives we interviewed regard it as a top priority, although seven think that it will become more important in future.

This relatively relaxed attitude may stem from the fact that many magazine publishers currently see content primarily as a means of generating traffic, and do not charge for it. Even those that charge for their content, like *The Economist*, generally charge only for “premium” services and still provide a considerable amount of information for free.

In some countries, freelance writers also generate a substantial amount of content and magazine publishers purchase “first use” rather than full copyright, so the protection of such intellectual property is a bigger issue for authors than magazine publishers. Yet, as one US publishing executive points out, “the digital environment makes infringement a heck of a lot easier”. The US Institute of Policy Innovation estimates, for example, that illegal downloading costs US record companies some \$3.7 billion a year¹⁶.

The industry will therefore have to develop new distribution and copyright strategies to protect the intellectual property it publishes online. Fortunately, various technologies are now emerging specifically to manage digital rights and prevent unauthorised copying, printing, modification or sharing of digital media.



The Perspective of Advertising Agencies

Just as the digital revolution is transforming magazine publishing, so it is transforming advertising – and many agencies are also struggling to adjust. The advertising industry has already made considerable changes; in the US, for example, most advertisers expect publishers to offer them multimedia solutions, and the majority of print ads are now sold as part of a multimedia package.

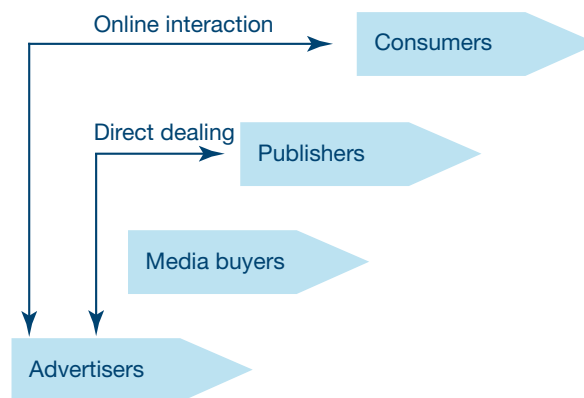
However, advertisers are increasingly aware that they can reach their target markets either by setting up their own websites or by going directly to publishers with multimedia platforms (see Figure 21). Some of these advertisers also have completely different objectives from those that have historically advertised in print magazines. “New advertisers are using the Internet, advertisers who have never used

print media. They are not there to build brands but to generate a response,” a Dutch publisher explains.

Much of the “direct” advertising that takes place is probably incremental, rather than a substitute for agency-managed campaigns. Nevertheless, as the opportunities for reaching consumers proliferate and new kinds of advertisers emerge, a growing share of the money that is spent on advertising could be diverted into other channels. So, if the advertising industry is to retain its role in the advertising process, it will have to ensure that it understands the requirements of these new customers and build multi-functional teams capable of covering the full media spectrum.

The advertising executives we interviewed recognise the need to integrate their media-buying functions. As a senior manager in one global advertising agency notes, “I’ve got a

Figure 21: Emerging opportunities for reaching consumers via other means than traditional advertising agencies

