WEATHERING THE EFFECT OF AN ADVERSE ECONOMY ON

MagaziNe RETAIL SALES

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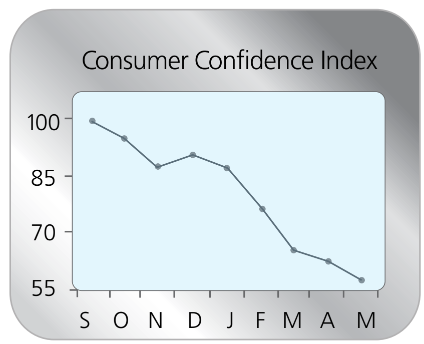
CMG
COMAG MARKETING GROUP
A Hearst-Condé Nast LLC.

Today's Economy and Its Effect on Magazine Retail Sales

While the slowing economy makes headlines every day, sales of magazines in stores are also on the decline across nearly every editorial category and retail class of trade. The new threat posed by a sputtering economy comes at the same time the shift in audience toward digital media consumption is intensifying, and will likely lead to a shake-out within the consumer magazine industry. But, some observers see a silver lining. Publishers that weather the storm "...could benefit from scale through portfolios of top brands in demographics that are attractive to advertisers."[1] In the near term, publishers must continue to improve their products, foster sales channel modernization and employ a full arsenal of pricing and promotion strategies.

An Economic "Perfect Storm" Takes Shape

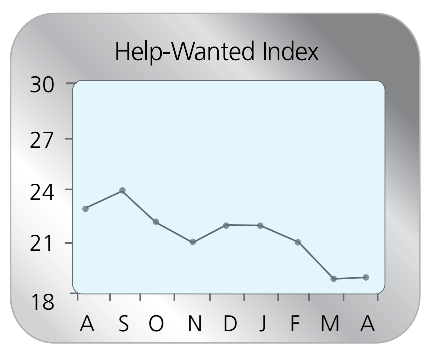
With prices increasing and consumer spending declining, our nation's economic indicators are slowly forming into - the 'perfect storm' – an economic recession.



Prices on the Rise

Our economic consciousness has been heightened by soaring oil prices, which have risen nearly 35% over the prior year to top $4.00/gallon! But, the price hikes extend well beyond the gas tank.

- Home heating prices have risen 7.2% for natural gas and 35.6% for oil[2].
- Food prices are projected to rise 9% a year through 2012[3].



AS ENERGY INFLATION CONTINUES TO SPREAD TO OTHER SECTORS OF THE ECONOMY, CONSUMERS ARE FINDING LESS IN THEIR WALLETS…

[1] Fitch Ratings, July 2008
[2] U.S. Dept. of Energy, 2008
[3] Tristate Observer, June 18, 2008

How to Sell More Magazines

The Right Presentation

1/2 of shoppers (45% to 57%) will buy more magazines if

- Covers are visible
- Display is neat and easy to reach
- Titles are organized by subject
- Lighting is good

SALE

A Bargain!

47% would buy more on sale

41% would buy more with coupon

Source:
Wendy Liebmann,
WSL Strategic Retail, 2008

With the overall U.S. consumer inflation rate at 7.7%[4] and home prices experiencing their largest drop in two decades, personal "net worth" is declining and consumers are feeling the credit crunch. The collective impact is real in dollar figures!

- Personal consumption is at its lowest level since 1991 and 1992[5].
- Consumer confidence has declined to 57.2%, the lowest since 1992.

Feeling the Pinch at Retail

Through May of 2008, national retail traffic is down 4.5%[6]. The impact can be seen in fewer dollars being put towards retail investment.

- March 2008 retail investment down $1.1B.
- 88% decline over prior year.
- 7.7% vacancy rate, highest since 1997.

Businesses growth, across the board, is slow. CEOs are less confident than at any time since 2000,[7] and job demand is lower in 44 of 50 states.

[4] Reuters, June 19, 2008
[5] NY Times, April 30, 2008
[6] Shopper Trak, 2008
7 Business Journal, April 15, 2008

How the Consumer is Coping: Fewer shopping trips, Reduced Spending, Focused on Necessities and Value

It's estimated that 70% of consumers are combining trips, eating out less, and staying home more often. Most consumers are, and have been for some time, bracing for an economic downturn by reassigning where and how they spend their dollars.

