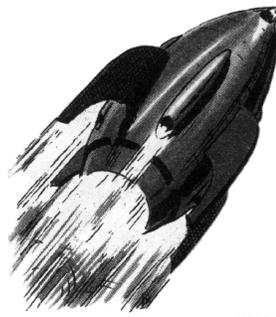


***Assessing business and audience-building
Initiatives for cultural magazines***



***Prepared for Magazines Canada
By Impresa Communications Limited
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EXECUTIVE SUMMARY

Cultural magazines who are members of Magazines Canada have expressed a desire to know if certain services could be implemented that would serve their special needs. This report, prepared by Impresa Communications Limited, examines the feasibility of three higher priority initiatives:

1. A “no returns” system for retailing single copies;
2. Collaborative representation for national advertising;
3. A tailored direct mail promotion for subscriptions.

Research included data and literature review; analysis and review of general industry standards, benchmarks and practice; and interviews with a wide range of people and organizations. Because these three projects and cultural magazines share similar background information and issues, it was decided to provide one report with three parts which addressed these initiatives.

1. A “no returns” system for retailing single copies of cultural magazines

A “no returns” system would mean that certain cultural magazines would be sold outright to magazine and bookstore retailers and other outlets at a higher discount than is now offered and would be kept on sale, marked down as necessary. The goal would be to reduce the shredding of thousands of copies of expensively produced cultural magazines as they are now, under the existing, traditional newsstand model.

While, on its face, such a system would avoid lamentable waste –particularly since many small circulation literary journals are produced with a much higher cost per copy than mainstream magazines – it is also a complicated matter. But it is one which could work with sufficient buy-in by independent cultural titles and independent retailers. A sufficient number of retailers (possibly including alternative outlets) and a sufficient number of cultural magazines (probably a minimum of 10 retailers and 10 individual magazine titles) would need to be recruited to join a pilot project, led by Magazines Canada, to test out the concept over the course of a year, contingent on funding and budget.

The principal benefit would be to higher-priced literary and visual arts magazines, which would get significantly less money per copy but would see virtual 100% sales. The principal benefit to retailers would be to be compensation for the risk associated with outright purchase while having the flexibility to price recent back issues appropriately to make them attractive to their customer base.

A variation would be the creation of dedicated, branded newsstand furniture and display materials that would be provided to retailers as a more or less permanent home to house the participating magazines, with room for current and recent issues, priced and discounted as considered appropriate at the discretion of the retailers.

It is recommended that a plan be drafted whereby a select group of cultural magazines and a select group of independent retailers would be recruited to take part in a year-long pilot project, beginning in 2013. The pilot project would be contingent upon a threshold uptake by Magazines Canada members and independent retailers, the striking of a realistic and acceptable budget and commitment of operating funding. Further exploration would be done about the costs and logistics of providing dedicated displays to house the participating “no returns” titles.

2. A collaborative advertising sales program for cultural magazines

It is an article of faith among some cultural magazine publishers and editors that if only they could get a good advertising sales person, all would be well. However, based on current experience, the very nature of independent cultural magazine publishing tends to militate against advertising sales representation on a broad scale.

Even if every cultural magazine were willing to join such a collective (unrealistic) and do what is necessary to make it successful, the total audience that could be delivered is relatively small. While there are examples of the same sales team representing more than one cultural magazine, the idea is a difficult one to scale up.

Small magazines that concern themselves with literature, contemporary art, alternative music and so on have to understand and accept that they have to make a very strong, compelling case to pull national advertisers away from the media outlets they already know very well and to convince them that they will be reaching a large number of attractive people at a competitive price.

There is a good deal of education required, particularly for smaller magazines, in order to make them advertiser-ready. While a core group of mid-sized magazines might launch such a project, the magazines which would most benefit from such a collaborative sales regime are the ones that need to develop the necessary tools to meet the minimum conditions for offering a coherent marketing message.

It becomes even more difficult because most advertisers now want print and online presence and many smaller magazines do not have a very robust online presence or even pursue online advertising. In other words, these magazines are not in a place where they could be part of a rounded package.

On balance it is not recommended that Magazines Canada launch such a program right now on behalf of its small cultural magazine members, but that it continue and enhance its existing program of education (seminars, hot sheets, travelling consultations, ad sales schools) until a sufficient number of magazines have been brought to the level where such a program could be successful. The idea could be reviewed in a few years.

