

Comments of Magazine Publishers of America  
In advance of FTC workshop  
From Town Crier to Bloggers:  
How Will Journalism Survive the Internet Age?  
News Media Workshop Comment, Project No. P091200

---

The Magazine Publishers of America (MPA), the premier trade association of the consumer magazine industry, is pleased to submit these comments in advance of the Federal Trade Commission's (FTC) upcoming workshop on the Internet's impact on journalism in newspapers, magazines, broadcast and cable television, and radio. Established in 1919, the MPA represents approximately 225 domestic publishing companies with more than 1,000 titles, nearly 50 international companies and more than 100 associate members. MPA member publications cover a wide span of journalism, reflecting consumers' desire for news and information across many genres, from world and national news, opinion, and public policy to finance, entertainment, fashion, literature, home, and sports. Our members range in size from multi-million copy nationally-distributed broad interest magazines, to smaller niche interest and regional publications. Some of our publications have been around for many decades and some are new launches. All share the Commission's interest in the vitality and viability of journalism.

MPA looks forward to working with the Commission as it considers the wide range of issues listed in the Federal Register Notice, including:

- Economics of journalism on the Internet and in more traditional media;
- Changes in business models in response to the Internet;
- Innovative forms of journalism emerging on the Internet;
- Evolution of competition in journalism and advertising; and
- Governmental policies raised as ways to support journalism.

In addition to filing these comments to help the Commission prepare for the workshops on December 1 and 2, 2009, we are pleased to have our CEO Nina Link participate in the workshops to share our industry's perspectives. Further, while these initial comments provide background information we hope will be useful to the Commission, we intend to file comments following the workshops as well, to deal more in depth with topics and issues raised and discussed during the course of the two days.

### **Scope of the Discussion**

Much of the conversation about the impact of the Internet on journalism has centered on news reporting, especially local news, and less on the importance of the content found in magazines. Newspapers excel at news gathering. No less important is the journalism published in consumer magazines—the reporting, analysis and commentary contained in our newsweeklies, general-interest magazines and political journals. It may be worth remembering that the earliest magazines in America—Benjamin Franklin's "General

Magazine” and Andrew Bradford’s “American Magazine,” both first published in 1741—predate by nearly half a century the founding of the first daily newspaper.

And even though most magazines do not publish the kinds of reporting and commentary associated with Time and The New Yorker, the news and information published in women’s-service, special-interest, business, and sports magazines not only serve and entertain their readers but have long defined what it means to be an American, whether those Americans are reading Ladies’ Home Journal or Sports Illustrated.

While local newspapers often create a community for their readers with regard to local interests, magazines create passionate communities both large and small, centered on the content in favorite magazines. If you like to cook, you will not only read cooking magazines, you will savor them, save them, cut them up, share them, respond to them, and eagerly anticipate the next issues. A Northwestern University study commissioned by MPA several years ago asked readers to describe their magazine experience. The descriptions they put forward went far beyond the act of reading:

- It’s my personal time-out
- It’s hard to put down once I’m into it
- It makes me smarter
- I get ideas from it
- It makes me feel good about myself

The bond between magazines and their readers is built on loyalty and trust. And despite descriptions of news and information as “commoditized” these days, magazines’ content and communities of interest are by no means a commodity.

The insight and quickness with which entrepreneuring journalists identify and satisfy the needs and aspirations of American consumers by launching magazines tailored to their interests is legendary. It is the experience and special role of the magazine community that needs to be preserved and protected as it grows increasingly fragile, as advertising revenue declines even as readership remains stable.

It is also important to remember the valuable role of magazines and the news media in creating a nation of literate, informed citizens. The value of the professional journalism practiced by magazine publishers should not be understated. Magazine editors analyze, provide context and filters, oversee diligent fact-checking, and create well-written short and long-form prose. The Internet’s literacy quotient needs to be judged on the sources of information, the validity, and the reading experience. Many people may be “reading” on the internet, but does the writing (short, truncated, lack of grammar, use of symbols) and the trustworthiness of the material make for a literate society?

As is the case for every business and every medium, technology and the economy has disrupted business models; the traditional magazine publishing business is no different.

But the path forward is unclear. Publishers are trying to cut costs as much as possible to reflect the current economic realities. At the same time, despite disappointment at the failure thus far of digital platforms to yield adequate revenues to compensate for the

losses on the print side, publishers are thinking outside the box and are busy innovating, experimenting, and investing in new approaches to transform business models. This investment is made even more difficult given the financial challenges impacting magazine companies.

## **I. The Impact of the Internet on Magazines To Date**

### **A Journalistic Perspective**

In little more than a decade, the Internet has revolutionized the average American's consumption of news and information. As the Commission points out, these changes have benefited our society by exponentially increasing the amount of information available to most citizens and expanding the marketplace of ideas. The rapid expansion in technology-enabled media consumption has no parallel since the invention of the printing press. But unlike the revolution fathered by Gutenberg, the Internet has also transformed millions of average citizens from consumers of media to producers of it. From searching and finding almost endless sources of information on any subject, to creating and editing Wikipedia entries on a broad range of topics, to sharing news and information with a vast network of "friends", the growth of the Internet has made consumers more knowledgeable and interactive.

Interestingly, for journalists and the organizations that employ them, the Internet has increased and broadened the size of their audience. This exposure to new readers has increased the prestige of some journalists and publications while reducing the influence of local media. The Internet has also internationalized the audience for American media, spreading our political and social values abroad.

### **More Efficient and Collaborative Journalism**

The Internet has benefited journalists employed by established and emerging media organizations alike. By revealing sources of information closed to earlier generations of reporters, facilitating the gathering of news, and enabling journalistic collaboration, the Internet is transforming the way reporters and editors work. While these factors have the potential to both reduce the costs of content creation and improve its quality, there are still and will continue to be substantial costs for magazines to create quality products that educate and inform readers. A good magazine sets context, filters with an enlightening prism, and provides analysis and fact-checked information. This requires adequate and talented pools of journalists and layers of organizational oversight. The Internet's impact on quality is perhaps an open question. The Internet is largely responsible for the acceleration of the news cycle, with results both good (more information available more quickly) and bad (reporting that is inaccurate or unfair).

