

Queensland Newsagents

St Lucia Golf Links

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Final draft

INTRODUCTION:

Last year I was at the International Federation of the Periodical Press conference and heard an inspiring speaker.

We got talking afterwards and when I heard he was going to be in Australia at the same time as we were holding this event I took the opportunity of inviting our next speaker to share some of his vast knowledge.

His expertise as an industry consultant is legendary in the USA and we are very lucky to have him with us today.

Please welcome David Stephenson .

[SLIDE name] Firstly I want to thank y'all for having me at your conference here in Australia. This is the first time I have been down under and I am really excited to be here so I am going to act like a local and say g'day.

[SLIDE map] Yes, I am finally down under. I just love that term, down under. But I have to say that when I am back home in California I don't feel like I am up over. So since I am down under I am going to make the most of it by meeting Nicole Kidman **[SLIDE Nicole]** , throwing a shrimp on the barbie **[SLIDE]** and drinking one of your wonderful **[SLIDE]** fosters beers.

[SLIDE name] OK, you are probably wondering who is this guy and what is he doing at our conference? Not an unreasonable question at all.

My name is David Stephenson and I am regarded as one of the leading consultants to the magazine industry in USA and that is because **[SLIDE tagline]** nobody knows the industry like I do.

I want to start by outlining some of the differences in the way our industries operate in our own countries. Generally one would expect things to be very similar, if not identical. After all, when you think of it we are all part of a **[SLIDE globe]** global market governed by international trade laws in a pair of English speaking developed countries that have a free trade agreement.

But that's about where things start and stop. The way our industries operate is vastly different thanks to the different retail models we have.

I don't have to outline yours to you, you are obviously part of that industry...**[SLIDE bush]** or maybe you have wandered into the room by mistake.

But how much do you know about the US side of things? **[SLIDE learn]** And more importantly what can we learn from each other?

I have a few ideas for you that I will come to later but let's look at how it operates in the US.

[SLIDE how big?]Firstly how big is the magazine market? Not the retail market but the supply side. In Australia you have around 4,500 titles published which may seem like overwhelm and it certainly is.

[SLIDE cost]Given the cost of retail space and the amount each pocket needs to return for you to remain profitable you obviously can't carry every title. **[SLIDE location]** Also, it may not be appropriate to **[SLIDE Mt Isa]** stock a surfing magazine if you are out back in Mt Isa...which is where I was earlier this week. So how do you choose which to stock and which to forget about and risk having people leave your store empty handed, possibly never to return.

[SLIDE clear]Well think your selves lucky with only 4,500 title you Aussies. **[SLIDE 26,960]**In the US at the end of 2007 there was a massive 26,960 titles and this is growing at about 1000 titles a year reflecting the **[SLIDE more titles]**growing diversity of reader interest, **[SLIDE disposable]**access to disposable income and that the **[SLIDE boomers]**baby-boomers who are starting to retire have more leisure time.

[SLIDE decline]Despite the growing number of titles, I predict that the total number of pages is going to decline by about 10% over the next 3 years as content moves to the web. **[SLIDE 360]**I am now suggesting to publishers who engage me for my brilliant ideas that they embrace what I have dubbed the 360° publishing approach where **[SLIDE time series]** print drives people to the web and conversely the web returns readers to print.

[SLIDE]But let's get back to the differences between the industry here and in the US. For a start, your model of a newsagency does not exist in the States. **[SLIDE papers]**If you want a paper you go to a news stand or a road side coin vending machine.

[SLIDE]If you want a magazine there is a limited number at many news stands – some bigger than others. But the lion's share of magazine sales are in supermarkets. What do I mean by lion's share? **[SLIDE walmart]** We are talking about 82% of all magazines are sold in a supermarket. **[SLIDE movie]** This movie is the number of walmart stores and how they expanded from 1962 – 2004. It is hard to compete against that sort of might.

[SLIDE retail sales] So where are they selling? Well 10% are by subscription. That leaves a paltry 8% to be divided up by everyone else.