3. A separate direct mail campaign on behalf of cultural magazines

The results of Magazines Canada's direct mail campaign have been good for all members, but there is no question that smaller magazines get a smaller share of the total orders. Analysis of the 2010 campaign showed that while small magazines (which were defined as <15,000 circulation) were 53% of the participating titles, they sold only 16% of the subscriptions. Some publishers took this to mean that the program was not meeting their needs. However, further analysis showed that the smaller the magazine, the bigger the boost was to its circulation, despite the absolute number of subs.

The notion has emerged that a dedicated direct marketing initiative for cultural magazines, in parallel to the annual Buy 2, Get 1 Free campaign, would result in a higher rate of subscription sales. However we could find no evidence that this would be the case and, in fact, this would probably not only increase overall combined costs but also detract from the effectiveness of the annual national campaign. Cultural magazines could wind up selling a few more magazines, but at an inflated cost.

What could drive cultural magazine sales is a more focused microsite that effectively repurposes existing online information and takes advantage of the existing direct marketing engine. At a relatively modest cost, this could be promoted separately, yet maintain a linkage with the broader catalogue of Magazines Canada titles. And through use of social media, the microsite could educate the public about the rich offerings of cultural magazines, including titles about which they may be unaware. Augmenting the sell by featuring selected excerpts and sample content, the site could draw the attention of specialized readership for these specialized magazines.

Some useful research could be commissioned, however, to understand purchase behavior among those who buy magazines in Canada generally and those who buy magazines through the Buy 2, Get 2 Free campaign. Not enough is known about what the drivers are, particularly for cultural magazines. As Michael Fox asked in the 2010 research: are there people who only order larger circulation magazines and others who only order smaller-circulation ones?¹ We know, from the Hill Strategies report(s), based on national household spending data, that purchase of magazines varies considerably by geography, age, income and education. This is fundamental information that the industry lacks.

(The microsite could also be used to offer a subscription-based sampler pack of cultural magazines similar to the British service "Stack"² whereby subscribers receive periodic packages of independent magazine titles.)

It is recommended that a dedicated microsite be created, linked to the existing national direct marketing campaign and that it be used to promote participating cultural magazines – in effect giving them two shots at potential customers – but also promoting these magazines to sympathetic buyers and emphasizing their strongest selling point, which is their specialized and unique content and contributors.

¹ Magazines Canada, Subscription analysis, July 22, 2010

² www.stackmagazines.com

INTRODUCTION

In June 2011, there was a roundtable meeting as part of the MagNet 2011 conference in Toronto at which about three dozen representatives of small magazines gathered to discuss their end of the magazine business; particularly what programs and services they might wish to see to build audience and help them meet their objectives. The purpose of this report is to examine the feasibility of three particular higher priority initiatives:

1. A “no returns” system for retailing single copies;
2. Collaborative representation for national advertising;
3. A tailored direct mail promotion for subscriptions.

There are approximately 120 small cultural/literary magazine members of Magazines Canada. They share some common characteristics, including relatively small readership and constrained resources (almost all depending to a certain degree on public funding.) They also are rugged independents, going their own ways to reach their desired audiences. Most of the people working in and for these magazines are doing it for other than standard commercial reasons and therefore they don’t tend to follow standard commercial business models. When they do (for instance participating in the newsstand distribution supply chain) they do so with mixed results. The fit is sometimes not a good one; the rules of thumb on revenues and costs for the average magazine (if there is such a thing) apply imperfectly. The magazines all depend heavily on volunteer labour.

An analysis done in 2010-11 looked at the data from 2009 for 90 Canada Council-funded arts and literary magazines (60 English-language, 30 French-language). While this is not an exact overlay with the identified “cultural” magazine membership of Magazines Canada, it is the best and most recent data available. Single copy sales are a relatively small part of their income. The study accurately described these Council-funded magazines as a “network of autonomous small operations located throughout Canada, with local inflections”.