Price Parity Between Magazines and Fuel

At more than $4.00, the average cover price of a magazine (a "want") is equal to the cost of a gallon of gasoline (a "need"). This quick calculation is contributing to shoppers' resistance to cover prices exceeding $4.00.

Impact of Higher Gas Prices on Consumer Driving and Spending

	June/July 2005	June/July 2006	June 2007	December 2007
Combine errands/trips	61	68	68	70
Eat out less	31	39	38	41
Do more things at home	30	39	39	39
Reduce spending to a small degree	26	33	29	31
Reduce spending to a great degree	10	15	16	18

Percent

Americans reduced the number of miles driven from 2006 to 2007 by 1.8%, and this year will likely see a reduction in demand for gasoline for the first time in 17 years – 1 in 3 consumers expect conditions to deteriorate further.

- Anecdotal reports from retailers indicate shoppers are reducing shopping trips (down as much as 12%) and sales are decreasing in luxury and "personal reward" categories - restaurant sales & DVD sales have experienced double digit declines.

- Lower income households are making more drastic spending reductions, and all groups of consumers are looking to shop more in club and discount/dollar outlets.

Magazine Sales:

Feeling the Effects Across All Segments

CMG 1st Qtr. O&R Data for over 2,000 bipads capturing approximately 94% of industry volume show softness in sales across all editorial categories, retail classes of trade and geography.

Class of Trade

Broad unit declines across virtually every class, as 24 of top 30 retailers experienced decreases in copies sold versus previous year.

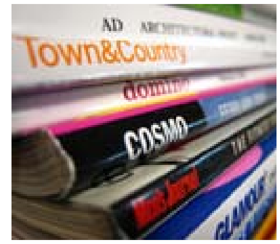
Among the few bright spots:

- Discount/Dollar stores continued their growth, reflecting their expanding magazine programs and suggesting consumers' increased emphasis on value.
- Mass merchant comp. store sale strengthened in May vs. April due to consumers spending their economic stimulus checks.

Unfortunately, airport and Bookstore suffering are particularly significant, as these COTs have avoided past declines.

Percent Variance

Class of Trade	Share of Market	Draw	Sales	Dollar/Volume
GROCERY	33.9 %	-9.1%	-9.2%	-2.5%
MASS MERCHANDISE	20.2 %	-1.1%	-5.3%	2.1%
BOOKSTORE	10.3 %	-6.6%	-7.4%	-5.0%
DRUG	10.5%	-0.5%	-2.4%	3.5%
AIRPORT/TERMINAL	6.7 %	-6.1%	-8.3%	-3.7%
CONVENIENCE	4.3 %	-9.3%	-13.5%	-9.9%
NEWSSTAND	2.0 %	-12.0%	-12.9%	-8.9%
DISCOUNT/DOLLAR	1.2 %	-0.5%	2.3%	13.2%
OTHERS	10.9%	-10.7%	-13.1%	-7.2%
TOTAL	100%	-6.4%	-8.0%	-2.2%



So they want to control little things…

60%
of **women** say

*"I can't control gas prices and mortgage payments so I'm watching what I spend on little things"**

*Source:
Wendy Liebmann,
WSL Strategic Retail

Editorial Categories

Broad unit declines across virtually every editorial category, with the Top Ten categories all down, combining to lose 17.5M units versus previous year.

Of the Top 25 Titles:

• 18 suffered unit declines.

• 11 suffered dollar declines (15 of 25 increased price, showing pervasiveness of price increases).

Nevertheless, bright spots do exist. The Teen category registered gains and the sales performance of annuals, mainly attributable to sports, showed strength on specials about the New York Giants' Super Bowl victory, the University of Kansas' NCAA Tournament victory, and the apparent retirement of Green Bay quarterback Brett Favre.