An example of the journalistic collaboration enabled by the Internet is a project recently announced by Mother Jones. Half a dozen or more journalistic organizations are going to join together to conduct an in-depth analysis of climate change. The cooperative reporting venture is planned to bring together Slate, Grist, The Atlantic, Wired, Pro Publica, the Center for Investigative Reporting, and perhaps others. The participating

journalists believe their audiences are complementary and that each of the organizations can benefit from exposing their audiences to the work of the other partners.<sup>1</sup>

### User-Generated Content

A journalistic form whose growth has been fostered by the Internet is user-generated content. User-generated content has been a part of magazines for a long time, be it letters to the editor, contest submissions, or stories by or about readers. But the Internet has made submission of user-generated content quick and easy and its use has grown exponentially. As discussed in an article in Folio<sup>2</sup>, user-generated content can benefit magazines by increasing readership. The former editor of a largely “crowdsourced” magazine recently wrote that “people are much more likely to check out a magazine after reading its Web site.” She notes that user generated content enhances reader engagement to the great benefit of editorial communities; readers enjoy the opportunity to share personal stories, which often makes for compelling reading. User generated content also improves editors’ understanding of their audiences’ needs and interests.

At the same time, user-generated content can be a source of misinformation, amplified by the anonymity characteristic of the Web, which sometimes results in the information-superhighway version of road rage. The ability of media consumers to generate their own content easily, quickly, and carelessly has also led to the notion that a journalist is anybody with a laptop. The responsible practice of journalism - including the training of young writers; systematic, multi-layered supervision of content creation (otherwise known as editing); and the adherence to standards of accuracy and fairness instilled in journalists at every level - not only engenders trust among consumers but ensures the viability of magazines as an advertising-supported medium.

### **A Business Perspective**

The impact of the Internet on magazine publishers can best be described as a mixed bag. Some effects have been positive but some are cause for real concern. Readership is strong, as is the engagement and affection that readers have for their magazine communities. Magazines have expanded their reach and have a vibrant and active digital presence. On the other hand, the business press has been full of stories on profits shrinking or completely disappearing, high profile magazines closing, job layoffs, and concerns about the effect of the economic turmoil on the ability of magazine publishers to continue to produce the quality publications that drive the strong link between the magazines and their readers.

### Market For and Interest in Print Magazines

The number of magazines continues to grow despite the Internet’s “competition”. In 2004, there were 18,821 magazines listed in the national Directory of Magazines. By

---

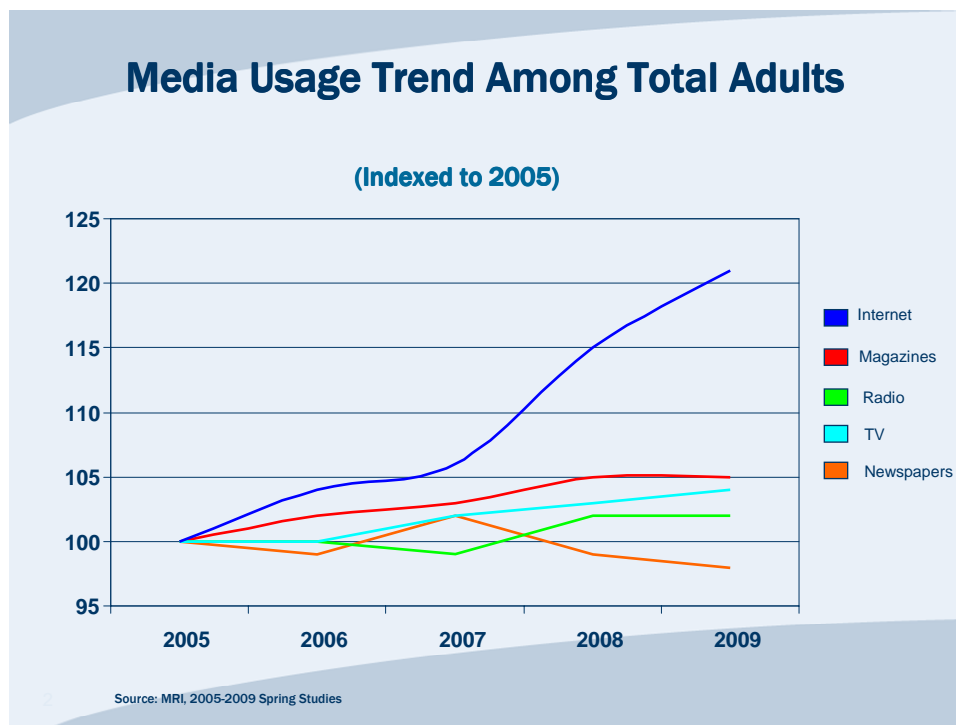
<sup>1</sup> Citizen Journalism? Um, How About Crowdsourcing Journalism with Actual Journalists, Advertising Age, October 22, 2009

<sup>2</sup> Why User Generated Content Still Works, Folio, March 23, 2009

2008, the number of magazines had grown to 20,590, an increase of almost 10 percent. Looking only at consumer magazines, the number of magazines rose and fell in the early years of this decade but has increased steadily since 2005, from 6,325 in 2005 to 7,383 in 2008.<sup>3</sup>

Total magazine circulation has held steady over the same time period, with total circulation 361 million in 2005 and 369 million in 2008. While newsstand sales fell slightly over the period, subscription circulation has grown consistently, from 313 million in 2005 to 325 million in 2008.<sup>4</sup> Even in the tough economic environment we're in, magazine subscriptions increased in the first half of 2009. Fully 92 percent of adults in the United States read magazines.<sup>5</sup>

Except for newspapers, media usage has been growing for all media since 2005. Not surprisingly, usage has increased dramatically for the Internet since 2005 – by more than 20 percent; interestingly, magazines have performed better than any of the other “traditional” media in retaining readers and interest, with media usage growing five percent compared to 2005 levels.