[SLIDE gorilla] There is an old joke..."where does a 800lb gorilla sit? Anywhere it wants to." Being the gorillas in the retail sector I doubt I have to explain to you how much leverage **[SLIDE walmart]** supermarket chains such as Walmart can exert on publishers and distributors. Suffice to say they can basically ask for and get anything they want...within reason.

[SLIDE top v bottom] Now we reach a point of convergence where we are talking about different retail channels and the contrast between top selling and bottom selling titles and the different retail models in the states and Australia and who does what. In the US since almost all magazines are sold there, supermarkets carry a range of magazines that include the top and bottom sellers...at least they do if they want to keep their customers happy.

However here it is different and you are in an unenviable position. Since top sellers outperform your bottom sellers significantly, as newsagents you have to sell a range of them. **[SLIDE special interest]** Whether or not you know it, those special interest magazines are actually costing you money. I don't have time to go into that aspect today but it is something you should know.

The point I want to make is that in Australia the supermarkets that compete with you are picky about what they sell. **[SLIDE echo]** Do they sell Irish Echo, New Dawn or any of the other crusty titles? No way...they only sell **[SLIDE top mags]** the top 20 or so titles.

So here is the problem, **[SLIDE compete]** they are competing with you in the most profitable area of your magazine department but **[SLIDE cross]** they play it safe and stay away from the niche magazines.

[SLIDE] The fact is that your supply model has not changed in decades which has led to you **[SLIDE]** newsagents effectively subsidising more than 60% of the titles supplied to you. **[SLIDE]**

Poor performing titles are consuming a disproportionate amount of your resources.

Now obviously everyone involved, whether with an individual magazine or the industry in general is trying to improve their position and profitability. If you are a publisher or another retailer wanting a bigger slice of the pie, what do you do to deal with the gorilla of the industry? **[SLIDE chain]** Obviously you start by looking at the entire product chain and seeing what can be done.

This is where most people fall down in their game plan. They don't include **[SLIDE entire]** the entire chain.

In the magazine industry it starts with the **[SLIDE]** content, then the **[SLIDE]** production, **[SLIDE]** publishing, **[SLIDE]** distribution, **[SLIDE]** retail and **[SLIDE]** returns. Did we forget anything? Only **[SLIDE]** accounting, **[SLIDE]** delivery, **[SLIDE]** stocktaking, **[SLIDE]** storage. **[SLIDE ?]** Is there anything else we might have forgotten?

[SLIDE] This is my point and also why I have gotten to be the number one consultant to the industry. Sure y'all are specialists in your own area and in your own neighbourhood, but nobody knows the industry like I do and I can assure you that in these dangerous times **[SLIDE essential]** it is essential to know more about your business than you would have had to 10 or 15 years ago. It is also essential to know more about your business than anyone else does.

I won't embarrass you by asking for a show of hands but I wonder how many of you would say that your accountant knows more about your business than you do.

I understand that. We have accountants because it is almost impossible for us to run our business and actually understand the depth of how it operates along with the intricacies of the underlying technologies.

[SLIDE] Look at all the changes we have seen in the last few years. EDI for a start.

Industry is moving away from paper based accounting to the point that some companies won't do business with you unless you use EDI.

With all electronic invoicing and the like, nowadays the only paper that comes into your business should be **[SLIDE TP]** going into the bathroom. Well, that's not entirely true, in our industry it also ends up on the shelves...though some of it should be in the bathroom.

[SLIDE] Ladies and Gentlemen, in the 21st century in the magazine industry, invoices, accounts, all your paperwork should be electronic. How many of you are sending customer accounts by email? Ridiculous, reduce your costs overnight.

OK we are talking about the ideal paperless office but I do know that there is an exception. Currently the system does involve a single piece of paper. You have to print off the returns form and include it with the returned stock.

But this is about to change and I will get to that in a minute.

EDI...I will admit to being one of the early sceptics when it came to EDI. I once coined a phrase "There will be a paperless office when there is a paperless toilet". But I have been proven wrong and I am happy to have that happen.

