

## Current Research

### Beyond print: A future for magazines

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**The blossoming** of the World Wide Web presents a vast challenge to print magazine publishers, for the Web at its most alluring will spawn vigorous competition for the attention of consumers and advertisers. With magazine circulation flat for five or more years and advertising acutely vulnerable to economic cycles, all but the very strongest magazines must cope with an end to growth—or worse.

Some of the greatest titles in the United States have declined precipitously in this maturing market. *National Geographic*, *Reader's Digest*, and *Family Circle* have lost about 20 percent of their subscribers in just four or five short years. Overall, 43 percent of the magazines audited by the Audit Bureau of Circulation have shed subscribers over the past decade, and more than two-thirds have cut their rate bases in the past three years. Moreover, the rise of the Web has also put pressure on magazines by providing yet another vehicle for fragmenting audiences and advertising budgets. Nonetheless, 1998 was a banner year for launching new magazines—more fodder for the battle that is now shaping up.

BEYOND PRINT: A FUTURE FOR MAGAZINES

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Is decline inevitable? Perhaps not. Instead of merely redeploying selected material to create a Web presence, print publications should embrace a new business model that seamlessly joins the two communications media so that each complements and enhances the other. In doing so, magazine publishers have much to learn from the more savvy up-and-coming Web businesses.

### Caught in a vise

Lately, magazine publishing has been a zero-sum arena, but one, unfortunately, where more and more publications compete. Between 1990 and 1998, the number of US consumer magazines rose from roughly 550 to 1,050, while overall circulation remained flat despite growth in population (Exhibit 1). As a result, an increasing number of magazines must share a volume of ad spending that has grown more slowly than the total pie (Exhibit 2, on the next page).

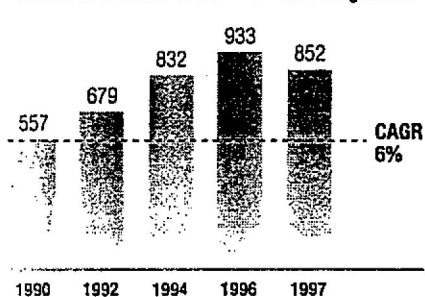
Many publishers have turned to special-interest magazines for growth. Some new titles, such as *InStyle*, *Men's Health*, and *Maxim* (for male 20-somethings), have achieved great things. Certain established players have also enjoyed success with special-interest line extensions of existing publications. Two magazines from Time Incorporated, *Teen People* and *Sports Illustrated for Kids*, have enlarged their franchises even as the core magazines age.

But the very modest overall circulation gain (0.2 percent from 1992 to 1998) tells the larger story: the success of a few new titles masks erosion among the vast majority. And the story gets worse; the industry has been shocked by wholesale consolidation and should expect to pay more for distribution—or to get clobbered. At the same time, pending government regulation of sweepstakes promotions has helped depress subscription sales. In sum,

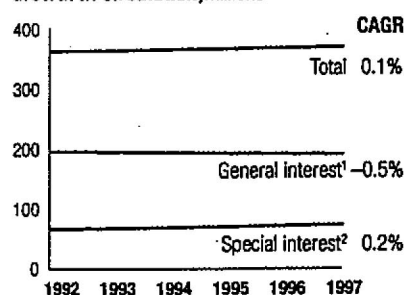
EXHIBIT 1

#### A zero-sum game

Growth in number of US consumer magazines



Growth in circulation, millions



<sup>1</sup> Based on a sample of 88 general-interest magazines.

<sup>2</sup> Based on a sample of 125 special-interest magazines.

Source: Veronis, Suhler & Associates; Magazine Publishers of America; Samir Husni's Guide to New Consumer Magazines

most mainstream consumer magazines face dramatic rate base reductions when the economy finally slows, a possibility over the next two years.

