

The Distripres Circulation Monitor 2017

Surviving the global stress test
EXECUTIVE SUMMARY



DISTRIPRESS

THE WORLD OF PRINT AND DIGITAL DISTRIBUTION

About Distripres

Distripres is a non-political and non-profit making trade association created for the promotion of the global circulation and distribution of press products. The association is made up of companies, associations and individuals, representing the end-to-end supply chain, engaged in the national and international circulation of publications - newspapers, magazines, periodicals and paperback books. It currently counts over **250** members in **70** countries.

The aims and objectives of **Distripres** are:

- To offer a regular platform for members in the form of congresses, trade events and publications to facilitate the co-operation and the exchange of information and ideas from the national and international press industry.
- To represent impartially the activities and interests connected with the circulation of newspapers, magazines, periodicals and paperbacks.
- To further the development of fair and efficient trade in press circulation.
- To assist in the promotion of press freedom worldwide with special regard to the freedom of press circulation and to support UNESCO in promoting the free flow of ideas.

CONTACT

Tracy Jones, Managing Director Distripres
Postfach, 8034 Zurich, Switzerland.
Email tracy.jones@distripres.org
Tel +44 7710 080591

About Wessenden Marketing

Wessenden Marketing is a UK-based marketing consultancy with an international range of clients across the media, distribution, retailing, direct marketing, finance and business service sectors. Services cover five key areas.....

- **Consultancy.** Health checks, market mapping & consultancy and project management.
- **Publishing.** Newsletters and reports analysing trends in the media business. "Wessenden Briefing" is the key newsletter published 8 times per year.
- **Research.** From desk research through reader questionnaires on to in-store shopper surveys.
- **Training.** Public seminars and in-house workshops on a range of marketing and audience related topics.
- **Networked Communities.** Peer-to-peer experience sharing based on hard data & insights.

CONTACT

Jim Bilton, Managing Director, Wessenden Marketing
Five Stones House, Tuesley Lane, Godalming, Surrey GU7 1SE, UK
Email info@wessenden.com | Telephone +44 (0)1483 421690

Contents

Executive Summary only

Full report available from Distripres

| | |
|--|-----------|
| EXECUTIVE SUMMARY | 4 |
| REPORT DETAIL | |
| The global context | 7 |
| The media outlook | |
| The key press variables | |
| Global paid-for press sales trends | 17 |
| Newspapers | |
| Magazines | |
| The business of cross-border distribution | 24 |
| The scale of the business | |
| The trend in general business performance & confidence | |
| The change process, action plan & development plan | |
| Export sales trends, profitability and promotional budgets | |
| General opportunities & barriers in growing copy sales | |
| Home market dynamics | 36 |
| The press retail universe | |
| Structural change in the supply chain | |
| APPENDICES | 45 |
| Project background & methodology | |
| The 15 Focus Countries | |

Surviving the global stress test

2017 is turning out to be the year of the “stress test”. The pressures which have been building up over the last few years in individual companies, but also in the global industry, have been bursting out into the open. The result has been a series of company closures, mergers and acquisitions, consolidation and new partnerships. This process has been taking place for some years, but never at the pace and scale seen in 2017.

Previous *Distripres Circulation Monitors (DCMs)* have charted **changing themes and moods** in the global industry.

- In **2014**, the business was getting to grips with the prospect of terminal decline.
- In **2015**, the mood had moved on from despair and denial regarding what has happened to a grim determination to face up to all the challenges.
- In **2016**, there was much more optimism evident, as companies were testing new business models and finding a way forward.
- In **2017**, the environment is tough and Distripres members are divided between those who are feeling very anxious about the future and those who see the challenging conditions as an opportunity: an opportunity to reshape their organisation and to grab market share from weaker competitors.