Typical title 2009	English titles	%	French titles	%
Paid circulation	1,667		883	
Print run	2,586		1,450	
Subscription revenue	\$20,102	13	\$13,603	10
Advertising Revenue	\$32,215	18	\$17,824	11
Earned inc. & donations	\$81,477	53	\$42,922	31
Total grants	\$95,975	47	\$95,536	69
TOTAL REVENUE	\$177,452	100	\$138,458	100

It is precisely these “local inflections” and “autonomy” that make collaborative business activities among cultural magazines complicated and difficult.

1. A “no returns” system for retailing single copies of cultural magazines

A “no returns” system would mean that certain cultural magazines would be sold outright to magazine and bookstore retailers and other outlets at a higher discount than is now offered and would be kept on sale, marked down as necessary. The goal would be to reduce the shredding of thousands of copies of expensively produced cultural magazines as they are now under the existing, traditional newsstand model. It would be open to the possibility of these copies putting the work of Canadian writers and artists into the hands of additional readers, even if at a reduced price and – certainly – a reduced financial return to the publishers³.

Such a system would allow – indeed encourage – sympathetic retailers to keep such cultural magazines on sale in their stores beyond the one-issue cycle⁴ that is now a commonplace. They would be free to price current or back issues or otherwise promote them until all copies are sold. This is sometimes called the Chinese model, based on the newsstand sales system reported to be used in that country⁵. The result would be that the publishers would now receive a much smaller cut of the cover price of their single copies, but would know that their magazines are not being wasted.

The pilot project would probably be the most attractive to high-end cultural and literary titles which spend considerably more than average on production of their magazines.

While, on its face, such a system would avoid lamentable waste – particularly since many small circulation literary journals are produced with a much higher cost per copy than mainstream magazines – it is also a complicated matter that would require careful planning. But it is one which could work with sufficient buy-in by independent cultural titles and independent retailers⁶. A sufficient number of retailers (possibly including alternative outlets) and a sufficient number of cultural magazines (probably a minimum of 10 retailers and 10 individual magazine titles) would need to be recruited to join a pilot project led by Magazines Canada, to test out the concept over the course of a year, contingent on funding and budget.. It would have to be determined what part of the work, if any, could be done by existing Magazines Canada staff . Much else would need to be negotiated, including the level of discount offered to retailers (as we’ll illustrate, it will have to be at least 50%, compared with the current retail discount of 30%) and the way in which results would be tracked over the life of the test. These and other aspects would have to be negotiated.

³ The strongest and most important mandate for literary and cultural magazines (and their funders) we are told is to find audience for Canadian writers and illustrators and that trashing 6 out of 10 copies is not the way to do this.

⁴ With, for instance, the spring issue replacing the winter issue and all remaining copies of the winter issue – routinely 60% or 65% -- being sent to the shredder. In some instances in the GTA, leftover magazines are gathered up and returned to the warehouse, but this is exceptional.

⁵ Each time a new issue comes out, the previous issues are progressively discounted until all copies are sold.

⁶ For purposes of this report it is assumed that, given current trends, there would be no interest in such a parallel system from the larger retailers such as Indigo Books & Music and Shoppers Drug Mart.

Here is a pass at the difference in costs for cultural magazines from the current Magazines Canada distribution paradigm. It shows what the discount structure is for a single copy of a magazine, based on several assumptions: for instance, that retailers would receive an enhanced 55% of the cover price; and that Magazines Canada would need to charge a premium for managing the added workload (in this case 30% rather than 25%).

Comparative discount structure normal and non-returnable option (one copy)

	Magazines Canada distribution		Non-returnable option	
Cover price	\$	10.00	\$	10.00
Magazines Canada	25%	\$ 2.50	30%	\$ 3.00
Retailer	30%	\$ 3.00	55%	\$ 5.50
Shipping and other	2%	\$ 0.20	2%	\$ 0.20
Net to publisher	43%	\$ 4.30	13%	\$ 1.30

Assuming that publishers are willing to accept a lower return for non-returnable sales, the following table shows what the impact is. It compares the return to the publisher based on the normal Magazines Canada discount structure with a 30% sell-through; and the same results in a non-returnable model. In both cases, the assumption is based on a \$10 cover price⁷ and that, when buying outright, retailers would order fewer than the number of copies they would normally receive as a returnable draw. The benefit to publishers would be that after a period of time they would be able to adjust their press runs downward accordingly and yet have increased paid circulation.