Percent Variance

Rank	Category	Draw	Sales	Dollar Volume
1.	WEEKLY (celebrity and news)	-4.4 %	-7.5 %	5.5 %
2.	WOMENS	-3.9%	-5.4 %	2.2 %
3.	HOME	-13.1 %	-11.3 %	-8.6 %
4.	SPORT	-2.2 %	-4.6 %	-0.7%
5.	MENS	-17.7 %	-21.2 %	-18.2 %
6.	PUZZLES	-9.0 %	-7.4 %	-4.2 %
7.	DIGEST	-6.3 %	-10.0 %	-6.0 %
8.	AUTOMOTIVE	-11.0 %	-19.2 %	-15.0 %
9.	GENERAL INTEREST	-16.2 %	-8.1 %	-2.8 %
10.	HOBBY	-3.4 %	-7.2 %	-6.1 %
11.	NEWS FINANCE	2.0 %	-5.2 %	-2.1 %
12.	TEEN	7.7 %	9.5 %	20.0 %
13.	COMPUTER	-17.1 %	-17.5 %	-15.7 %
14.	CRAFTS	-10.2 %	-4.1 %	-3.1 %
15.	ETHNIC	-3.8 %	-10.1 %	-9.7 %
16.	ENTERTAINMENT	-24.8 %	-19.8 %	-21.1 %
17.	REGIONAL	-8.4 %	-11.0 %	-6.5 %
18.	FAMILY	1.4 %	-3.7 %	2.4 %
19.	ANNUAL	-4.7 %	32.8 %	40.2 %
	TOTAL	**-6.4 %**	**-8.0 %**	**-2.2 %**

Shared Symptoms of the Slowdown – Differing Diagnoses

Although magazine sales are down across the retail landscape in the first half, retailers attribute sales declines to differing causes in the different classes of trade.

Supermarkets

Grocery operators, witnessing increased center-store traffic and sales, are calling for magazines to make greater use of aggressive center store promotions, such as: "Buy-one, Get One" (BOGO), "on-packs," scan downs and, especially, poly-bagged value packs. They bemoan a dearth of "Britney-Brad-and-Angelina" blockbuster stories, and they are increasingly concerned about a drag on sales caused by sloppy checkouts and over-stuffed mainlines. Across product categories, grocery chains report strong evidence that consumers are trading down to lower-priced items. Sales of Safeway's own private label food lines, for example, is outpacing that of national brands in its stores.

Bookstores

The largest bookstore chains, having turned in the strongest sales trends over the past decade, have seen considerable softness in sales across all editorial categories. One chain cited numerous causes for their magazine sales declines, and expressed great interest in new ideas and solutions from the publishing side of the business. Among the challenges cited were:

- Closure of titles due to advertising page declines eliminates sale even of top-30 titles (such as FHM), which are not fully recouped by increased sales of other titles.
- Waning of Sudoku craze means "book-only" customers are no longer lured into the newsstand section to search for puzzle books.
- Increased competition from subscriptions and online content providers.

Despite some bright spots in the Airport business – sales at JFK and Chicago's Midway are booming – second-half prospects for the class of trade are uncertain. The run-up in jet fuel costs may necessitate a doubling of ticket prices in the coming months.* In the words of one observer, "...the entire U.S. air transportation system is operating on borrowed time."

*ASAP News (June 17, 2008)

Mass Merchandisers

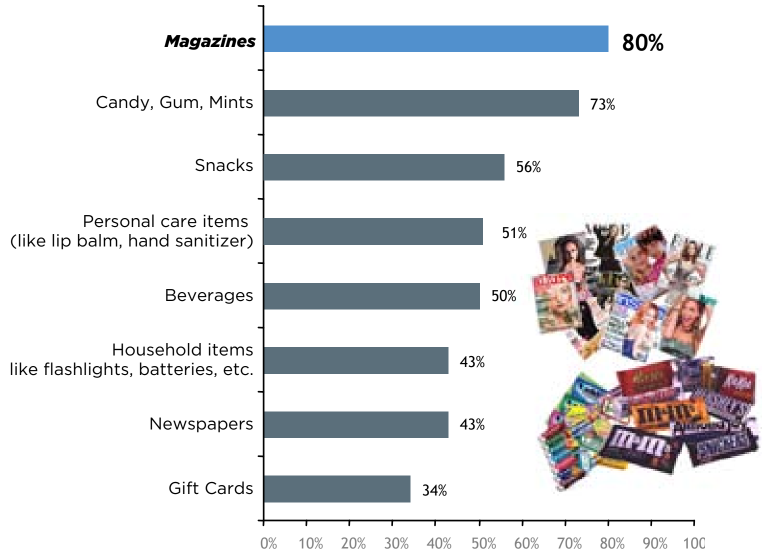
Leading mass merchandisers report declines in store visits but double-digit market basket growth. Low price leader Wal-Mart is experiencing growth in all commodity volume, due to significant increases in apparel and other "essential" product categories. For magazines, the story is declining units and modest growth in dollar sales owing to continuing price increases. These increases are anathema to mass merchandiser buyers, for whom sales growth through additional units at lower margins is both a directive and a point of pride. Resistance to further cover price increases in these accounts is expected to be high.