The current “stress test” demonstrates **two key factors**. The **first** is that the marketplace that everyone is operating in has become more complex. This has three key dimensions:

- The sales of press products are becoming more volatile and unpredictable. Yet behind that fact lies a stronger belief in the quality and longevity of print brands.
- The business models of individual companies - where and how they make money – are flexing and becoming more complicated.
- The operational activities and process – how and why things are done in particular ways – are being examined and challenged.

The **second** factor is the change in how Distripres members are dealing with this shifting marketplace.

- Focusing more on the organisation – its skills, culture and structure.
- Building scale and efficiency in every aspect of the business.
- Diversifying and trying to apply the organisation’s skills and experience in new ways and with new customers.
- Attempting to cooperate and partner in new ways, although this will entail some frank and blunt discussions on occasions, especially with other links in the supply chain.
- Shifting the industry’s focus from supply chain processes (which are still important and still need to be sorted out) to the retailer and the end consumer, as they are the people who are really changing press distribution globally.

There are **five recurring themes** in this year’s *DCM*. First, the rate of change and disruption has accelerated in 2017. Second, this year will define the future shape of the distribution industry for some years to come. Third, the world of press distribution is fragmenting as business performance becomes more varied, volatile and unpredictable from region to region around the world. Fourth, the world of press distribution is converging as the challenges and issues become increasingly similar around the globe. Fifth, the best operations are getting better: they are looking more creatively and positively at their businesses.

Those who survive the stress test will be in much better shape for the future.

Background to the Report

This is the fourth *Distripress Circulation Monitor*. It provides an overview of print press sales trends around the world and the key issues facing those companies involved in distributing press products across national borders.

The report is based on four pools of data:

- Wessenden Marketing's own estimates of current newspaper & magazine sales trends in 69 countries.
- A survey of 119 Distripress members in 43 countries.
- A more detailed analysis of 15 key markets which are summarised in the Appendix to this report.
- General market and economic data from PwC, Zenith Optimedia and Wanlfra.

The global macro context

The broad backdrop is of slowing global economic growth and increasing uncertainty and disruption in three key dimensions:

- Political & economic.
- Regulatory.
- Technological.

The global media context

The global spend on Entertainment & Media products and services will slow to +4.2% CAGR for 2017 to 2021 (Source: PwC *Global entertainment and media outlook 2017-2021*: www.pwc.com/outlook)

Global media spend

The trend in E&M is becoming more varied from country to country and from sector to sector. The fast growth in the emerging countries and developing sectors will not compensate for the decline in the mature economies and media segments.

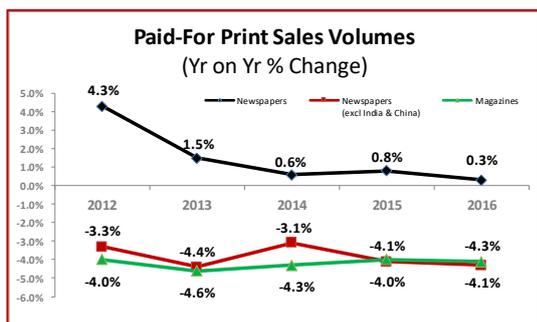
The global media company response

Build scale and market position....Understand the consumer better....Refocus on the value of content.....Create more agile, flexible and learning organisations.....Automate as many processes as possible and offer a wider range of flexible payment options.....Develop hybrid business models and routes to market.....Develop a deep and flexible tech capability.