Other media have been busily taking a piece of the pie. Cable has brought the number of TV channels reaching the average US home up to 60, from

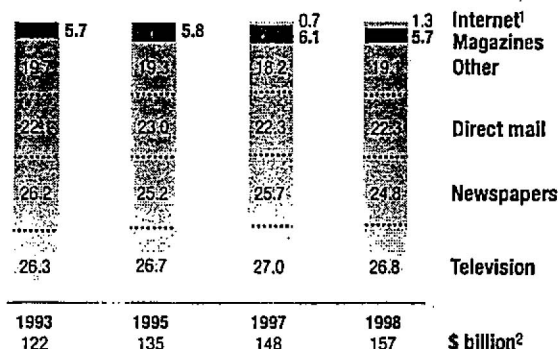
27 in 1990—and absorbed an additional \$14 billion of advertising dollars. What will happen when the 200-channel world of digital cable systems and satellites targets many of the same special-interest groups that magazines now cultivate?

Meanwhile, of course, the number of Internet users has grown by leaps and bounds—to 47 million people in the United States and 83 million around the world in 1998. The proportion of US users spending more than ten hours a week on line has risen from 28 percent in 1995 to more than 50 percent today.

## EXHIBIT 2

### A flat landscape for ad spending

Share of total spending on ads in various communications media, percent



<sup>1</sup> Estimated combination of barter and cash deals.

<sup>2</sup> In 1993 dollars.

Source: McCann Erickson

With nearly \$2 billion in annual advertising revenue and growth last year of 48 percent, the Web is making inroads with advertisers, too. That kind of expansion in itself makes the Web an opportunity that print publishers dare not ignore. The absence of effective defensive measures for buttressing traditional magazines also argues in favor of a Web strategy. Although successful smaller-circulation publications often enjoy margins equal to or better than those of their large-circulation consumer counterparts, their revenues are much smaller and their odds of success smaller still. A strategy of launching a variety of special-interest publications with aggregate revenues comparable to those of a successful mainstream publication is therefore likely to fail.

The obverse of a high failure rate for start-ups is the entrenchment of reading habits once they are established. That is why, with notable exceptions, the circulations of large mainstream publications are slowly eroding rather than collapsing. Their remaining readers represent an enormous asset—one prohibitively expensive to reproduce. Since the ability of Web sites to inspire comparable loyalty has yet to be proved, it makes sense for publishers to adopt a Web strategy that protects their investment in print.

Two distinct kinds of Web portals have benefited from the Web's growth: "fat" ones, such as Yahoo! and America Online, which provide entry to a

vast range of sites, and "thin" or "vertical" ones, which target audience segments (the readers of special-interest magazines, for example). The Web offers these audiences an experience that is not only very different from but also, in some ways, superior to that of reading a print publication. Both *Worth* magazine and The Motley Fool Web site, for instance, give information on where and how to invest. But The Motley Fool site provides users with interactive access to the opinions of other users about specific investments, a facility that might in itself induce some *Worth* readers to switch. Indeed, even in 1997, 16 percent of Web users (up from 13 percent two years previously) reported spending less time reading magazines because of the time they spent on the Web (Exhibit 3).

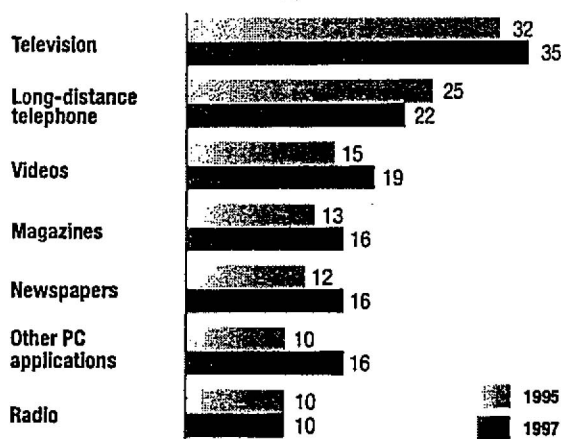
Even a small decline in circulation can have devastating effects. A magazine's cost base has a large fixed component, so every advertising dollar lost comes out of the bottom line. The expense of maintaining and building subscription revenue and a customer base depends on the "quality" of subscribers. Very loyal readers renew more or less automatically, often for periods longer than a year, and tend to pay the highest rates. A magazine's merit can't by itself keep more ambivalent readers on board; they have to be wooed with discounts and premiums, such as a CD or some other gift—not to mention repeated mailings. Unless and until these subscribers become more loyal, they tend to be unprofitable. New subscribers are the most expensive to get and the least likely to renew.