Airport/Terminal Accounts

Magazine sales in airports are up, but down in terminal and other newsstand accounts, leading to an overall decline for the category. Multiple purchases are being reduced from as many as a half-dozen to two or three. One operator cited the lack of new title launches or other "excitement" in the category (and this is a special concern for airport stands, who command significant fees for promotion). Another operator instituted a "buy-six magazines, get one free" promotion in April to spur multiple purchases. Airport stand operators are maintaining and growing sales in their core business of periodicals – perhaps aided by increased dwell times – but sales of souvenirs, sweatshirts, hats and other impulse items are down. In addition to this indication of declining leisure passenger traffic, there is cause for concern about declining business travel traffic later in the year. Significant ticket increases by the carriers and the attendant reduction in travel by business – when they come – may adversely affect sales.

"Magazines are less price sensitive (but demand value) and provide an affordable treat in tough times."

Magazines are #1 checkout favorite for women — 7 points ahead of #2 choice Candy, Gum and Mints



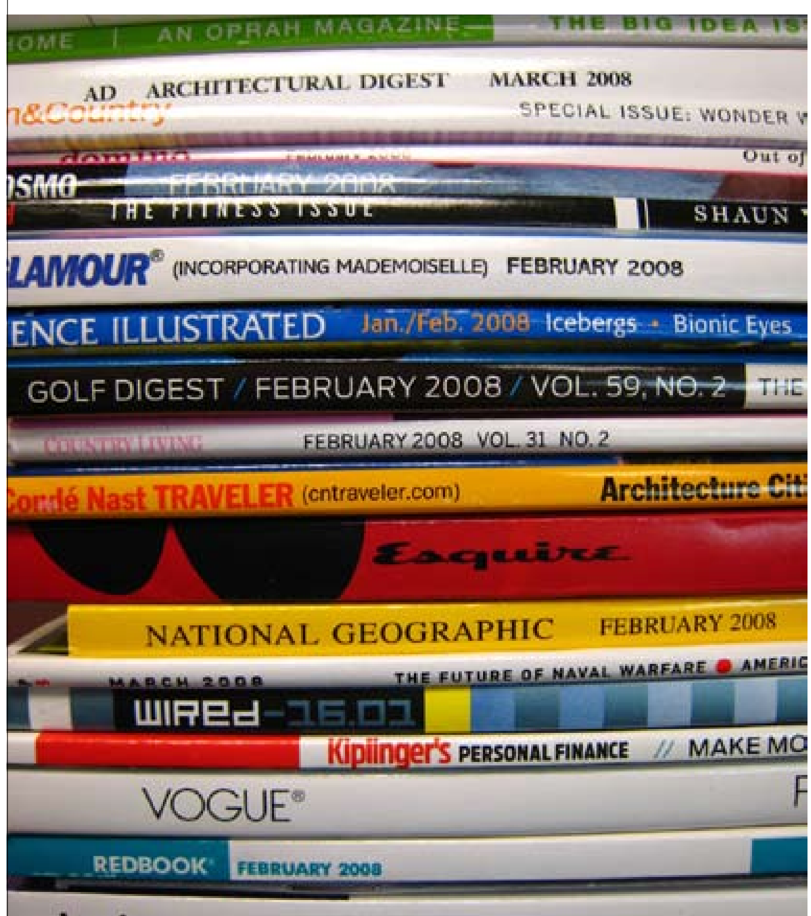
Source:
Wendy Liebmann,
WSL Strategic Retail

Magazines vs. Other Categories: "The Audacity of Hope"

Given such challenging market conditions, is there still hope? ... Balanced against fewer trips and shifts to discount stores (with limited magazine selection), less discretionary travel, and reductions in entertainment spending, according to WSL Strategic Research, "magazines are less price sensitive (but demand value) and provide an affordable treat in tough times."