Net to publisher example based on a \$10 cover price

						\$ 4.30	50%	\$ 1.30		
No. of stores	No. of Magazines	Per store draw	Gross draw	Sell through	Net sales normal	Net \$\$ normal	Net sales no-return*	Net \$\$ no-return	Variance	
1	1	10	10	30%	3	\$ 12.90	5	\$ 6.50	(\$6)	
10	1	10	100	30%	30	\$ 129.00	50	\$ 65.00	(\$64)	
10	10	10	1,000	30%	300	\$ 1,290.00	500	\$ 650.00	(\$640)	
10	20	10	2,000	30%	600	\$ 2,580.00	1,000	\$ 1,300.00	(\$1,280)	
15	10	10	1,500	30%	450	\$ 1,935.00	750	\$ 975.00	(\$960)	
15	20	10	3,000	30%	900	\$ 3,870.00	1,500	\$ 1,950.00	(\$1,920)	

It's very difficult to estimate what the costs to Magazines Canada of offering this no-returns option. It is assumed that the difference between the cut taken by Magazines Canada (a 50-cent per copy increase) and the increased costs for the pilot project – perhaps \$40,000 in fees and overheads for temporary staff or a contractor to manage the project would need to be subsidized, at least in the early going.

**assuming that retailers would take 50% of copies they would normally handle in a normal draw*

⁷ This is typical of a literary quarterly

Magazines Canada would, in effect, run the pilot project as an adjunct to the existing, successful single copy distribution system. Costs would include initially setting up the system, negotiating the agreements with participating retailers, handling the logistics and related overheads (bookkeeping, warehousing, inventory control etc.) for the non-returnable titles participating in the pilot as well as tracking the results of the project. The funding gap between the projected revenues and costs would need to be filled by negotiated subsidy from such sources as the Canada Council, various provincial arts councils and other related agencies (for example the Ontario Media Development Corporation). In this, it would be incremental to the funding arrangements that maintain the current distribution system⁸.

The principal benefit would be to higher-priced literary and visual arts magazines, which would get significantly less money per copy but would see virtual 100% sales. If the pilot is successful, while the magazines would get less revenue per sold copy, they would also be able to reduce their print run, which in the current system is otherwise bloated by hundreds of copies that will never be sold.

While the pilot project was underway, the participating titles and all other Magazines Canada distribution clients would continue to distribute elsewhere on normal trade terms.

The principal benefit to retailers would be a reasonable compensation for taking on the risk associated with outright purchase while having the flexibility to price recent back issues appropriately to their customer bases. It must be remembered that the principal goal of this project is to ensure that all the copies of these expensively produced cultural magazines reach end users.

A variation would be the creation of dedicated, branded newsstand furniture and display materials that would be provided to retailers as a more or less permanent home to house the participating magazines, with room for current and recent issues, priced and discounted as considered appropriate at the discretion of the retailers. However, this would involve an unknown investment in the displays and would probably only be undertaken once it was clear that the no-returns model was viable.

It is recommended that a plan be drafted whereby a select group of cultural magazines and a select group of independent retailers would be recruited to take part in a year-long pilot project, beginning in 2013. The pilot project would be contingent upon a threshold uptake by Magazines Canada members and independent retailers, the striking of a realistic and acceptable budget and commitment of operating funding. Further exploration would be done about the costs and logistics of providing dedicated displays to house the participating “no returns” titles.

⁸ Magazines Canada raises more than \$250,000 annually to maintain its main distribution service; about \$1,500 per participating title. *Still needed after all these years: A review of the Magazines Canada distribution service*, Impresa Communications Limited, 2007

2. A collaborative advertising sales program for cultural magazines

It is an article of faith among some cultural magazine publishers and editors that if only they could get a good advertising sales person, all would be well. However, based on current experience, the very nature of independent cultural magazine publishing tends to militate against advertising sales representation on a broad scale.

While most forms of collaboration should be encouraged, it is important not to raise unrealistic hopes and expectations, particularly among smaller and under-resourced cultural magazines.

Cultural magazine audiences, while attractive in many ways, are not particularly alluring for national advertisers, even when aggregated. Larger advertisers tend to believe they reach such audiences through their existing campaigns in print and other media. Individual magazines and even small groups of magazines can collaborate, but offering a group advertising buy –say, a “thinkie” or “visual arts” rate is impractical and extremely difficult to manage.