EDI has revolutionised almost every industry, helping us to **[SLIDE]** eliminate the tedious paperwork, **[SLIDE]** virtually eliminate errors, **[SLIDE]** speed up processing and **[SLIDE]** give us instantaneous reports on all aspects of our business.

[SLIDE] While there are many good things, as I am sure you have discovered the disadvantages with EDI. One of the more significant ones is the **[SLIDE]** initial set-up. The initial expenses that arise from the **[SLIDE]** implementation, **[SLIDE]** customisation and **[SLIDE]** training can be on the higher side and may therefore discourage some businesses.

[SLIDE] There's also the "getting used to it" factor. Once you are up to speed on the new system all the advantages come to the fore. However at first I can assure you that there will be frustration, a sense

of despair and regular doubts about whether or not it was a good idea.

This will be the norm rather than the exception as times go on.

[SLIDE fax] There was a time when you could hardly run a business without a fax machine. But how times have changed. **[SLIDE dino]** I no longer have a fax machine and regard them as dinosaur technology.

EDI is becoming the norm and who would have thought it would happen. Nowadays I hardly print a thing. I can even send and receive faxes by email. How great is that? I don't need a dedicated fax line, I pay 2c per fax. I am saving a fortune.

Of course you likely will continue to need a fax machine as a service to customers but how often do you use them for your own business these days. I will put someone else's money on the fact that it is less and less.

[SLIDE] My point is that the technology changes and we need to be constantly watching for the latest trends. That is why it is vital that you attend conferences like this one so you can keep up with the latest information so that you have an advantage over your competition. **[SLIDE me]** You also get to hear wonderful speakers like me.

[SLIDE latest] So what is the very latest that I can tell you about?

I mentioned that things are about to change with the returns form and that is one of the reasons I am in Australia - down under – at the moment. To help set up **[SLIDE]** a trial of a new 100% paperless returns technology that will lead to no more cull copy returns.

Some background...you can expect about 4% shrinkage in your business. How many of you use that term “shrinkage” instead of what it really is, stealing? Shame on you. Stop using polite euphemisms. Name the beast and cast it unto the wilderness. Actually I think I was in that wilderness this week - **[SLIDE]** Mt Isa.

Folks, in a retail environment everyone has to keep close tabs on security. It is not uncommon to see panels such as these **[SLIDE RFID panels]** on either side of a doorway to detect merchandise that is being stolen.

The technology is known as RFID or Radio Frequency Identification and without going into too much technical detail here, **[SLIDE chips]** the chips inside the tag or label send a signal that is **[SLIDE]** detected by the panel, setting off an alarm.

That is the most obvious use of this technology but in the USA it has also been used for **[SLIDE chip]** many years as a way of identifying pets and has become so common that we don't even marvel at it any more.

Australia is going to be the next to trial a new technology that will revolutionise magazine returns. **[SLIDE button]** A \$20 USB device attaches to your computer and encodes the chip in the label which you then stick on the outside of the package of return covers.

When the returns arrive at the warehouse the bundle is tossed onto a conveyor belt by a factory hand and while that is happening **[SLIDE]** the wrist mounted RFID reader instantly reads the data in the microchip.

The device is also GPS enabled and if the employee walks to a specific bin, office or just about any of 256 possible locations, that will be recorded as well. So this will automatically record who took what where and when.

What we are doing here is testing three different prototypes that I hoped to have to show you today but they are somewhere between Mt Isa and Brisbane.

Obviously this is going to be a huge time saver and, once again prevent errors that cost us all money.

Overseas companies that used this have now cut the time for returns being credited **[SLIDE 48 hours]** to a mere 48 hours and I expect

this to become the industry benchmark and a standard that all publishers and distributors will be forced to meet to stay competitive.

Now, it might sound radical, but it is well within the expectations made possible by the technology.

[SLIDE \$] But it works both ways, as it should. These savings must be passed on and with the huge cost savings they are experiencing, magazine distributors have been able to radically revolutionise the industry in the US. Sure they have had their hand forced by the gorilla of retailers but they have seen that their existing model was not sustainable and change was the only solution.

