

A Brighter Future for Publishers

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This short article is about the next big thing: magazines and newspapers. Of course it may seem odd that with so many publications in decline or folding, we're suggesting they might have a brighter future ahead. But some of the data coming out about the content consumption on portable devices is very encouraging. While it's early days, the data affirms there may be light at the end of the tunnel for publishers.

Early Data Points the Way to e-Reader Subscriptions

In the early spring 2010 a digital magazine conference in New York was packed to the gills. All the major publishers around the world were there, as were the hardware vendors and publishing software providers. As you might expect, the iPad, eReaders, and tablets of various types were the focus of conversation. Qualcomm was there with the first color liquid ink reader – which was very cool – and of course, Adobe was there discussing its supposed ability to transform magazines laid out in its products into an iPad app. (Sadly, two weeks after the conference, Apple announced that it would

no longer support software that did this type of porting – a real embarrassment for Adobe. Although now Apple seems to be reversing themselves.)

But it was Forrester Research, GQ, and Sports Illustrated who got the crowd's attention with some interesting numbers:

- On average, according to Forrester, and confirmed by others, consumers surveyed said they were

willing to pay \$13.11 on average per year for a digital subscription on devices (but not on the web).

- Other consumers said they would be willing to pay an average of \$4.11 per issue.
- GQ noted that people were buying back-issues, not just current issues, of the magazine for use on their iPhones.
- Sports Illustrated reported that people were reading issues on their iPhone for an average of more than four 8-minute sessions – that is, spending an average of 32 minutes with one issue on their iPhones. That's terrific engagement, even if it is guys "reading" about girls in bikinis.
- And we also know that almost half of the people who read downloaded magazines read them offline -- meaning they like to consume this content

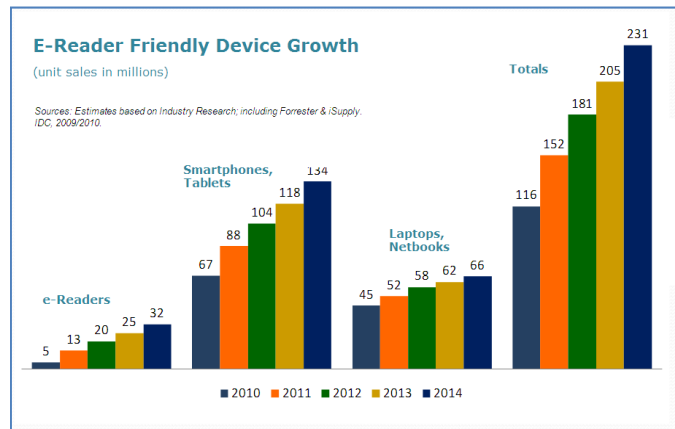
on-the-go.

As interesting as these early numbers are, digital revenues are small today, and e-reader market penetration is still in its infancy. Yet the data above suggests that the public's desire for consuming content on-the-go will drive strong growth for

e-reader friendly devices. And these models hint at a return to paid subscriptions and a print-like advertising model.

Patterns of Engagement Are Changing

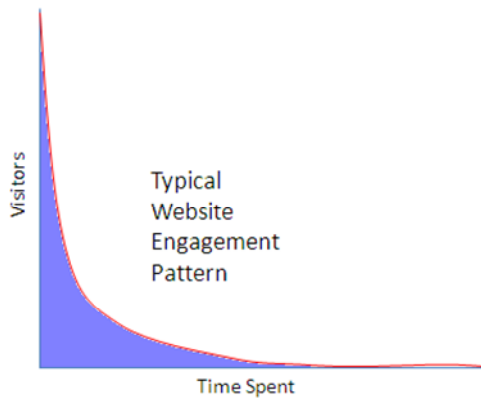
Data from digital magazine companies like Zinio and Zmag show that consumer engagement seems deeper on e-readers.



Long before portable devices arrived, many companies were displaying digital versions of their magazines and newspapers on the web. This was usually just a PDF with the ability to magnify the article so it's readable. The consumer experience is fairly primitive. We like to call web-based readers "web readers" to differentiate them from e-readers which are device-based. Zinio is the most ubiquitous of these PDF readers. Zinio now has an app available for iPad tablets.