Even if every cultural magazine were willing to join such a collective (unrealistic) and do what is necessary to make it successful, the audience that could be delivered is relatively small. While there are examples of the same sales team representing more than one cultural magazine, the idea is a difficult one to scale up.

Individual cultural magazines paradoxically wish to sell collaboratively in theory, but find themselves unable to agree on terms of such an arrangement. For instance, if three magazines wanted to offer a joint rate, everyone wants the biggest piece of the pie, not to accept a third of the revenue across the board. Rather, they will insist on a complicated split based on total circulation, total subscriber numbers and so on. And the complexities increase as the number of magazines increase.

Smaller advertisers can be particularly demanding about audience data and ad placement; larger advertisers might be more inclined to accept the aggregate audience numbers or impressions. But many small cultural magazines are unable to provide such data themselves, let alone in concert with others. Plus there are difficulties in aligning frequencies and deadlines.

Further, there is a difficulty distinguishing between new and existing business in such a joint sales arrangement. Technically, if one magazine has a certain advertiser already, it would have to contemplate the possibility of sharing that revenue, something they aren't crazy about. They want to hold onto the advertising they already have, which would mean competing against the collective, thus demonstrating that they simply don't understand the concept of offering a collective ad buy and the compromises it requires of them. The alternative, to have protected clients, is difficult to manage and resented, more so as the number of participating magazines grows.

It is assumed by many smaller magazines that national and regional advertisers are eager to be involved with cultural titles when, while this may be so, there may be magazines in the group with whom individual advertisers do not wish to be associated. It could involve wanting only a regional split or it could involve sensitivities about language, visuals or subject matter which could be very difficult to accommodate.

Parsing the collective's ad space and separating out the acceptable from the unacceptable on a client-by-client basis and managing splits on the rate card is hugely labour-intensive and expensive in terms of selling and servicing time for ad representatives – who would be working on a shoestring, inevitably. How is such a situation to be managed, without losing the advantages that one-price, one-stop pricing was intended to have?

Similarly, small magazines with a particular political or social perspective are picky about which advertisers they will take, as they should be. But in that case, being a member of a collective and going after national agency-driven ad dollars is much more problematical. It is difficult to sell Enbridge or the Canadian Association of Petroleum Producers if many of the members of the collective refuse to publish an ad on ideological, ecological or other grounds. In which case, it might be argued, why not go after advertisers about which all of the collective members agree? It can be seen that there would be considerable difficulties in seeking and obtaining agreement, making it difficult for the sales team to make a living, remembering that they are working on commission. The further paradox is that the advertising that these magazines don't have – national agency business, placed by large media buying services – tend to be shot through with brands like cars and other products that are not likely to be looked on with favour. It could be a full-time job just making sure who can be approached and which deals can be made.

Small magazines that concern themselves with literature, contemporary art, alternative music and so on have to understand and accept that they have to make a very strong, compelling case to pull national advertisers away from the media outlets they already know very well and to convince them that they will be reaching a large number of attractive people at a competitive price.

There is a good deal of education required, particularly for smaller magazines, in order to make them advertiser-ready. While a core group of mid-sized magazines might launch such a project, the magazines which would most benefit from such a collaborative sales regime are the ones that need to develop the necessary tools to meet the minimum conditions for offering a coherent marketing message.⁹

It becomes even more difficult because most advertisers now want print and online presence and many smaller magazines do not have a very robust online presence or even pursue online advertising. In other words, these magazines are not in a place where they could be part of a rounded package.

To offer a consistent key rate for print and online, it would be necessary to have all members of the collective at roughly the same place – with a professional rate card at a congruent cost-per-thousand both for print and online, one that could be integrated with all other members' cards to come up with an attractive combination rate card. This would have to be backed up by a credible reader survey and strong evidence of social media activity, which not all magazines have. The individualism of cultural magazines in a sense tends to work against their best interests.

⁹ An example is the research conducted in January on behalf of Magazine Association of BC concerning creation of an online advertising network. The research found a lack of organizational readiness; that more than a third of the respondents didn't measure traffic on their sites and only 8% felt they had the technical ability in-house to manage their websites.

