SUBSCRIPTION MARKETING 2002

A Survey of Publisher Practice

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REPORT CONTENTS

Section 1
Background & Brief

Background

The market for magazine subscriptions is not growing as fast as was predicted a few years ago.

In 2001, PPA commissioned Wessenden Marketing to investigate consumer attitudes towards subscriptions. This report highlighted a number of key challenges facing the industry in terms of its consumer marketing.

Yet how is the publishing business coping with this situation in its business practices and internal disciplines? Is it taking subscriptions seriously? Is it increasing its subscription budgets? Is it changing its subscription practices?

Brief

In 1994 and 1997, PPA commissioned Wessenden Marketing to research the views of PPA member companies regarding subscription practice.

In 2002, it was decided to update this industry overview. This report tracks many of the shifts that have taken place over that period of time.

Section 2
Management Summary

The UK magazine subscription business is at an important stage in its development.

Subscriptions' share of total consumer magazine sales volumes has continued to edge upwards to its current 12%. Yet this share growth (a) remains slow and modest and (b) is the result of sliding retail sales rather than of any great buoyancy in subscription sales. After a period of growth in the late 1990s, both the volume of subscription copies sold and the number of consumers subscribing to magazines have levelled off.

This survey points to the fact that publishers have indeed become more creative and experimental in their marketing practices, using a wider range of techniques and sources to acquire new subscriptions. Yet this has been achieved in a tight economic environment where budgets are under pressure and where there has been a general trend to making subscriptions break even slightly earlier in their lifetime than five years ago.

Is the case for subscription marketing being won internally within publishing companies? Here the picture is mixed. On the positive side, the strategic benefits of subscriptions are appreciated. The principles of lifetime value are known and recognised. Marketing budgets are being shifted, albeit slowly, more into subscriptions and away from retail sales.

Yet on the negative side, while lifetime value is understood by publishing management, it is not always being applied in the day-to-day business: there is still a gap between theory and practice. Subscription marketers often lack the simple business tools, the commercial experience and the status within their companies to make more of an impact.

So the overall picture is of an industry which has become smarter in its marketing, but which has not devoted the budgets to drive the subscription market forward and which needs to train and value its staff better than it does at the moment.

Publisher Overview

- Subscriptions are widely recognised as being central to the overall circulation strategy and not just as an addition to retail sales.
- The majority of publishers sees subscriptions performing better than retail sales.
- Consumer publishers predict that past subscription growth rates will continue or accelerate. Business publishers are less optimistic, but are still positive about the future.

Drivers of Subscription Growth

The single most important factor behind publishers committing to subscriptions is the ability to lock readers in. The fact that this has risen up the chart of subscription drivers over the last five years is an indication (a) of the increasing volatility and competitiveness of the whole magazine market and (b) that subscriptions are being viewed more strategically than in the past. One of the lowest ranked drivers is the database potential of subscriber names: an indication that publishers have still not got to grips with generating more revenue from a name.

Barriers to Subscription Growth

Two factors dominate consumer publishers' minds. The first is internal budget constraints: this means having enough people in the subscriptions department to do the work as well as the size of the marketing budgets. The second key hurdle is the cost of postal fulfilment. For business publishers, these two issues are also significant barriers, but in addition there is the lack of availability of good direct mail lists.

Publisher Subscription Attitudes

- Subscriptions are well on the radar in most publishing companies and are not seen to be suffering as a result of any undue focus on retail sales.
- The principles of lifetime value appear to be well understood, but they are not always being applied in day-to-day business: there is a clear gap between subscription theory and practice.
- There is a perceived need for more training.
- There is not felt to be a clear and attractive career path within subscription marketing for many respondents.

Publisher Subscription Issues

Looking forward over the next two to three years, four key challenges were mentioned repeatedly:

- The cost of postal fulfilment.
- Internal company restraints which ranged from the size of marketing budgets through to a lack of people to get jobs done.
- A lack of good direct mail lists.
- Integrating online services into the editorial offer and the subscription package.

Subscription Profitability

There are a number of signs that while publishers have become more adventurous and experimental in their marketing techniques, they are being forced to keep a very tight rein on costs. As an indication of this, the average subscription break-even point has reduced from 1.8 years in 1997 to 1.7 years in the current survey.

Subscription Budgets

- Almost a quarter of publishers claim to have no distinct budget for subscription acquisition – a sign that a significant minority of publishers is still approaching subscription activity in a relatively unstructured way.
- Where there is a subs budget, almost half of all publishers are seeing no shift in the balance between subs and retail marketing budgets. Where there is a shift, it is moving towards subs.
- The budget setting process is a complex one with many people involved in the decision making unit. The more strategic the

decision, the more people get involved and the lesser role that marketing and circulation executives have in the decision.

Subscription Acquisition Costs

There is no clear trend in acquisition costs. As publishers experiment with a wider range of sources than in the past, acquisition costs are moving in all kinds of different directions at the same time.

Subscription Acquisition Sources

In-magazine activity still accounts for the largest single source of new subscriptions on consumer magazines while direct mail is the biggest business magazine source. Yet most publishers are using a wider range of sources than in the past with the Internet becoming a significant new area.

Subscription Acquisition Techniques

- Premiums and free issues, backed by heavy price discounts, are the most often used acquisition techniques.
- Added value services in one form or another are used by the vast majority of publishers to enhance the subscription experience.

Direct Mail Trends

- While more publishers are using direct mail (DM) than in the past, much of this new activity is focused on in-house and swapped lists rather than on the more traditional area of rented-in lists.
- This mix of DM sources means that there are no clear trends in DM response rates, costs and volumes.
- Just over half of all publishers rent out their own subscription files to external companies.

Gift Subscriptions

Gift subscriptions now account for 15% of all consumer magazine subscription records and this figure is rising.

Subscription Renewals

- Consumer magazine renewals rates are rising while business magazine renewals rates are holding steady.
- Around a quarter of subscription activity and budgets is devoted to renewals and this proportion is edging upwards.
- The average number of renewal letters is increasing.

Subscription Pricing

- Over 90% of magazine publishers discount their subscription prices.
- Experimentation seems to be the order of the day with some publishers increasing their discounts and others reducing them – there is no overall industry trend.
- The vast majority of publishers pitch their introductory prices below the retail cover price – the industry has become more aggressive in this area.
- At renewal, most consumer publishers are not raising their prices – a distinct break with the past and with business publishers.
- Most publishers keep their renewal prices steady through the whole renewal series.

Payment method

- Credit cards have become the single most important payment method for consumer magazines and usage of direct debit has increased massively.
- Credit cards have also become more important for business magazines, but cheque payment remains the single biggest payment method.

Subscription Term

The one year subscription remains the core term for both consumer and business magazine publishers. Yet there is a trend to shorter terms for consumer publishers, driven by more usage of quarterly and biannual direct debits. By contrast, business publishers are lengthening their average term.

Subscription Services

- 61% of consumer publishers use an external fulfilment bureau.
- 65% of business publishers use a bureau – a significant increase on the 1997 survey.
- The next most common outsourced area is the usage of mailing houses and lettershops.