MAGAZINE RETAILING 2001

A survey of the changing face of UK consumer magazine retailing

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Report Contents

Section 1
Management Summary

1. Management Summary

1.1 The Changing Consumer

It is becoming much more difficult to generalise about modern consumers as lifestyles fragment and become more complex and individualistic. This has helped to drive the specialist magazine sector, but is creating massive marketing challenges for retailers, many of whom need to tailor and niche their consumer offers much more effectively than they are currently doing.

Available time in a time-pressured society is becoming as big an issue as available money.

Shopping is becoming a leisure activity in its own right. The nature of shopping is also altering, becoming much more "wants" based than "needs" based. This is driving:

- The retailer's need to enhance the "shopping experience" itself, making it more exciting and less utilitarian.
- The move of the major supermarket groups into more non-food areas as the percentage of consumer spend devoted to food and grocery staples falls.

The consumer is becoming much more demanding, practised, discerning and cynical; and, therefore, much less brand loyal.

1.2 The Changing Retailer

The challenges facing the major retail multiples are massive and unprecedented. With retail sales growth slowing and with costs rising, retailers are dealing with intense competition while trying to handle reducing margins. The answer for many is an aggressive charge for increased scale so that economies can be forced through the system. That poses major threats for suppliers in terms of how they do business with the key retail groups and at what margins.

A more strategic issue is that there is a race on between the retailer and the manufacturer to "own" the consumer. By understanding the consumer better and by targeting their offer and marketing more precisely, the key retailers are aiming to control the consumer's spend more effectively.

The last decade has seen the remorseless rise of the multiple retailer and the grocery superstore chains in particular. This is predicted to continue, but with the rate of growth slowing.

The industry is also seeing increased polarisation between scale retailers on one hand and niche retailers on the other. The retailers with problems currently are:

- Multiples sitting in the middle market.
- Small, independents who cannot respond to the need to invest in the quality of the overall shopping environment.

All this means that magazines will remain an attractive product for retailers searching for added theatre and consumer pull in their offer. However, the in-store disciplines of expert retailers and the increasing cost pressures will make the major multiples assess the profitability of magazines (with a ruthless financially-based analysis of range) and the logic of the supply chain much more rigorously. National Distribution was merely the logical outcome of these factors.

The retail arena will become even more competitive and fragmented which will further fragment the retail profiles of magazines.

1.3 The Magazine Publishing Context

The cover price revenue from the 2,600 regular frequency consumer magazines (excluding one-shots, specials and partworks) available through the newstrade network totals £1.7 billion.

It is clear that the magazine market has been cooling down in terms of the strength of its sales trends. Having seen quite spectacular growth in the mid 1990s, the market has continued to grow, but at a much slower rate, slipping behind the general trend in consumer spending in both 1999 and 2000 with moderating price increases and sliding volumes.

Yet the current level of launch activity - a key element in the growth rate of the magazine business - looks very strong in the first half of this year. The industry's ability to regenerate itself through launches is one of its key characteristics and strengths.

Being able to respond quickly to the changing tastes and lifestyles of an increasingly promiscuous and impulsive consumer is the key challenge for the next few years. Yet the entry costs for new products have risen, mainly from the need to spend more promotional money both above-the-line and in-store.

Increasing competition for the consumers' time, as much as for their money, is coming from within the magazine business and from other media and leisure pastimes.

Yet magazines still form an attractive product category as retailers try to provide an enhanced consumer offer, encouraging footfall and developing a "one-stop shop" strategy that includes entertainment and theatre.

There is a need to understand better the dynamics of the purchasing decision as the consumer's repertoire of both magazines and shops is growing.

There are a number of major questions facing the industry, including:

- How high can cover prices go?
- Is the long tail of small titles a creative seed-bed or a diversion of valuable distribution resource?
- How can reader loyalty be built among "repertoire readers"?
- How far will consolidation take place within the magazine market? Will it match the process that is already taking place within retailing?

1.4 The Supply Chain Context

The threat of National Distribution (ND) dominated the industry in 2000. Yet ND merely encapsulated a number of the retail issues that have been bubbling beneath the surface of the business for the last few years:

- Streamlining in-store processes.
- Removing cost from the supply chain.
- Improving data flow within the supply chain.
- Improving accountability within the supply chain.
- Pinning down the future role of the wholesaler.
- Improving the effectiveness of promotions.
- Taking more control of orders and availability.
- Reducing waste.
- Controlling potential consumer overchoice.
- Increasing retail margins on the magazine category.

Whereas the publishing business had been concerned in the past with the shape and size of the magazine retailing universe, it is now as much concerned about how the various links in the distribution process fit together: who does what and at what cost?

It is not just retail margins that are an issue. Wholesalers have also seen their profits hit over the last few years. With the impending sale of WHSmith News, there is a new volatility emerging in the wholesale network.

1.5 The Magazine Retailing Map

The magazine retailing universe has already peaked and is now beginning to contract slowly.

The growth of the universe had previously been driven by both publishers and retailers in pursuit of ever more fickle consumers. The effect of the universe expansion on retailers has been both positive and negative. The influx of "non-traditional retailers" has forced up magazine retailing standards. It has also brought fierce new competition for traditional magazine stockists, forcing range reviews and product profile drifts on the major multiples, and pushing many neighbourhood shops down the C-store route in order to survive. Open, deregulated retailing means a faster moving retail environment, but one where there is no commitment to handle magazine range.