### Not Just Print Anymore





<sup>3</sup> Source: National Directory of Magazines 2009, Oxbridge Communications

<sup>4</sup> Source: Audit Bureau of Circulation

<sup>5</sup> Source: Experian Simmons, 2009

These days it is rare for a magazine to solely exist in its print version. While magazines began their foray onto the Internet during “web 1.0” as simple linear extensions of magazines, with interactive components and driven by increasingly robust broadband, “web 2.0” has been much more transformative. Magazines have had explosive growth in the number of digital initiatives they are undertaking. From 2006 to 2009, the number of digital initiatives tracked by MPA for its member publications jumped nearly 300 percent. The number of consumer magazine websites grew 78 percent between 2005 and 2009. Magazine publishers and their technological partners have gotten creative and crafted exciting programs to reach readers through the Internet, video, mobile platforms, and social networks, from Facebook to Hulu, Twitter to YouTube, and Kindle to the iPhone.

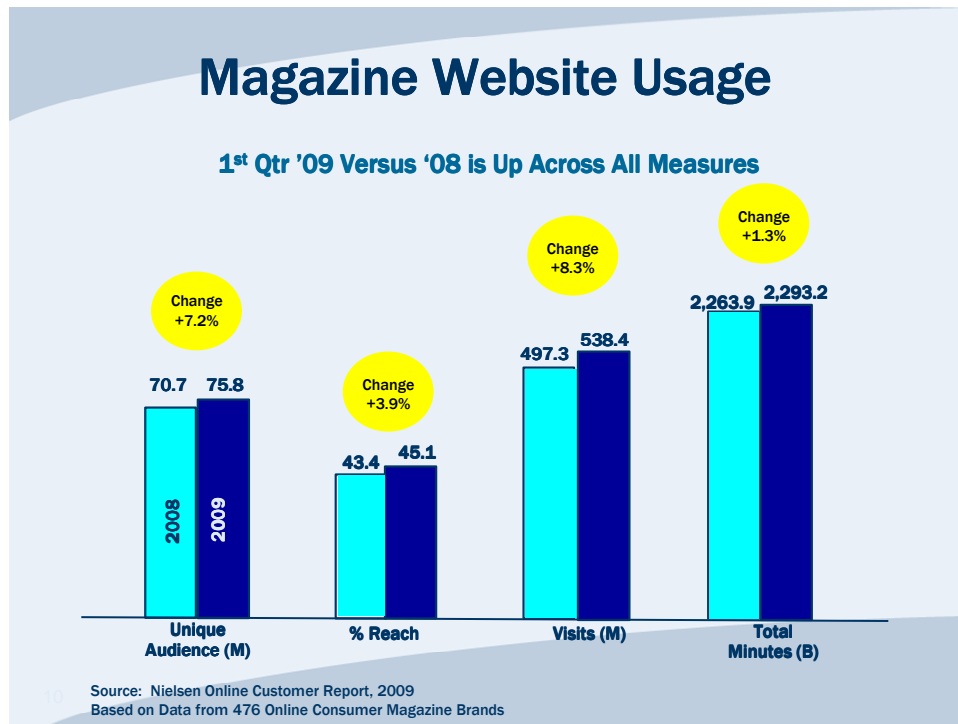
Over 250 digital initiatives have been announced by MPA members so far in 2009, including iPhone apps, online communities, paid content innovations, and many others. In quite a few cases, publishers have integrated advertisers into the initiative to add value and revenue. A sample of initiatives from the MPA database for the past several months:

-  **Augmented Reality** – For its December issue, Esquire magazine is using an augmented reality tool for its print edition that allows readers using a web camera to trigger interactive features and video content in both editorial and ads.
-  **Social Networks** – Martha Stewart Living teamed with social networking site Ning to build online meeting places like its first effort “Dreamers into Doers.”
-  **iPhone app** – Time.com launched its iPhone news application, Time Mobile. The free iPhone app provides up-to-the-minute news, photos of the day and Time.com’s best and worst lists along with nine sections from the website, sharing functions allowing users to send stories, photos or video via email or twitter, video content and image flow navigation options for scanning of headlines.
-  **Twitter, microblog** – The editors of several Rodale magazines, including Men’s Health, Women’s Health, Bicycling, Runner’s World and Rodale.com twittered their responses to president Obama’s address to the Joint Session of Congress on Healthcare reform.
-  **Cross platform content** – Meredith partnered with Interactivation on “Mag Rack” video-on-demand network to feature content from Meredith’s family and shelter magazines and its 12 TV stations.
-  **eCommerce** – Conde Nast launched “Shop the Look” at Style.com with slideshows in the website’s main fashion show area. Every slideshow features a shopping bag button tagged with the message “shop this look”.

In terms of expenditures, Veronis Suhler Stevenson’s Communications Industry Report found that spending by publishers on e-media and mobile platforms increased 12.5 percent between 2007 and 2008, reaching \$610 million in 2008. Online and mobile spending accounted for 2.7 percent of overall magazine spending. In terms of revenue, anecdotal evidence suggests that on average, magazine publishers generate 6.5 percent of total revenue from digital endeavors.

## Magazine-Branded Websites Have Large and Engaged Audiences

While some have said that magazines came late to the Internet, for the past several years, magazine website usage has been growing faster than web usage overall. Between 2006 and 2008, the overall growth of unique visitors to U.S. web sites grew by 4 percent; for magazine web sites, unique visitors grew by 20 percent. That growth continues today, with magazine website usage up in terms of unique visitors, reach, visits, and time.



## Integrated Marketing

The Internet has certainly changed the way magazine publishers sell advertising, from the typical sale of a print advertising page or spread in the earlier years of this decade to today's typical cross-platform and brand marketing packages. The transition of magazines to multi-platform brands – print, online, mobile, events – has created a richer portfolio for advertisers. Magazines have adjusted their sales teams, organization, training, and marketing pitches to build cross-platform marketing packages that maximize advertisers' ability to reach consumers from every angle: "360 degrees". Data backs up the value of an integrated marketing approach. A recent study by Dynamic Logic unveiled in October at MPA's Innovation Summit showed that advertisers who used integrated marketing campaigns that included television, online, and magazines were rewarded by the best returns on investment.

## The Internet as a Source of Subscriptions

The Internet has provided magazines with new and efficient ways to encourage subscription growth. More than one in five subscriptions will be sold online in 2009 – up almost 70 percent from three years ago. (Subscriptions from Amazon.com are forecast to increase 35 percent this year.) Search engine marketing represents a rapidly growing resource for new subscriptions.