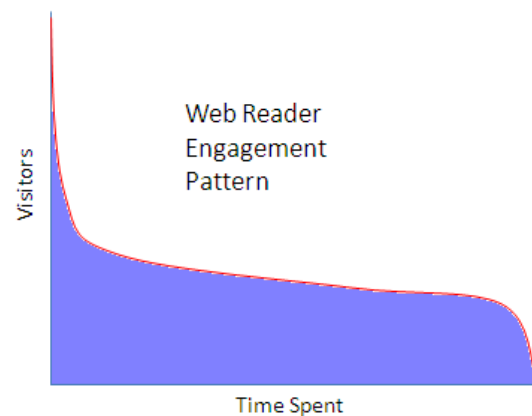
For example, if we measure time spent by visitors on a typical publishing website over a given month, engagement patterns show people get in and get out of these websites fast:



On these sites traffic is comprised of a few loyal visitors who browse longer, but high levels of search traffic which come and go quickly. Even more loyal repeat visitors "snack" for short periods of time. FTI's own studies on newspaper sites reveal that average time spent per visit is about 4 minutes and 6 seconds.

Contrast this typical magazine website engagement pattern to the behaviors of visitors who are reading a digital magazine (top of next column). In this graph, fewer viewers leave quickly, and many stay much longer while consuming more pages. Of course they all drop-off at the end of the issue.

While this data is preliminary, it begins to show protracted engagement with consumers. And protracted engagement with consumers has two critically important implications: Consumers will probably perceive



greater value since it is more engaging, and advertisers will be attracted to engaged audiences.

Designing In User Engagement

The people designing new ways of reading magazines and newspapers in richer e-reader formats have developed some basic yet important principles for creating user engagement:

- ✚ First, a discreet package of information (an issue) is more immersive and engaging than the infinite set of links and text that a typical website provides. News websites require viewers to self-navigate, creating their own experience, rather than an experience created for them. The website is good for quick snacking, but not good for prolonged engagement.
- ✚ Second, as when reading a printed magazine or the daily paper, device users appreciate a curated experience with a beginning, middle and end. This designed experience is in stark contrast to the visually chaotic nature of most websites.

- ✚ Third, visually engaging layouts with photos, graphics and videos are an essential. Compelling text accompanied by enthralling pictures can deeply engage digital consumers. Like their printed counterparts, a digital magazine promises to engage visually as well as to inform.
- ✚ Last, animated navigation improves the experience. As the iPhone proves, there's more than one exciting way to read a magazine. But animation should aid navigation and create an immersive experience. Animation that does not perform a function is mere eye-candy and becomes tedious quickly.

Bonnier, the Swiss magazine company has a terrific demonstration of the principles of creating user engagement – click [here](#) to view it on YouTube.

Some scientific backup for the weaker web reading experience exists. *Wired* Magazine's article entitled "The Web Shatters Focus, Rewires Brains" (Nicholas Carr, May 24, 2010) discloses several scientific studies demonstrating that hypertext on web sites reduces focus, retention and engagement relative to reading the classic printed page (or digital equivalent).

In short, the opportunities represented by the smartphone, netbook and tablet are of game changing proportion. In contrast to the typical web experience, web readers and devices offer a return to creative formats that can once again differentiate a publisher's brand, engage readers, and provide a curated daily, weekly or monthly experience that users will pay to subscribe to, and that advertisers will pay to place ads in.

The Return of Brand Advertising?

These new devices should also give publishers the opportunity to satisfy brand advertisers by combining the best of print advertising with features unique to tablets. Larger ads, an ad format that animates inside the ad square (rather than taking a reader away from the page) and behavioral targeting should make a compelling ad buy for brand managers. If so, then CPM rates should rise for publishers. This is because the supply of this ad inventory will eventually become constrained -- unlike the almost infinite amount of ad

ad space available on the web – finally putting upward pressure on digital ad pricing.

But while advertisers will welcome new and effective forms of advertising, the digital publishers should be mindful of how best to transition traditional advertisers to this new medium.