The key press variables

| Newspapers vs Magazines | Circulation vs Advertising | Print vs Digital | Value vs Volume | Retail vs Subs |
|--|--|--|--|---|
| The current 58:42 newspaper: magazine balance in global consumer spending on print press products will shift slightly to magazines as the result of a slowing consumer magazine volume decline and rising magazine cover prices. So, it remains a newspaper-biased world. | The current 49:51 circulation:advertising balance in global <u>newspaper</u> revenues will shift towards circulation. The 51:49 balance in <u>magazine</u> revenues will edge slightly in the opposite direction. The strategic shift into content revenues wanted by publishers is simply not happening as fast as planned. | The current 94:6 print:digital balance in global consumer spend on <u>newspaper</u> content will shift to 90:10 over the next 5 years. The 92:8 balance in <u>magazine</u> spend will edge at a slower rate to 90:20. Digital is much slower coming on stream than predicted even a year ago. This means a more positive refocusing on print products and marketing. | Cover prices tend to be pushed up when volumes fall. This short-term response now looks more strategic as publishers try to leverage more revenues out of their print products. In the 15 Focus Countries reviewed, magazine cover prices are currently increasing by an average +4% per year and newspapers by +5% . Yet the balance between volume and value varies massively from country to country and from market to market. | In most countries where the retail channel is coming under increasing pressure, there is generally a slow but steady drift into subscriptions and direct-to-consumer delivery. The global retail:subscription balance is roughly 60:40 . |

Global paid-for press trends



The **newspaper** market is dominated by India and China which account for 63% of total global volumes. When they are excluded, the underlying trend is one of decline, currently running at **-4.3%**. This slide is similar to that of **magazines**, which are currently running at **-4.1%**. The geographical centres of gravity for the two products are very different. Asia Pacific accounts for 78% of global newspaper sales volumes, but for only 31% of magazines, where the key markets are W. Europe and N. America.

The business of cross-border distribution: key operational numbers

| | |
|------------|---|
| 6% | Just over 6% of global press sales are cross-border : a specialist, but a significant business. |
| 18% | Only 18% of Distripres members see their own business currently growing . This is down on 2016 which provided only a temporary slowdown in the decline. The market has since become much tougher in 2017. |
| 20% | 20% of Distripres members feel more positive and confident than a year ago about their own business' current performance. Confidence surged last year and has since cooled down, but has definitely not collapsed. |
| 55% | 55% of Distripres publishers see their export business growing (17%) or holding steady (38%) . The overall picture is one of stability rather than of either strong growth or dramatic decline. |
| 69% | 69% of publisher export operations are profitable . This is slightly down on last year's 72%, but is looking remarkably steady given the significant exchange rate fluctuations and business turbulence over the past year. |
| 70% | 70% of publishers have a promotional budget for export sales. This is significantly down on last year's 82%. Also, the average size of the budget continues to trend downwards. Core export publishers (for whom export is essential) are still committed, but are focusing on the bigger markets. Fringe export publishers (for whom export is an add-on) are cutting back promotional spend significantly. |

The business of cross-border distribution: key internal change metrics

| | |
|------------|--|
| 6.1 | 6.1 out of 10 is the score measuring the current scale of change within the organisation. Behind the average, there is a wide range of scores, from some low 2s up to some manic 10s. The focus of change is on organisational structures (6.5) and internal processes (6.4) rather than simply cutting headcount (5.4). |
| 3.1 | 3.1 years is the average time companies have been in the change process . Again, a wide range behind the average with some companies only tackling substantive and structured change very recently. Most companies (85%) see the amount of change remaining the same or increasing over the coming 12 months. |

Home market dynamics: key industry metrics

| | |
|------------|---|
| 77% | 77% of countries are seeing structural change in their domestic supply chain, significantly up on 2016's 67%. The first big theme is consolidation , which is resulting in both costing-cutting and creative diversification. The second big theme is the pressures on News & Mags at retail . |
| 83% | 83% of countries are seeing their domestic retail universe shrinking in terms of shop numbers, up from 76% last year. In addition, there are concerns about reducing ranges, shrinking shelf space for News & Mags and a lack of creativity in retail promotions in a crowded consumer marketplace. Buoyant retail channels are seen to be supermarkets / grocers and travel points. |
| 35% | 35% of magazine sales and 28% of newspaper sales currently pass through supermarkets. These global share averages range from virtually nothing in some countries up to over 90%. Their share is also growing in many countries. This share is a useful indicator of the shape of the retail universe in a market, but also of the pace of change , as these disruptive retail operations tend to drive change in supply chains and their processes. |