The representation of such a collective would require writing a plan that specifies the minimum requirements to be made of participating magazines and drawing up an agreement that they would have to sign, agreeing to conform. Such a plan could then be used as the basis for an RFP (request for proposal) to invite bids from individuals and organizations who would be interested in carrying out the strategy; selling the ads, in other words.

There would be significant upfront costs; the kinds of people you'd want to represent this program would not be prepared to start off on a straight commission basis. As outlined here, the straight commission rate would have to be in the 30% to 35% range. There would also have to be a period of six months to a year on a retainer while traction is gained in the marketplace (and while magazines are brought along to get with the program).

On balance it is not recommended that Magazines Canada launch such a program right now on behalf of its small cultural magazine members, but that it continue and enhance its existing program of education (seminars, hot sheets, travelling consultations, ad sales schools) until a sufficient number of magazines have been brought to the level where such a program could be successful. The idea could be reviewed in a few years.

3. A separate direct mail campaign on behalf of cultural magazines

The results of Magazines Canada's direct mail campaign have been good for all members, but there is no question that smaller magazines get a smaller share of the total orders. Analysis of the 2010 campaign showed that while small magazines (which were defined as <15,000 circulation) were 53% of the participating titles, they sold only 16% of the subscriptions. Some publishers took this to mean that the program was not meeting their needs. However, further analysis showed that the smaller the magazine, the bigger the boost was to its circulation, despite the absolute number of subs.

The notion has nevertheless emerged that a dedicated direct marketing initiative for cultural magazines, in parallel to the annual Buy 2, Get 1 Free campaign, would result in a higher rate of subscription sales. However we could find no evidence that this would be the case and, in fact, this would probably not only increase overall combined costs but also detract from the effectiveness of the annual national campaign and result in cultural magazines possibly selling a few more magazines, but at an inflated cost.

For example, we took a group of 20 literary publications who took part in the direct mail campaign. Their per-issue circulation was just about 1,000 and their three-year average subscription sale through the campaign was 14, with a range from 4 to 40. Even assuming that there would be a 20% aggregate increase with a parallel system, it would amount to barely 1 to 8, an average of 3 additional subscriptions, achieved at a significant increase in cost.

What could drive cultural magazine subscription sales would be a more focused microsite that effectively repurposes existing online information and takes advantage of the existing direct marketing engine. At a relatively modest cost, this could be promoted separately, yet maintain a linkage with the broader catalogue of Magazines Canada titles.

Through use of social media and other crowdsourcing, this "add-on" microsite could educate the public about the rich offerings of cultural magazines, including titles about which they may be unaware. Augmenting the sell by featuring selected excerpts and sample content, the site could be promoted to draw attention to specialized readership of these specialized magazines and their wealth of contributors.

There's little question that creating and curating such a site would require management and staff attention as well as some development funding.

Some useful research could be commissioned, however, to understand purchase behavior among those who buy magazines in Canada generally and those who buy magazines through the Buy 2, Get 2 Free campaign. Not enough is known about what the drivers are, particularly for cultural magazines. As Michael Fox asked in the 2010 research: are there people who only order larger circulation magazines and others who only order smaller-circulation ones?¹⁰

[We know, from the Hill Strategies report(s), drawn from national household spending data, that purchase of magazines varies considerably by geography, age, income and education. This is

¹⁰ Magazines Canada, Subscription analysis, July 22, 2010

fundamental information that the industry lacks, for both large and small magazines, cultural or otherwise. Also lacking, an potentially extremely valuable strategically, is information on the overlap among the readers of cultural magazines (by merging/purging all their subscriber lists).]

(The microsite could also be used to offer a subscription-based sampler pack of cultural magazines similar to the British service “Stack”¹¹ whereby subscribers receive periodic packages of independent magazine titles.) It would make better use of already printed copies and would need to be centrally fulfilled, on a cost-recovery basis. It would provide more opportunities to convert single copy sales into more profitable subscriptions.

It is recommended that a dedicated microsite be created, linked to the existing national direct marketing campaign and that it be used to promote participating cultural magazines – in effect giving them two shots at potential customers – but also promoting these magazines to sympathetic buyers and emphasizing their strongest selling point, which is their specialized and unique content and contributors.□

¹¹ www.stackmagazines.com