In addition to traditional subscriptions, magazines are utilizing the Internet to experiment with innovative subscription models. A new subscription option similar to NetFlix for movies is Maghound – an online magazine service with tiered pricing that lets consumers decide how many and which magazines they wish to receive each month. Early results from the first year of operation are meeting expectations and show that the new service is reaching a new segment of magazine readers.

Digital subscriptions, which at least until now have achieved greater adoption rates for business publications than for consumer magazines, are available through a number of magazine partners, including Zinio. Digital versions of print magazines have proved particularly valuable for international and other distant subscribers. In addition, digital magazines are starting to be available on e-readers and are likely to grow significantly when color e-readers with a more paper-like tactile feel reach market.

The efficiency of the Internet channel offers several benefits:

- Magazines are able to sell subscriptions at a lower cost relative to other channels without sacrificing profitability.
- Online subscriptions are not cannibalizing other subscription channels.
- Online channels make the renewal process easier and quicker for consumers. Similarly, for Maghound, managing one's magazine selections each month is a simple and convenient process.

#### Some of the Bad News – Lack of Online Revenue, The Effect of the Recession

Magazine publishers currently find themselves in a difficult position, with significant reductions in the traditional sources of magazine revenue combined with the disruption of the business model brought about by technology. After decreasing about 8% in 2008, advertising revenues are down 20 percent this year. Newsstand sales, the most profitable piece of circulation revenue, were hit both by the recession and disruption in the distribution model and are down 12 percent this year. Readership is steady but at a far greater cost. Publishers are having to spend more on marketing and production to keep circulation at existing levels, leading to a drop in net circulation revenue. Despite the growth in cross-platform advertising packages, the most lucrative part of the packages – print ad pages – are down significantly, and online advertising revenues are lower than had been anticipated or hoped for.

In the traditional media model, advertising and circulation revenues have been relatively evenly split. Depending on the economy, the relative shares for circulation and advertising have been fluid, but for the magazine industry as a whole have stayed within



a relatively narrow band. In 2007, advertising's contribution to magazine revenue was just under 60 percent; circulation's contribution just over 40 percent. Circulation's share is larger now, with the falloff in ad pages and dollars in 2008 and 2009.

Magazine online revenue, for the most part, is coming solely from advertising – mainly display advertising on our web sites. And while the number of magazine web sites has grown and their traffic has increased enormously in recent years, as has advertising on magazine properties, advertising dollars have not grown as much. There is more online advertising, but the revenue from a display ad has come down and is continuing to decrease.

The past year has brought a one-two punch to the magazine industry – some of it related to the Internet, and some to the severe recession.

- **Circulation Revenues** – Print circulation revenues are steady, but there is limited circulation revenue from the digital side. As has been noted endlessly, consumers have come to view content on the Internet as free. Web sites have experimented with paid content models, but it is fair to say that thus far the paid model has been most successful for “specialized content”, for example the well-publicized Wall Street Journal and Financial Times web sites. For magazines, some notable examples are Consumer Reports, Cooks Illustrated, and Wine Spectator. And, it should be noted that while print circulation revenues are substantial, so are the costs of obtaining subscribers. The net contribution of circulation revenue to magazines' bottom lines is much smaller than gross circulation revenue.
- **Newsstand sales** – Single copy sales were down 12 percent in the first half of 2009 compared to 2008; despite higher cover prices, revenues are also down. Several factors contributed to the decline. In February, a major distributor of magazines shut down its wholesale operations, leading to a disruption in distribution for a few months. Second, changing shopping patterns have consumers shopping less often and spending more time in big box retailers and value stores and less in traditional newsstand venues. Third, the recession has caused consumers to reign in discretionary purchases.
- **Print Advertising Revenues** – Advertising pages and revenues are down significantly due both to the recession and advertisers migration to – and fascination with – all things digital. Advertising dollars for the magazines measured by the Publishers Information Bureau are down 20 percent for the first three quarters of 2009, and ad pages are down even more – 27 percent through September. Of course, all media are feeling the effect of the largest recession since the Great Depression, and magazine's share of advertising dollars, while down a few percentage points, has not dramatically eroded. But the road ahead for magazine advertising is a long one. The latest forecast for advertising in magazines from Veronis Suhler Stevenson's Communications Industry Forecast shows advertising losses continuing but lessening in 2010, lessening further in 2011, flat in 2012, and resuming modest growth in 2013.

- Online Advertising Revenues – Due to the proliferation of advertising networks – about 400 at last count – online advertising has become somewhat commoditized and rates are declining. Even the rates for premium display ads on magazine web sites are declining due to the downward pressure from ad network competition. Ad revenues from online and integrated marketing packages have not been sufficient to staunch the losses in print advertising revenues.

The combination of the deep recession, significantly reduced advertising revenues in traditional media outlets, and a shortage of both circulation and advertising revenue online has caused unprecedented economic turmoil for all print media. The fallout for the newspaper industry has been well documented; declines in advertising and circulation have caused some newspapers to cease publication (or at least print publication), bankrupted some companies and forced all to reduce the amount of money they spend on content. Anecdotally, a third of the 60,000 journalists once employed by newspapers are now out of work with a loss to communities of local news and local voices, yet to be widely replaced by bloggers and producers or aggregators of hyper-local news.

The impact on magazines has been less dramatic but no less meaningful. As with newspapers, the decline in advertising revenue has hurt profitability and in turn reduced spending on the production of content. There has been considerable publicity surrounding the closing of dozens of well-known magazines this year, among them Gourmet, Nickelodeon, Blender, Vibe, Hallmark Magazine, Domino and Country Home.<sup>6</sup> Although the loss of full-time and free-lance jobs is not as high at magazines as at newspapers—anecdotally more like 20 percent—the effects are compounding and threaten to weaken circulation and advertising revenue even further.

## **II. Going Forward, What Are Publishers Doing to Adjust Their Business Models?**

### **Renewed Interest in “Paid Content”**

“Conventional wisdom” has it that at least when it comes to news, users consider online content to be fungible; that is, if they encounter even relatively low barriers—the website loads slowly or requires registration—they simply choose alternatives. Another site, another story. Content would appear to be a commodity, and consumers see no reason to pay for it.