Magazines have reasons to hope:

- 2008 is a newsworthy year, with both the Olympics and Presidential Election scheduled.
- Increases in public transportation usage translate to more time to read.
- Affluent customers are the best magazine shoppers (purchasing three times more copies than the average consumer).
- Consumers turn to magazines as less expensive alternatives to higher cost entertainment options.



APPEAL TO SHOPPERS

To more effectively compete in the current environment, publishers must...

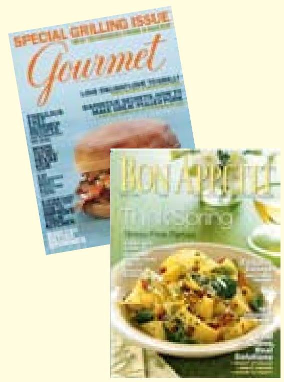
First, correct the magazine supply chain's biggest structural deficiencies by:

- Fully embracing "pull" marketing techniques, including rigorous category management, draw optimization and vendor-managed inventory.
- Discontinuing RDA and offering transparent, single-line pricing.

IMPACT II

CMG's IMPACT II Program encourages these sales channel modernization measures, while also promoting increased delivery route density and attendant improvements to wholesalers' store merchandising service levels. Its salutary effects will be multiplied, moreover, due to its simultaneous adoption by a group of publishers comprising a significant share of market.

Once a critical mass of publishers from around the industry makes these kinds of systemic changes to their supply chain practices, both single copy sales metrics and the reputation of the magazine category among retailers will improve.



ON PRICE...

Over the past two years, *Condé Nast* has conducted percent-off promotions on issues of *Lucky* and its Epicurean magazines in A&P, Stop & Shop and ShopRite supermarkets that have significantly outperformed both prior-year unit sales and the average issue sale across all retail accounts. Backed by circular advertising and supplemental display, these promotions are highly dependent on effective, in-store execution.

WITH CROSS-PROMOTIONS...

In February, *TV Guide* partnered with *Kellogg Co*. to promote both the weekly magazine and the food manufacturer's *Cheez-It* Crackers on a shared, in-store promotion in 2,500 Kroger stores nationwide. Both products were shelved on custom displays in the shape of stock car, as a tie-in with *Cheez-Its' NASCAR* sponsorship. A holographic ad for the snack cracker appeared on the back cover of the magazine's February 11th issue and purchasers of the issue received a coupon for a free box of *Cheez-Its*. Retail dollar sales of *TV Guide* spiked by 108% compared to the previous 4-week average as a result of the promotion.

In addition, successful publishers will:

- Implement pricing and distribution policies that mitigate the distortion caused by advertising rate bases, and better reflect the costs of goods and services today. (The increased cost of distribution can be an aid to successful publishers by posing a significant barrier to entry for new competitors.).

- Further differentiate themselves from their competition in value and price with relevant, timely covers and editorial.

- Strengthen their connections with consumers by making the printed magazine the "flagship" of a brand, which includes digital media, special events and other offerings.

- Heed retailers' calls for more innovative, consumer-package-goods-like promotions, such as scan downs, BOGO, couponing, polybagging and sampling.

APPEAL TO SHOPPERS

WITH CUSTOM DISPLAYS...

For more than a decade, *Penny Publications* has supported its January and July Family Favorites puzzle books with pre-packed, 24-copy, pop-up displays in retailers across several classes of trade. The displays have helped the title grow to more than half-a-million unit sales a year, and customarily lead to a 55% lift over mainline-only issues.

WITH TIMELINESS AND VALUE...

Good Housekeeping and *Country Living* partnered to create a Halloween-themed polybag for their October 2007 issues. Priced at 20% off the full cover price, the magazines performed extremely well and the polybag promotion is being repeated in 2008.