If a magazine loses some of its best and some of its average customers, it loses not only the accompanying subscription revenue but some advertising revenue as well. Because the magazine would have spent little on these people, most of the losses would fall right to the bottom line. Thus if a magazine lost 20 percent of its loyal and moderately loyal subscribers and 15 percent of its revenues, it would lose 65 percent of its profits. Not surprisingly, magazines are easily and seriously hurt when they lose their best subscribers—people with lots of disposable income and a college education. Ominously, this group is significantly overrepresented in the on-line world.

EXHIBIT 3

**The decline of traditional mass media**

Adult Internet users surveyed who say they spend less time on traditional media share, percent



Source: FIND/SVP 1997 American Internet user survey

## A new publishing paradigm

What is to be done? Much as a number of Web sites—including Yahoo! and garden.com—have launched print publications, so a magazine publisher must give itself a robust on-line presence to retain key segments of its audience and its bottom line. We urge these publishers to recognize that if they combine Web and print formats they will be stronger, in four ways, than they would be by limiting themselves to a single medium: they can enhance their value to current readers, deliver greater value to advertisers, build larger audiences by attracting consumers who get enough value from their Web sites to “stick” with them, and develop more resilient cost models.

There is good reason to act quickly—early movers on the Internet have a unique opportunity to build customer loyalty and turn it into a lasting source of competitive advantage. Today's Internet users are settling in to sites, not merely surfing. Those who have yet to go on line are even more likely to settle in quickly.

Building an audience. Reading magazines is a private and relaxing experience that can take place almost anywhere, and the print quality and pictures are often outstanding. The Web, by contrast, is and will probably remain largely bound to desktops. People use it for utilitarian purposes—to get things done. It requires more involvement and interaction on the user's part than print does and lacks print's simplicity. In short, each medium has its own strengths, and a business that operates in both can have an advantage over a business that sticks to only one.

Delivering value to advertisers. The Web and print offer complementary value to advertisers. Consumers pick up magazines not only for their editorial content but also for their advertisements. Print magazines do not, however, give consumers the ability to undertake transactions, nor do they provide supplementary information on demand. Advertisers will use magazines to create brand awareness. They will use the Web to find out what customers are looking for, to give them information, to direct them to physical outlets, and to solicit feedback. For many advertisers, a one-stop-shopping offer will naturally be attractive.

Operating synergies. The most intuitively obvious advantage of the “blended” model is cross-promotion: a magazine can direct traffic to a Web site, which can refer readers to related articles, customize searches, and make subscribing effortless. Another benefit is the lower cost of pursuing subscriptions over the Web. Subscribers typically renew in response to a series of direct-mail solicitations that become more urgent as the expiry

date approaches. Such mailings can cost \$10 or more for each subscriber over ten or more mailings. Sending electronic reminders is clearly cheaper, and it is easier for subscribers to hit "return" than to fill in a form, find a stamp, and post their mail.

Likewise, market research can be conducted more quickly and cheaply by e-mailing queries to subjects or by eavesdropping on chat groups than by mailing questionnaires. When magazine managers open their eyes, they will see many opportunities to generate revenue and save money.

### **Don't reprint—reconceive**

So far, no publisher has unlocked the business formula of the Internet. Nevertheless, our examination of rising Internet stars and our interviews with Internet executives have helped us discern important principles that have emerged during the medium's first few years.