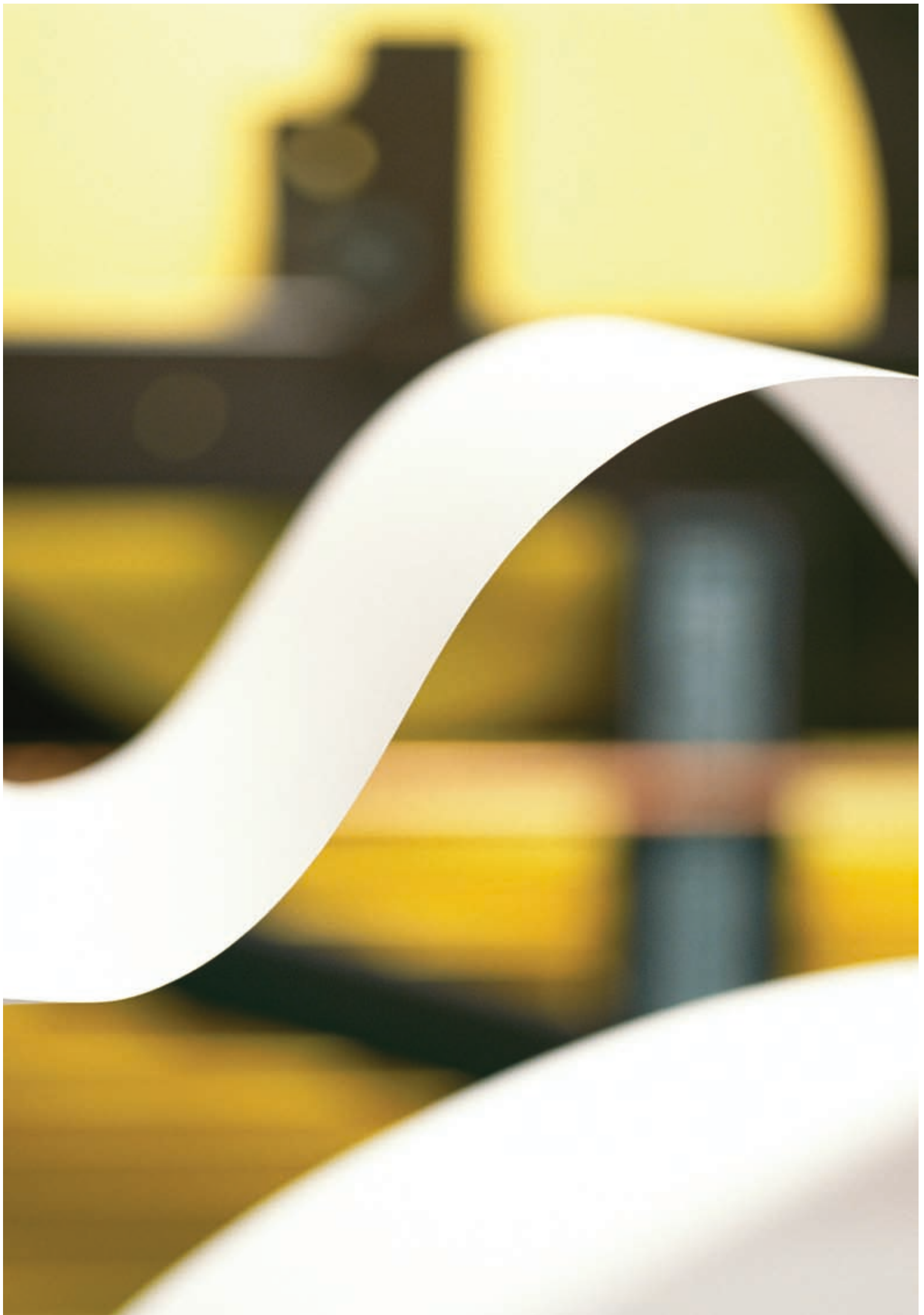


Source: PricewaterhouseCoopers

whack of people in here and they're broadcast buyers. That's what they've done forever and they're good at it. But they've got to change. They're not going to be broadcast buyers anymore. They're going to be content strategists." However, creating multi-functional teams that can offer truly multimedia solutions, rather than focusing on a single medium, entails major organisational and cultural alterations.

Moreover, many advertising agencies, like publishing houses, are finding it difficult to recruit people with the abilities they require. "We face some problems with hiring creative people who also have strong technical skills," says one executive. "The big agencies need to become more innovative," another executive remarks; otherwise, they "risk being surpassed by smaller, more innovative start-ups" and getting marginalised.

A number of the leading agencies have responded by taking the acquisition route. In 2007, for example, WPP bought interactive agencies 24/7 Real Media, Schematic and Blast Radius¹⁷; Aegis Group bought Genesis Media and Mindblossom¹⁸; and Publicis bought Digitas, a US Internet specialist¹⁹. But acquisitions also present significant challenges, not least the need to integrate the target company, retain the best people and ensure that the full value of the transaction is realised.