The reluctance of consumers to pay for online content was recently confirmed and quantified by research from Ipsos Mendelsohn and PHD. In a survey of 2400 adults who

---

<sup>6</sup> While the number of magazine closures is by no means insignificant – 54 consumer magazines closed in 2008 – that closure rate was actually down 17 percent compared to 2007. And new magazines continue to be launched. The latest figures show that magazine launches surged 10% in the first part of 2009 from the prior year.

were asked about 40 newspapers and magazines, about 55 percent of survey respondents indicated they would be very or extremely unlikely to pay for online newspaper or magazine content. On the other hand, when asked about two paid web sites, the Wall Street Journal and Consumer Reports, over 80 percent of the users of those two sites indicated they found them to provide good, very good, or excellent value.

So is the genie out of bottle when it comes to paid content? It is at least arguable that for a lot of online content, paid content is not a viable option. But that doesn't mean paid content can't work in any situations. If consumers perceive value, they will likely be willing to pay for that value. If a "content experience" is differentiated and valuable, the prospects for payments are improved. Not surprisingly then, many of the "paid content" models under discussion or development play off the value of the differentiated content and/or the passion of the user for the content. Given magazines' points of passion for readers and their core at the center of communities of interest, publishers are optimistic about the possibility of successful paid content models.

A recent article in Ad Age identified five paid content models either in current use or in development in the newspaper industry, and by extension applicable to magazine online content as well<sup>7</sup>:

- **Metered** – Charging only the more frequent visitors to a web site. Ad Age described the Journalism Online model in which a newspaper or magazine web site might charge \$6 or \$7 monthly for people who visit more than 10 or 15 times a month. The model suggests that 10-15 percent of the audience would start paying. As an example, the article mentions The Financial Times, which began charging frequent users in 2007 and says that the number of paying subscribers and unpaid visits are both growing.
- **Mostly walled** – Negatives noted for this model were greatly diminished visibility and voice and risking future growth in traffic and ad inventory. Quoting ITZBelden estimates however, the article suggested that even fairly high walls would not cut page views by more than half, and that ad revenue would hold up.
- **Walled niches** – In this model, most of a website's content is free but visitors who want access to specialized content must pay. The article cited the Milwaukee Journal Sentinel, which charges \$7 a month for specialized content on the Green Bay Packers. A magazine example is a set of workout Quick Start Guides available in a separate section of Men's Health Magazine's web site. For \$4 per workout regime, users can download guides that provide details on the workout, allow the user to log their progress, and provide supplementary information on how to maximize the benefits of the workout.
- **Separate pay site** – This model leaves the entire content of a media website free but creates a companion web site for separate specialized content. The example cited for this was the Pittsburgh Post Gazette which created a separate paid site

---

<sup>7</sup> Newspaper Grapple with How – or Even Whether – to Erect a Pay Wall, Advertising Age, October 26, 2009

PG+, charging \$4 a month for content not contained either in the print or online version of the newspaper.

- **Membership** – A similar model to certain nonprofit magazines and broadcast outlets, content would be available for free but devoted users would be asked for contributions.

While not discussed in the Ad Age article, joint paid content models are also generating considerable attention. One such business venture for magazines, Maggwire.com, recently announced plans to launch a paid content service next year. As described in FOLIO:, the paid service is designed to deliver “premium magazine content exclusively to Maggwire users” with a streamlined user interface that’s “the most sleek digital magazine experience ever created.” The plan is to give readers access to articles across a variety of topics, with content available both online and offline. Pricing for the service will include a flat monthly fee, now projected at \$2 for one magazine title and channel, plus \$1 for each additional title or channel. Prices for single articles outside of reader-selected titles or channels are projected to be 15-25 cents.

Other joint venture paid content models are in development. In response to a request to technology providers by the Newspaper Association of America, Google outlined its “vision of a premium content ecosystem” that included subscriptions across multiple news sites, syndication on third-party sites, accessibility to search, and various payment options, including micropayments, an idea that has been touted extensively by Walter Isaacson, former editor-in-chief of Time magazine. A similar system, Journalism Online, is looking to create an easy-to-use account that connects consumers to all publishers websites with multiple different pricing models, including “annual or monthly subscriptions, day passes, and single articles.”<sup>8</sup>

Throughout the exploration of paid content concepts, publishers are also carefully examining accompanying advertising revenue streams. Much as advertisers have traditionally valued print magazines’ paid subscribers, there is reason to believe that advertisers will also value paid, targeted and branded online communities. As consumers reaffirm the value of quality online content, advertising rates will hopefully follow their lead.

## **Revenue Streams from Mobile Devices**

One technology change certain to impact the future of the news media is the growing use of mobile devices not only to communicate peer to peer but to consume news and information. Included in the mobile category is the omnipresent cell phone, the most personal, portable and present (always on, always there) device most Americans own, now morphing into the companion category of smart phones, including iPhones, Blackberrys, and the like. More recent and emerging are e-readers and netbooks. The expansion of the technological capabilities of all these mobile devices, coupled with the growth of online news and information services, guarantees that these devices will

---

<sup>8</sup> Journalismonline.com web site

supplant computers as the primary means of media consumption for large numbers of Americans, especially those who have spent their tween and teen years texting and tweeting. It's not clear yet if there will be a "winner" in the mobile category, but it appears that the coming wave of netbooks and e-readers are more likely to converge with mobile phones and PDAs than compete with them.

There are two promising sources of revenue for magazine content on mobile devices:

- applications – witness the exploding growth in iPhone "apps", some free but many paid; and
- subscriptions and purchases on e-readers and the like. The recent success of Amazon's Kindle in generating subscriptions and book and magazine downloads has certainly caught the eye of magazine publishers. There will be 17 e-readers on the market (or coming to market) in 2010. With several full color and paper-like devices coming to market, the potential of e-readers for magazines is more exciting than ever. Though the Kindle still owns more than 70 percent of the e-reader market, the game is changing fast. iRex, Que, The Nook and others will offer revenue shares that are more favorable to publishers and open platforms more favorable to consumers who want to share content across devices.