At first, traditional publishers tended to present previously printed magazine articles on their Web sites—a form of content called "shovelware" because content was shoveled from one medium to the other. When the *Business Week* Web site was launched, for example, it presented reprinted articles, along with a few features (bulletin boards, chat rooms, and partial access to the magazine's archives) that amounted to a token acknowledgment of the Web's special properties. For fear that users would leave the site, no hotlinks connected Maven, its PC information service, to sites where users could buy personal computers. Otherwise, the on-line *Business Week* offered its users little beyond the print version, although it was free—not the most exciting proposition for publishers.

### **A new kind of model**

While print magazines were merely disgorging their contents on line, a new kind of Web-only publishing model, based on three characteristics, was emerging.

1. **Utility-based content.** Applications are the Web's strength. Users like to interact with others, to get answers to specific questions, and to make purchases. Parentsoup.com, an on-line community aimed at young parents, was originally organized around articles written and edited by professional journalists. The organizers of the site believed that parents would go to it to read the articles and, perhaps, to contribute comments based on personal experience. They quickly found, however, that its users were more interested in obtaining advice from one another. Some users came to be something like village elders—as important as child-care professionals.

Interactive services on the site developed followings as well. The most popular feature is the Baby Name Finder, an interactive version of the alphabetical lists of names in books on parenting.

Every site must have its own high-value "killer application" targeting consumers and giving them a reason to return.

2. New marketing paradigms. Display advertising doesn't always work well on the Web. In the beginning, Web magazines, like most Web sites, deployed banners, the electronic equivalent of display advertising.

#### EXHIBIT 4

##### Example: garden.com

Web component	Rating	Explanation
Site content	●	<ul style="list-style-type: none"> <li>• Repository of plant and gardening information</li> <li>• Plant finder and design applications</li> </ul>
External content	●	<ul style="list-style-type: none"> <li>• Links to magazines, educational resources, societies, organizations</li> </ul>
Site-to-user community	●	<ul style="list-style-type: none"> <li>• Help desk, 24-hour hot line, garden doctor, tutorials</li> <li>• Celebrity chats</li> </ul>
User-to-user community	○	<ul style="list-style-type: none"> <li>• Removing chat because of concerns that it was being used to promote competitors</li> </ul>
Site products	●	<ul style="list-style-type: none"> <li>• Extensive catalog and spotlighting of suppliers</li> <li>• High ratings for service</li> </ul>
Link to external products	○	<ul style="list-style-type: none"> <li>• N/A</li> </ul>

Gradually, though, the best sites developed a marketing approach that facilitates actual commerce.

At HomePortfolio, an on-line business for homeowners about to renovate, users can search through thousands of products and tag the ones they want for their on-line

personal portfolios—the virtual counterpart of a manila folder filled with pictures clipped from design magazines. At any time, users can return to their portfolios and compare products, and they can also e-mail photographs of products to friends and decorators. The unparalleled convenience of this service makes it especially popular and therefore especially valuable to advertisers. In general, the Web improves the delivery of information and customer service and helps companies forge stronger relationships with customers.

3. Sequenced growth. Perhaps the most important characteristic of a successful on-line business is the way its site develops. Unlike print magazines—which must have a well-developed editorial voice and design even before they appear, since they are not likely to get a second chance if they fail—on-line magazines begin with a rough idea and then approach publication as though it were a form of beta testing. After presenting users with a handful of utilities, on-line magazines build upon their successes and eliminate or modify their failures. Every six to eight weeks, the electronic business delivers its next incarnation.

As one of the founders of HomePortfolio puts it, the company has been engaged in "constantly ripping out some rooms [of its site] while adding whole wings based on feedback from the site's 'inhabitants.'" CNET, a Web site devoted to computer users, has gone so far as to turn its most popular new services into sites of their own, such as download.com, news.com, and gamecenter.com. The Motley Fool has gradually shifted its focus from providing a forum where users can chat about stocks that interest them to making it possible for them to engage in actual stock transactions.

### Content, community, commerce

A Web site's formation has much in common with a snowflake's: it crystallizes around a center—the core customers' needs and its vision for satisfying them. Like snowflakes, Web sites are unique, though they grow according to a fixed set of laws. We believe that successful magazine Web sites have six elements: content, community, and commerce, each with an internal and an external component.