What are some of the changes that have happened? Since you follow everything we do in the states, you should look forward to them here down under.

[SLIDE] Higher margins pretty much across the board, but specifically on over 30 day shelf life and niche titles

And about time too. How many people love receiving a bundle of those special titles such as **[SLIDE]** Choosing a School for your Child, **[SLIDE]** Scrapbook Creations, **[SLIDE]** T-world for t-shirt collectors, **[SLIDE]** Wooden Toy Quarterly – which is actually about skate culture, and of course my favourite, the sensational **[SLIDE]** Sneaker Freaker.

Now I must read you the descriptive text for Sneaker Freaker and I want to emphasise that I didn't make this up...that's the great thing, you don't have to. **[SLIDE]** "Sneaker Freaker captures the modern footwear global phenomenon in a nutty explosion of shoe image. Custom, vintage, skate, performance and girly kicks are on display and ready for putting on the placcy – which I have found out is Australian for Credit Card - (watch out for the massive product reviews and buyers guides), and there are interviews with international sneaker designers to keep you entertained while you wait for the postman."

I know you can hardly wait to give up valuable real estate to a magazine about sneakers.

[SLIDE] Higher margins mean some other trade offs for publishers as well. In case you are not aware there has been a shake up in the UK with a new distribution model that while still undergoing teething problems seems to have settled many remuneration disputes.

The most important one and I will admit, the most controversial one that is currently being rolled out across the US **[SLIDE]** is an additional payment to newsagents for advertising inserts in newspapers and magazines based on the weight and number. If it happens in the US, you just know it is coming here.

Now I know this will cause some pain for the industry initially as you adjust but I think if we are looking at a matter of sustainability and ongoing equity then such changes must be incorporated for the good of the industry as a whole.

[SLIDE crystal ball] This is all well and good but what do I see for the future? As I gaze into my crystal ball I see **[SLIDE growth]** steady growth as long as the online component of publishing is embraced. We must avoid the mistakes and the ongoing trauma being experienced by the music industry.

They have failed spectacularly when it comes to recognising a shifting medium, new business models and the demands of a digital society that is becoming more and more tech savvy.

What is the latest bit of news? **[SLIDE facebook]** It seems that if, as an employer, if you restrict internet access to social sites such as Facebook you are going to find it harder and harder to get young people to work for you.

Now while this may not be so relevant in an industry where people don't work on computers all day, it is important as a signpost of the way gen Y is thinking. Speaking of which, for those of you who can't identify Gen Y **[SLIDE genY cartoon]** here's a hint.

[SLIDE levies] Emerging business models are almost certain to include fuel levies based on distance travelled and number of papers multiplied by the weight of each paper.

[SLIDE emags] Can we see why the online or e-reader option might be becoming popular from a bottom line point of view? I detest these things. Yes, it is becoming popular, but the brutal fact is that the payment model for online is just not working, nor will it ever if we are lucky.

But here is where it get up my nose **[SLIDE]** As we all know, part of the passion of magazine readers is the tactile experience of actually holding the magazine, reading it bed, on the train or in the doctor's waiting room...no matter how old the magazine.

So now they have a new term for electronic magazines, **[SLIDE e-dition]** the e-dition which sells for next to nothing and provides magazine retailers with even less. **[SLIDE kindle] **** BUILD ****** If you have one of these stupid e-readers how do you do the God-dam crossword, enter the competition, circle the ad you like, put it at the bottom of the bird cage, clean the windows? How do you do anything apart from replace the batteries?

[SLIDE horns] This is an abomination against all that is good. Edition stands for **[SLIDE evil]** evil edition.

Now I know Americans have a reputation for being tub thumping fundamentalists but you take my word for it, this has gone too far and threatens life as we know it.

Well it is time to rise up newsagents and publishers alike. Brothers and sisters, let's unite as one against this evil.

Let's all march on...where would you march here in Australia?