To say that the availability of of iPhone apps has grown is an understatement of monumental proportions. An article in the Wall Street Journal describing Conde Nast's plan to sell digital copies of GQ on an iPhone app indicated there are now 85,000 apps.<sup>9</sup> An InformationWeek article described how the e-books category has taken over the top spot from the games category in Apple's App store.<sup>10</sup> MPA's digital initiatives database contains numerous paid iPhone apps. For example, the Men's Health workout guides available for purchase online are also available through an iPhone workout application.

There is much ongoing discussion on how to monetize the coming e-reader and mobile device explosion in a manner that will support continued journalistic creation of news and information content. Current examination of an industry-wide digital and mobile storefront is based on the premise that consumers will pay for differentiated, excellent, and trustworthy content and spurred by the need to find new sources of revenue to support the creation of such content. The hope is to create a content and device ecosystem with multiple ways to monetize content, including slicing-and-dicing and bundling content from competitive sources.

It is also anticipated that advertising will very much be a part of the mix as revenue streams for mobile devices develop. Rather than banner display advertising, the successful model may more closely resemble the sponsorship model sometimes used in traditional media.

There is an enormous amount of testing and experimentation currently underway. At the end of the day, it is all about the consumer experience and the key to success will be to

---

<sup>9</sup> Conde Nast Tries Turning the App Store Into a Newsstand: Will You Buy GQ for Your iPhone?, WSJ's All Things Digital, October 20, 2009.

<sup>10</sup> iPhone Threatens Amazon Kindle, InformationWeek, Nov 2, 2009

have a quality magazine experience to leverage. The investment of resources – both financial and otherwise – to make this work is quite substantial and the timeframe to bring the vision to fruition long. The unanswered question – will it be enough?

### **The Potential for Licensing Fees**

Monetizing the revenue opportunities from content on mobile devices is an area where progress is already being made. A more difficult revenue stream to capture is fees for the use of our content across the Internet. The growth of news aggregators and the wide scale repurposing of magazine content has proved challenging to online revenue models. The way the Internet sometimes commoditizes content and facilitates the misappropriation of intellectual property poses a clear danger to the future of journalism. By aggregating or repurposing content, bloggers, websites and, most significantly, search engines not only “steal eyeballs”—the currency of advertising—but also make it difficult for the creators of that content to build and hold audiences.

As the FTC has noted, “news aggregator” websites have become a popular destination for consumers. Not only do these sites generally collect stories produced by media websites without paying for that content, but often there is not even attribution. For a number of years, it was difficult for media content producers to track unauthorized usage of their content. That situation has now improved with the arrival of technology that allows media organizations to easily and thoroughly track their content across the Internet. One company helping publishers track online content, Attributor, has reported very high levels of unauthorized usage of magazine articles and other content. Tracking copyrighted material is the first step; the next step is to create a system to charge fees for the use of copyrighted material. Programs like Attributor and the AP news registry are first generation systems for helping companies negotiate licensing payments for content used without authorization.

### **E-Commerce**

The use of the Internet for e-commerce is gaining attention from all businesses, and magazine publishers are no exception. Two e-commerce opportunities that represent additional revenue streams for magazines publishers are: direct sales through and by magazine brands and “transaction fees” for sales facilitated by magazine advertising.

- Direct sales - Increasingly, publishers are creating online e-commerce offerings and “stores” to provide users access to magazine-related goods and services. For example, a craft enthusiast magazine might sell branded knitting or sewing kits. Other publishers are taking the concept even further, developing their own product lines to take advantage of the title or publisher’s brand and reputation.
- Transaction fees - Independent research has shown that magazine advertising is extremely effective in getting readers to act at all six stages of what is called the “purchase funnel” (the funnel begins with brand awareness and ends with purchase consideration/ intent.) With technological advances allowing

advertising to include interactive components, it can be easier than ever to prove and quantify the connection between the advertising and a consumer's purchase. Both online and offline, magazine readers often take quantifiable actions in response to advertising. For example, if an ad contains a mechanism to allow a reader to move more immediately to a purchase, the publisher and advertiser can attach the consumer's action to the magazine advertisement.

### **Enhancing Print Circulation Revenues**

Even though it is expensive to print and physically deliver magazines – and getting more so all the time – print versions of our magazines are a core part of the magazine experience as well as an important source of revenue, and will likely to continue to be so for a long time to come. Four trends are developing or expanding to improve net circulation revenues:

- Continued investment in the Internet as a source of subscriptions. Internet marketing expenses are much less expensive for publishers than direct mail. In addition, publishers have found minimal overlap between subscribers they find online and traditional subscription sources. One publisher has already generated 40 percent of new subscriptions online and this could grow in the future.
- Publishers are raising subscription prices to yield additional revenue and to more appropriately reflect the costs of magazine production and the value of a quality magazine product. Further, publishers are eliminating some of the more expensive circulation to improve profitability, even if that means reaching fewer people.
- Automatic renewal – Long in use in the cable and newspaper industry, magazine publishers are increasingly moving to an automatic renewal model for magazine subscriptions. This subscription method is good for both consumers and magazines. For consumers, it makes renewal fast and easy. As long as a consumer is enjoying their magazine, they can continue to receive it with a minimum of fuss and bother. For publishers, it reduces the costs of renewal mailings and improves renewal rates.
- Subscription packages – There is a trend, started in the business-to-business magazine category, toward combined print and online subscriptions. For one price, consumers can elect to receive a print version of their magazine, a digital version of their magazine, or both. To some extent, this is a variant on the paid online content model, by marrying the value to readers of both print and online experiences.

### **III. Potential Impact of Government Policies**

The FTC poses the question of whether new or changed government policies are needed to support optimal amounts and types of journalism. Below is a discussion of some government issues – some within the Commission's jurisdiction and some beyond – that are relevant to the pursuit of journalism and the business models of journalistic

institutions. MPA looks forward to a discussion of these topics at the workshops on December 1-2.