Conclusion

To sum up, our research shows that many consumers are receptive to the idea of using digital platforms. The issue is not whether, but when and how they will do so. Some technical barriers— such as the bandwidth and battery life of e-paper, and the cost of multi-purpose digital devices – remain. These are outside the control of the media industry. But, if magazine publishers are to succeed in the digital age, they should consider the following recommendations:

- Embrace and encourage change to avoid becoming sidelined by competitors and new entrants.
 - Review the skills needed to operate in this fast-changing industry and consider the best option with which to address them (recruitment of skilled personnel, training of existing staff or acquisition of existing specialised businesses).
 - Review the organisational structure around multiple channels.
 - Optimise digital revenue from ads, search engine marketing, paid-for content and e-commerce and recognise that advertising should not be at the detriment of the consumer online experience.
 - Understand that consumers will increasingly want to access content how, when and where they want.
 - Work with advertisers and advertising agencies to develop appropriate metrics.
 - Focus development on those genres and demographics that are likely to generate the most online activity.
 - Invest wisely in digital solutions. Profit in digital media is achievable but it is neither inexpensive nor quick.
- Maintain hard copy products as, in the short term, they are likely to continue to generate the majority of revenues.

Most publishers and advertising agencies clearly recognise the importance of the digital revolution. British and North American organisations are generally more advanced than their mainland European peers in this respect, although a few European publishers have digital publishing platforms that are just as sophisticated as any to be found in North America and the opportunities for creating digital platforms are arguably even greater in some of the BRIC economies.

These are major changes, but the rewards for making them could be substantial. One of the world's leading magazine publishers has achieved a six-fold increase in its online revenues over the past four years – proof that publishers can be successful with digital media, when they are properly managed.

Appendices

Appendix 1

Methodology

We conducted a survey of 5,036 consumers to identify how they currently read magazines and how they anticipate doing so within the next five years. Our survey sample comprises at least 500 consumers aged 12-65 from each of 10 countries – Brazil, Canada, China, France, Germany, India, the Netherlands, Russia, UK and USA.

The survey was conducted online. Our findings are thus representative of the prevailing situation in countries where broadband penetration is extensive. They point to future trends in media usage in those countries where broadband penetration is still relatively low but likely to increase over time.

We used conjoint analysis – where respondents are asked to choose between different attributes and statistical techniques are employed to estimate the average value of each attribute – to determine how much consumers would be willing to pay for digital and printed versions of a particular magazine. The results of this analysis are based on the responses of the 4,938 consumers who answered every question in the section of our survey that covers willingness to pay. They include at least 405 respondents from each of the countries we covered. (Our survey does not address the costs of purchasing the devices required to receive digital media or any technological hurdles associated with their development.)

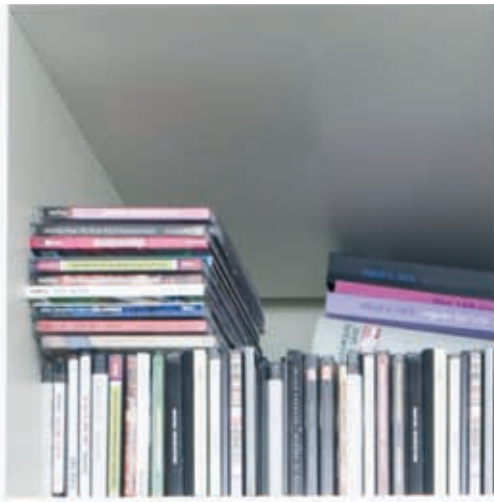
We also conducted interviews with 30 leading publishers and 20 leading media buyers around the world. We supplemented this qualitative research with industry reports, annual reports and analysts' reviews, as well as drawing on our extensive experience of advising clients in the publishing industry.

Appendix 2

Electronic paper

E-paper is a portable storage and display medium which looks like paper but can be repeatedly written on and re-used. The information to be displayed is downloaded through a connection to a computer or mobile phone, or created with mechanical tools such as an electronic “pencil”. Several companies are currently developing e-paper devices, and Amazon launched a version called the Amazon Kindle in late 2007. However, such devices are not yet widely available.





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- Media Insights 2008
- Show me the money: Strategies for success in IPTV (2007)
- On Media: Recorded Music - Who benefits from digital? (2008)

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