The effect of this universe expansion on publishers had undoubtedly been to help drive copy sales upwards through the last few years. On the negative side, the increase in stockists has also helped to speed up the increasing volatility in magazine purchasing patterns, to further fragment magazine retail profiles and to boost waste levels.

The expansion in the retail universe has been driven by petrol station forecourt operators, convenience stores and supermarket/hypermarkets with secondary newsagents actually seeing a fall-off.

The arrival of the new retail entrants has hit the magazine market shares of all the traditional retailing areas, but with some profound changes among the highly significant "range retailers", WHSmith and the traditional CTN.

The new magazine retailing map is much more complex with different retailers having different consumer demographics and shopper dynamics, appealing to consumers in different shopping moods and modes. This has resulted in massive fragmentation of magazine retail profiles which makes the task of distribution much more complex and demanding.

Space and range planning are the two major retail issues which are shaping magazine retailing at the moment. While many "non-traditional" retailers are gradually extending range, many "traditional" magazine stockists are reducing range. This "range convergence" is causing massive competition among retail groups and a great deal of turbulence in the market.

Specialist niche retailers, currently not supplied by news wholesalers, offer some future potential for magazine sales, but there are a number of cost and administration hurdles to making this route to market work.

The continuing growth of retail multiple power has shaped how publishers and distributors sell to the newstrade and has diverted more promotional funds into in-store schemes, but it is also raising such issues as retail display allowance, variable retail terms for smaller magazines and the retail control of cover prices. Yet these questions seem minor in comparison to the supermarket's view that the "supply chain" has flicked into a "demand chain" where the retailer is the focal point for assessing, co-ordinating and meeting consumers' needs.

In the face of retail multiple power, the role of the independent retailer assumes more importance in attempting to maintain an open and accessible market for new and specialist magazine product. While the long-term market share growth of the retail multiples is impossible to halt, the industry must devote more resource to the independent retail sector as are other FMCG manufacturers.

There is a hope that home delivery sales, retail subscriptions and shop saves can be developed to help grow retail magazine sales as the pressures on display space increase. Localised tests prove that focused activity can stimulate all these "pre-ordered" sales routes. What has been lacking in the past is any significantly funded, long-term or industry-wide strategy, without which there is little prospect of developing anything in this area.

1.6 Magazine Retailer Profiles

This section of the report profiles the different sectors within the magazine retailing universe.

- WHSmith Retail remains a powerful and unpredictable force. Specialist titles in particular are heavily dependent on the buying policies of this massively important multiple.
- A large section of the CTN sector is morphing into the Convenience store format which in turn is putting pressure on title range as magazines compete with an increased array of other products and services in the C-store offer.
- The independent retailer continues to lose share, though at a slightly slower rate in 2000 than in previous years. The publishing industry still has to find ways to slow the decline of this important sector.
- The supermarkets continue their share growth as they develop wider magazine ranges and new retail formats where magazines are important in enhancing the consumer offer.
- The Convenience store format in all its manifestations (dedicated C-store chains, symbol groups, petrol station forecourts) still has further potential to develop its magazine sales.
- Other outlet types offer the prospects of further growth, but often only with considerable resource, both in terms of time and money.

1.7 The Business of Magazine Retailing

National Distribution, the attempt by WHSmith Retail to impose a surcharge on specialist titles, the debate about the availability of magazines within supermarkets, the issue of magazine waste: all these issues have reinforced the fact that retailers have a number of issues relating to the process of handling magazines. These issues can no longer be ignored and it is the challenge for the industry to come to some kind of equitable solution to all the conflicting demands.

1.8 The Sales Future for Magazines

All the trends point to a continued and healthy consumer demand for the targeted, personal and portable communication which magazines offer. What is more at issue is the **delivery** of those magazines.

The shape of magazine retailing is developing so that the traditional retail route to market is becoming more limited in the range of product it can and wants to handle. The relative market shares of the different retailing sectors are also continuing to shift, moving the industry to a more range-restricted retail future which will become more expensive for specialist magazines as well as more limited. Publisher-supplied specialist retailers, subscriptions (whether via the post or the retailer), digital media: these will all be real, practical and viable routes to market in the future.

Yet what is worrying is that the alternatives to the traditional retail sales routes are not yet fully developed:

- **Subscriptions** are hampered by their high fulfilment costs.
- **Alternative niche retail outlets** have not yet been properly developed.
- **Digital media** do not yet offer the immediate consumer penetration required. Also finding out the secret of where the transaction is with online services has eluded most information providers.

In addition, the **cover prices** of truly targeted titles are too low to bear any significant increase in the current distribution economics. The long-term share which magazines take of the total **advertising** market is another major issue which is lurking behind the scenes.

The 1998 Wessenden report on magazine retailing carried this conclusion: “There is not enough yet to panic the publishing industry, but more than enough to make it think strategically about developing new routes to market in a supply chain which cannot and will not remain as it is now.”

The perspective of this report carries more urgency. The trends identified almost three years ago have progressed and accelerated. There are now a number of immediate requirements for the publishing business.

- Think retail and understand better where magazines fit in the retailer's consumer offer.
- Be much clearer and formalised about the various roles and responsibilities of the links in the supply chain.
- Understand better the dynamics of promotions. What are they achieving? At what return on investment?
- Understand better the dynamics of the consumer purchase. Why do consumers buy magazines? Why to they buy certain magazines at certain retailers at certain times?
- Re-examine the alternative routes to market - subscriptions, online sales, niche retailers. None of these avenues have yet offered an instant alternative to mainstream retail sales, yet each must become more important in the circulation sales strategy of the future.