## **Copyright**

For hundreds of years, printed materials have depended on copyright, and the magazine industry is no exception. The 21<sup>st</sup> century publishing industry however, is like none other in the history of publishing. Operating in a world where virtually anyone can become a “publisher” overnight, today’s magazine publishers publish content online knowing that virtually instantaneously, scores of other websites – bloggers, aggregators, search engine news services – will take this material and republish or repurpose it as their own, often with no attribution or link back to the original source. Data indicates that 50-65 percent of all republished content does not link back to the original web site.<sup>11</sup>

When the Founding Fathers included copyright protection in the Constitution, they did so to “...secure for limited times to authors and inventors the exclusive right to their respective writings...” But today’s technology can drastically reduce, or eliminate, the value of those rights in mere nanoseconds. Experiences like these on the internet are driving many, including the FTC, to ask fundamental questions about the adequacy of copyright online. Leonard Downie, Jr. and Michael Schudson, in their report on American Journalism, have commented that “At issue...is the current state of copyright law, which has not kept up with issues raised by digital publication.”<sup>12</sup> Similarly, in their piece in the *Washington Post* on “Laws That Could Save Journalism”, Bruce Sanford and Bruce Brown argue that copyright laws need to be “brought into the age of the search engine.”<sup>13</sup> This challenge is also being addressed around the world – in Germany, led by Chancellor Angela Merkel, the new coalition government has pledged to create a new kind of copyright to protect online journalism.

As copyright law was last substantially modified before virtually all of the technologies we use today existed, we support the FTC’s efforts to bring these questions to the forefront, encourage the discussion, and look forward to being an active participant. As part of the debate, we think there are several questions worth contemplating. They include:

1. **Do today’s copyright laws adequately accommodate current or future systems for monetizing unauthorized uses of content online?** With unauthorized content reuse growing over 15 percent a year<sup>14</sup>, new online systems may be able to help publishers monetize their content when it is used online without their permission. Programs like Attributor, which works by searching the internet looking for unlicensed uses of a publisher’s content, and the Associated Press’ news registry, which will tag and track all AP content online, can help publishers either arrange licensing agreements or require infringers to take down

---

<sup>11</sup> Attributor Internal Data. March 2008. [www.attributor.com](http://www.attributor.com)

<sup>12</sup> Downie, Schudson; *The Reconstruction of American Journalism*, 10/20/2009 p. 58

<sup>13</sup> *Washington Post*, 5/16/09

<sup>14</sup> Attributor Data



the copyrighted material. However, while finding the infringed material is an important first step, aspects of existing copyright law can stand in the way of affording publishers the protection they count on. For example, the take-down procedures outlined in Section 512 of the Digital Millennium Copyright Act make it likely that the best window to monetize a story may evaporate before the prescribed steps for removing the infringing material have been followed.

Protecting publishers' rights to the work that goes into timely versions of news stories is the focus of suggestions from David and Daniel Marburger. In their 2009 report titled *Reviving the Economic Viability of Newspapers and Other Originators of Daily News Content*, the Marburgers recommend "amending section 301 of the copyright act to make clear that, in the context of unfair competition among direct competitors, the unjust enrichment theory underlying the INS decision remains viable as a matter of state law." As remedies for "unjust enrichment", aggregators would reimburse newspapers for ad revenues associated with the news reports, and injunctions would bar aggregators profiting from newspapers' content for the first 24 hours after stories are posted.

Examples like these are reflective of both potential limits, but also solutions that have been put forth to address the role of copyright in furthering journalism.

2. **What is the appropriate role for "Fair Use" online?** As publishers, we are impacted on both sides of our business by fair use provisions – we depend on fair use for our editorial side, and suffer from abuse of fair use on our business side. Much has been said about this topic, and we agree that it is a central point of discussion in the future of journalism online. As is often the case with fair use, there are myriad different elements that merit consideration. Downie and Schudson ask "how much of a story can be republished, or in what form, before the prevailing principle of "fair use" is violated?" Sanford and Brown argue that a "bright line needs to be imposed by statute: that the taking of entire Web pages by search engines, which is what powers their search functions, is not fair use but infringement." Others have asked if the traditional four factor<sup>15</sup> test for fair use should be different online – if for example, there should be a different analysis of the market for the underlying work given the speed with which content matures online. All are reasonable questions to ask as we work to find answers for journalism in today's market.

## **Antitrust**

In 1970, the Federal government took another step in its history of crafting government policy to support journalism when it passed the Newspaper Preservation Act of 1970. This exception to antitrust laws allowed newspapers in the same city to pool costs and

---

<sup>15</sup> These factors are: 1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes; 2) the nature of the copyrighted work; 3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; 4) the effect of the use on the potential market for or value of the copyrighted work. 17 USC §107

revenues under joint operating agreements. Today, a similar approach may once again be appropriate.

As innovators in the newspaper and magazine industries have begun to strategize about paid content models, the potential for industry consultations and/or consortiums is very promising. A coordinated effort between publishers on everything from pricing and publishing to devices and distribution holds the potential to serve as a significant driver of future growth. While not necessarily an issue in all cases, discussions about whether antitrust exemptions would facilitate the development of coordinated strategies or cooperative technological innovations have entered the conversation.

At the May hearings on the future of journalism chaired by Senator Kerry, the publisher and CEO of the Dallas Morning News, James Moroney, argued that “Congress should act quickly on legislation that would provide newspapers with a limited antitrust exemption to experiment with innovative content distribution and cost saving arrangements.” Sanford and Brown support the idea, noting that “antitrust immunity is necessary because most individual news sites can’t go it alone by walling off their content for fees – readers will simply jump to sites that are still free.”

Not everyone is in favor of an antitrust exemption for media – Downie and Schudson “do not think it is desirable or necessary for newspapers to be exempt from these [antitrust] rules.” Nevertheless, whether such a step is needed to ensure the long term viability of journalism is likely to be the subject of lively debate for some time to come.

### **Behavioral Advertising**

When magazine publishers began to invest heavily in the Internet in 2004-2005, there was an underlying belief that producing branded editorial content (including mobile, video, audio and the like) and harnessing the power of social media would pay off in better web advertising metrics, especially CPMs (cost per thousand advertising “exposures”). By and large, this expected growth in CPMs has failed to materialize.

As the FTC has noted, one cause of weak CPMs is the explosion of advertising outlets. Advertisers unwilling to pay higher CPMs can search out lower-cost outlets for their advertising expenditures. But another factor inhibiting the growth of CPMs has been the development of behavioral tracking technology that allows web users activities to be tracked across web sites and facilitates the targeting of advertising based on that activity.

