

## Sorting Things Out

Time Warner Retail (TWR) is trying to sift through all the mess at the magazine stand. The New York-based distributor is stressing a category management approach as a way of boosting magazines' image and sales performance. Company officials say magazines are the perfect candidate for category management because of their heavy reliance on consumer demographics.

"The great thing about magazines is that you know who is going to buy specific magazines," says Rich Jacobson, president of TWR. "Urban, upscale consumers tend to buy certain types of titles, as do rural consumers. We can break it down into many different groups and create a magazine section that fits a certain profile."

TWR is experimenting with several supermarket chains— including Ralphs in Southern California, Wegmans in New York and Harris Teeter in North Carolina—to develop a program that will streamline the category. The company's goal is to offer retailers magazine planograms geared for specific shoppers, depending on store demographics.

"The average retailer today has two planograms across their entire chain for their magazine section," says Jacobson. "I would argue that magazines are one of the most demographically sensitive categories in the supermarket. Retailers, distributors and publishers need to know who is shopping the stores and tailor the section to these consumers. We are here to help retailers gain a better understanding of this category."

TWR is working with Dechert-Hampe & Co. to develop planograms for various store demographics. According to Richard Lawton, TWR's senior vice president of marketing, a 100-unit supermarket chain could be broken into five or 10 clusters, based on demographics, with magazine sections created for each cluster.

"Every magazine has a target audience," Lawton says. "The power of category management is that it forces us to take a very analytical approach to the category. With the proper technical support, people

and resources, we are able to dissect the business and understand what the consumer truly wants.

"Then we go to the retailer and ask them what type of consumer are they trying to attract. We can then customize the magazine section to match the titles with the target consumer."

TWR has its own titles such as *People*, *Time* and *Life*, but it also represents Meredith (*Ladies Home Journal*) and Conde Nast (*Glamour*, *Vogue*).

TWR is not the only publisher looking to streamline its single-copy magazine sales business. A number of others are encouraging retailers to use the magazine space more efficiently, primarily because it can take a significant amount of cost out of the system. Publishers estimate that more than 50 percent of all distributed magazines are returned to them unsold. Creating planograms that ensure greater sell-through on titles can dramatically curtail returns, saving distributors and publishers millions of dollars.

"This is an idea that has been around for a long time," says Margaret Hamilton, director of newsstand sales for Hachette Filipacchi Magazines, which publishes *Woman's Day*, *Elle*, *George* and *Road & Track*. "Magazines are more expensive than ever to produce. There is a lot of waste in this business. We have to address this issue intelligently. With all this scanning capability, it's something we should address. We certainly should be using this information to create more efficient magazine sections."

Developing a magazine section based on demographics is something we welcome," says Klaus Gunn, director of client services for Murdoch Magazines, which publishes *TV Guide*. "In fact, we are developing our own database that will help us track demographics on a chain and wholesaler basis. But we are very concerned about the accuracy of the data we obtain. To create the right mix, the information must be accurate."

Returns are "a very expensive proposition," says Cam Cloeter, an industry consultant. "If a publisher could reduce the print order by just 10 percent and maintain

sales, it could help the bottom line significantly. That's the goal."

While the larger publishing houses stress category management, most industry officials say they do not want to exclude smaller titles from the mix. The goal, they say, is to offer an assortment designed to sell through, not one that is created just to get magazines on the shelf.

A publisher of a niche market title, who did not want to be named, says that despite comments to the contrary, he believes the larger publishers will work to exclude his title from the mix. "They will not benefit from my title taking up space that could go to one of their magazines. That's the bottom line," he says.

TWR's Lawton says it is in the best interests of the large publishers to include appropriate titles whether they are from large or small publishing houses.

Retailers also see the problem with magazines. There are now an estimated 4,500 titles available for sell-through distribution. The average retail space in supermarkets has room for less than a quarter of that.

An example of the importance of selection is the case of Ralphs Grocery Company (Compton, Calif.). In talking to the retailer, TWR officials found that Ralphs saw the mainline magazine section as having more sales-growth potential than the front end or outpost locations. But an analysis by TWR indicated that the main section was not in proper balance.

"We found that in stores with a large Hispanic clientele, they went way overboard with the selection of Hispanic magazines," Jacobson says. "They were keeping other good titles out because so much space was being devoted to just one segment."

"I think the magazine publishers are starting to realize the difficulty we are having with their section," says one West Coast retailer. "The profit is there and has always been there. The problem has nothing to do with profit from our end, it has to do with organization. We want the publishers and the distributors to clean up the magazine section for us.

Other retailers say the biggest problem with magazines is keeping the category in order. They place a large emphasis on title selection, agreeing that store demographics must play a larger role in deciding what titles appear in each location.

Responding to retailers' complaints that publishers are too interested in subscriptions and not concerned with single-copy sales, Lawton says category management could be the key to switching that equation around.

"The more we can address the problems with the high cost of returns, the more attractive the newsstand will become to us," he says. "Seeing the opportunity to make more money at the newsstand, publishers will begin to shift their emphasis to this area. They will start to put more promotional dollars into the category and reinvest in this area."

Jacobson says category management presents both retailers and publishers/distributors with a unique opportunity. "We have a tremendous opportunity to drive cost out of the system and be much more efficient with title selection," he says. "If the publishers can take additional costs out, the retailer will benefit from this work over the long haul."

### **A Case of Category Under-Management**

Lee Nichols knows category management and he knows that the magazine category has underperformed in supermarkets.

As president of San Juan Capistrano, California-based Dechert-Hampe, Nichols says he has done research on more than 60 different categories. But he says he has never come upon one that has taken as little advantage of category management principles.

"I have worked with many categories developing category management programs, and I think that magazines have been totally overlooked by retailers, distributors and publishers," he says. "The magazine category has been under-managed and it has suffered because of it."

Nichols feels magazines have been ignored for several reasons. First, the fact that they are delivered directly to the store puts less pressure on the retailer and more on the distributor, who is not as interested in creating specially tailored departments.

"Many publishers and distributors pay more attention to the checkstand than the mainline magazine sections," notes Nichols. "In some cases, a magazine may actually perform better at the mainline than the front end."

Also, the fact that magazines are guaranteed sales makes retailers less willing to try innovative sales techniques with the category.

Finally, Nichols says a lack of proper POS data has prevented the industry from getting a better handle on sales figures and who is buying what magazines in the supermarket.

Dechert-Hampe was hired by Time Warner Retail to help gather information to develop a category management approach for the magazine section. After collecting the necessary data, Dechert-Hampe officials then analyze the information and determine the proper magazine section on a store-by-store basis.

"Ultimately, as we get more retailers involved with this program, we will be able to come up with a 'best practices' strategy that can be used by the industry as a whole," Nichols says. "I agree with the Time Warner Retail officials who say that as we learn this business and learn ways to be more efficient, we can take a great deal of waste and cost out of running the magazine business."

Nichols adds that supermarkets should pay more attention to magazines because profit margins in the category have dropped and other retail classes have made moves to increase their market share.

"Supermarkets must be more aggressive with the magazine category simply because of the market forces out there," he says. "They really need to understand what makes this category work."

Supermarket Business, February 1997