Sites must feature such content as search facilities, site-specific materials, and links to external content. They can promote a sense of community through utilities that foster interactions between them and their users (e-mail newsletters, on-line help, and "ask-the-editor" features), as well as utilities that create a community of users (chat rooms, bulletin boards, and instant messaging). As for commerce, sites must offer products or services for sale or subscription and develop relationships with other vendors to meet the needs of target consumers. Much as the best salespeople in, say, Saks Fifth Avenue will run across the mall to Neiman Marcus to buy a customer an outfit he or she wants if it is sold out at Saks, we believe that the best

Web sites will take users to the sites of competitors to give customers the most complete service possible.

Sites organized around affinity groups—for example, garden.com (Exhibit 4) and epicurious.com (Exhibit 5)—can be expected to ramify organically into

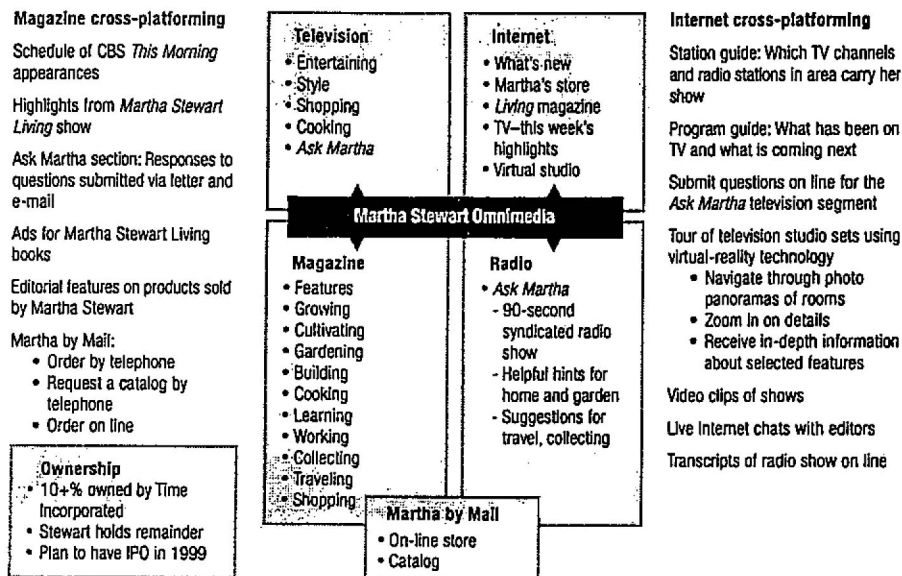
#### EXHIBIT 5

##### Example: epicurious.com

Web component	Rating	Explanation
Site content		• Repository of food and travel information
External content		• Links to other food and travel sites—for instance, phys.com (nutrition), shamrock.com (tourism in Ireland)
Site-to-user community		• Help desk, recipe finder, problem solving for cooks, consumer advocate for travel issues • Cooking events around the country with renowned chefs
User-to-user community		• Forums for exchanging ideas with other cooks and travelers
Site products		• Mostly books; link to bn.com
Link to external products		• Links to other food and travel product sites, such as williams-sonoma.com and travelocity.com

## EXHIBIT 6

## Example: Martha Stewart Omnimedia



ever-increasing numbers of specialized Web-based services, all promoted and augmented by the print counterparts of those sites.



Blending print and the Internet is probably just the beginning for magazine publishers that aim not to beat the Web but to join it. Affinity groups arising from Web sites are likely to engender new businesses serving those groups through other media, such as television, radio, and books. Martha Stewart Omnimedia (Exhibit 6) is such a business: products and services in one medium aggressively cross-promote those in the others. The site also acts as a merchandising center and a place to collect feedback.

In such ways, the Web is opening up a whole world of cross-cutting synergies. More urgently, it offers publishers a way to secure the profitability and growth of their print businesses. **Q**