Behavioral advertising has caused downward pressure on advertising rates for premium content web sites. Through a process called retargeting, behavioral advertising networks have the ability to follow users from premium media web sites to other locations on the Internet, and serve advertising to them on these lower cost web sites. While research has shown that advertising on premium media sites is more effective than advertising retargeted to an unrelated web site lacking context, behavioral advertising has helped

contribute to a downward spiral in advertising rates online, both for premium media sites as well as non-traditional media startups.

Publishers use of behavioral advertising networks spans the gamut. Some publishers rely significantly on behavioral advertising, some make no use of it, and still others rely on it solely for the sale of “remnant” space. Publishers are also experimenting with their own behavioral advertising networks.

The experience for the consumer is important to the debate. The FTC, as outlined in behavioral advertising principles issued in February 2009, has asked questions about whether there is adequate transparency and consumer choice when advertisers use behavioral advertising. The FTC has also raised questions about what constitutes reasonable security for behavioral data, and what are appropriate protections for sensitive data.

With a developing self-regulatory initiative, the FTC and others have taken a wait-and-see approach. Efforts are underway to develop an icon to be placed in all ads served through behavioral advertising practices, to educate the general public about behavioral advertising and the icon, and to create an industry-wide behavioral advertising web page providing consumers with a mechanism to opt-out of behavioral advertising if they so wish.

## **Tax Code Issues**

### **Nonprofit Status**

As the financial state of the media industry has darkened, many have looked to the tax code to provide publishers relief. For example, legislators in both the House and Senate have proposed bills allowing newspapers to become 501 (c)(3) nonprofits. Use of the tax code to support journalism is not a new idea – as Downie and Schudson who support the non profit idea note, the “[g]overnment already plays a role in supporting American journalism. Tax laws and Internal Revenue Service rulings and interpretations that determine which institutions working in the public interest are treated as nonprofits have underpinned the economic models of some news organizations for decades.” Magazines are no stranger to this concept – several titles with news content, including Harper’s, Mother Jones, and the Washington Monthly already operate as nonprofits.

Downie and Schudson also suggest that local news organizations can be funded by foundations, integrated into academic institutions or supported by government subsidies. Although government has long supported broadcast journalism, the notion of expanding the role of government in the production and distribution of news and information is likely to be controversial.

### **Beneficial Tax Treatment for News Organizations**

Bruce Sanford and Bruce Brown have called for the tax code to be used in different ways. Following the lead of Washington State, which this year passed legislation to cut business

taxes on the press by 40 percent, Sanford and Brown propose that “Congress could provide incentives for placing ads with content creators (not with Craigslist) and allowances for immediate write-offs (rather than capitalization) for all expenses related to news production.”

### **Broader Tax Issues**

Other ideas that have come from broader tax debates have significant ramifications on publishers.

- **State Taxes on “Digital Downloads”** - As readers migrate to viewing magazines online, as well as on e-readers and other mobile devices, publishers’ use of digital editions – versions of the print edition in a downloadable form – will continue to grow. This fast and efficient distribution method is appealing to readers and publishers alike. However, an increasing number of states are looking to tax “digital downloads” – things like digital editions of magazines – making the digital edition potentially more expensive. Modifying the tax code to preempt states from taxing digital editions of newspaper and magazines may improve news organizations financial picture. It would also be consistent with the tax treatment of magazines and newspapers in the majority of states.
- **Carryback Period for Net Operating Losses** - In his testimony before the Joint Economic Committee, John Sturm discussed the idea of extending the carryback period for net operating losses, an idea President Obama proposed in his Fiscal Year 2010 budget. In support of legislation that has been introduced, Sturm said in his testimony, “[t]his would allow businesses to apply current losses to prior year taxable income, providing a much needed infusion of cash at a critical time.”
- **Business Activity Tax Simplification** - Over the last several years, as businesses have grown nationally, dozens of media companies have supported business activity tax simplification legislation. Ambiguous elements of the tax code often make it extremely challenging for publishers to determine with certainty what activities or interactions with a particular state will trigger a tax. This is especially relevant for publishers with national titles – reporters often travel far and wide to cover the important stories of the day. Resolving one problem in particular – the jurisdictional standard by which a state determines when an out of state business will be subject to a state’s taxing authority – by requiring that all states adhere to a bright line physical presence standard would have significant benefits for publishers. Publishers would benefit from reduced costs of complying with the taxing authorities of multiple jurisdictions, and avoid potentially significant tax liabilities that could arise as a result of only a limited amount of work in a particular state.
- **Advertising as an Integral Part of a Tangible Product** - Fifty years ago, in the debate leading up to passage of P.L. 86-272, tension between protecting businesses from uncertainty and multiple taxation, and preserving state tax

authority and revenues, was the underlying theme of the debate. Now, 50 years later, that same tension underlies current efforts to reform the very same legislation. P.L. 86-272 prohibits a state from imposing a net income tax if a company's only state activities are solicitation of orders for sales of tangible personal property. Among the many unresolved questions surrounding P.L. 86-272 is whether or not advertising contained in a magazine is a tangible product. In the absence of a definitive determination, some publishers may shy away from potential revenue opportunities (such as out of state sales calls) for fear of the potential tax consequences. Removing obstacles to the sale of advertising could be an important revenue generating opportunity for publishers.

### **Protection for Journalists' Confidential Sources**

Every day, millions of Americans learn more about their town, their nation, and their world through the pages of a magazine. In the course of pursuing the important stories of the day, reporters occasionally need to offer sources the promise of confidentiality. Increasingly, this promise has faced legal challenges in cases where reporters are asked to divulge their confidential sources for any number of reasons. This forces publishers to make difficult decisions, the impact of which is felt across an organization. Potential prosecution impacts the editorial; in 2005, then editor-in-chief of Time Magazine Norman Pearlstein testified before the Senate Judiciary Committee that "uncertainty [in the form of a potential subpoena] chills essential newsgathering and reporting." It also impacts the bottom line, as newspaper and magazine publishers must spend considerable time and resources defending journalists providing the very news we are at risk of losing.

To ensure the continued free flow of this vital news and information to readers, journalists need a clear and uniform standard regarding compelled disclosure of their confidential sources. Legislation under consideration in the Senate, and supported by the Administration could help achieve this goal. Many of the news organizations likely to participate in the workshops on December 1-2, including MPA, have been active supporters of a federal shield law.