First, advertisers slow to change their habits to accommodate emerging mediums. As a consequence, they will want to buy ad space, measure efficacy, and settle payments the same way they do it today, whether it's like banner ads, print ads or TV. They simply won't learn anything new in order to participate in an emerging medium. So publishers should sell this ad space the same way they do print or banners.

Also, the publishers should not ask advertisers to produce ads for this medium using new technologies. This just adds incremental production costs and headaches for advertisers. Instead, publishers should use existing ad size standards, and should stick to Flash™ when possible as the display technology. (Of course Apple doesn't support Flash and if their reach becomes extensive, they can impose their own technological solutions on advertisers. Time will tell.)

Sticking to a single set of standards will go a long way in creating "liquidity" in the ad market for these devices. Standards bring production efficiencies to advertisers and scale economies to publishers. As we saw in TV streaming services, a lack of standards hurt online offerings such as Hulu, NBC.com, ABC.com and CBS, who started with divergent digital ad size standards, ad features and measurement. This drives ad production costs up and ROI down for advertisers, reducing overall demand.

Pay Models and a Return to Scarcity

Why are consumers willing to pay for content on portable devices but not on the web? The answer is simple: they have to. If consumers want a beautiful edition of *Wired* magazine that runs on their iPad then they have to pay for it. There is no free alternative available. From an economist's point of view this is a form of scarcity.

When periodicals were solely available in print, publishers enjoyed the benefits of this type of scarcity.

Consumers had no choice but to buy the content in its printed form if they wanted to read it. But when publishers began putting their content online for free they eliminated this scarcity. Most consumers opted for the free web alternatives and, low and behold, print subscriptions declined dramatically while ad space on the web became infinite. A return to the concept of a magazine issue, or a daily newspaper edition promises a return to intentional scarcity for publishers. If achieved, then it also promises a return to the pay

models that drove enviable margins less than a decade ago.

In summary, publishers have an opportunity to return to the subscription and ad-based models. Newspaper and magazine applications that are captivatingly designed with rich graphics, and large print-like advertising may be enough to lure consumers and advertisers back to the future.

A Note about Apple vs. the Rest of the World

Apple deserves enormous credit for the invention of the first appealing tablet. Having now gained an early lead in this market, Apple's strategy is straight from Peter Drucker's play book: When you have a proprietary advantage, build your walls high and your moats deep around it. This is what Apple is doing with iPads and iPhones. For publishers who want consumers to subscribe to their iPad application, they must have their application approved by Apple, and Apple gets a share of the revenue.

Battle lines are now being drawn around the tablet. A day after Apple announced its restrictions Google announced it was coming out with a tablet this Fall, as did Microsoft. HP already announced development of a tablet earlier this month. Sony, Dell, Acer and Samsung have tablets in their cross-hairs too. Google's free open Android operating system is the platform of choice for most of these manufacturers. Indeed, India has just announced a \$35 government-sponsored Android tablet for its education market.

Publishers should encourage these alternatives to the Apple ecosystem, even while participating in Apple's. The music industry learned a hard lesson when Apple took over the entire digital music distribution market: namely, when a dominant distributor like iTunes can call the shots and set prices, content is no longer king. A content owner's best strategy then is to support multiple platforms, weakening the power of any one of them.

For publishers, this will usually mean developing your magazine applications for each major platform – although recent decisions by apple to allow application code translation might partially alleviate this burden.

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company (FCN, NYSE) and we have been voted one of America's 100 fastest growing companies by Fortune Magazine.

Our Media Practice. FTI has been involved in some of the most important financial, legal and regulatory events affecting the media industry. Our 63 senior professionals provide guidance and expertise on M&A, media strategy, operational improvement and corporate finance to the most important companies in the entertainment and digital marketplace. Our experience spans all key segments including movies, TV, games, newspapers and book publishing and the internet.

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Mr. Cartoux has a PhD in Computer Sciences and Image Processing from the University Blaise Pascal in France. His thesis work pioneered several concepts for the authentication of faces from automatic 3D image analysis that paved the way for current biometric applications.