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*Fortune Magazine: The Magazine Publishing Industry*

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**INTRODUCTION**

1 *Fortune Magazine,* a division ofTime Warner, was one of the most popular and successful

business magazines. *Fortune Magazine* had been published for the past 75 years. Through

these years the business and economic climate, which *Fortune* operated in and reported on,

had dramatically changed. In December 2005, the President of*Fortune* was faced with the

daunting task of maintaining the magazine's reputation and market leadership.

2 *Fortune Magazine* was facing the same issues as the magazine industry as a whole.

After its peak in 2000, advertising pages had experienced a steady decline. The events of

September 11, 2001 and the subsequent economic downturn had negatively affected the

publishing industry. The business and finance sector, which *Fortune* operated in, had been

severely affected. The soft advertising environment was expected to continue into 2006.

3 Shifts in consumers' demands were also affecting the magazine industry. Consumers

were no longer solely demanding information in printed form. Digital media and the Internet

were gaining increasing popularity. It was clear that on-line media was here to stay. It

was announced in November 2005, that the web search engine Google was expected to sell

$6.1 billion ads in 2006, which is more advertising sold by any newspaper chain, magazine

publisher, or television network [Hansel, 2005].

4 Another issue the magazine industry faced was rising costs of magazine production. If

Management kept producing the magazine as it had been produced in the past, the bottom

line would take a hit because of these rising expenses. Lower forecasted advertising revenues

would not add up to this hit. Mr. Poleway needed to think ofways ofproducing a high

quality product more efficiently, at the lowest cost possible.

S While the competitive environment was already fierce in the business sector of the magazine

industry, Conde Naste, a rival publisher, hadjust announced its intention to launch a business

and industry magazine in 2007. This launch would make the competition even fiercer.

6 Given these issues, the President was still expected to deliver year over year profit

increases to Time Warner corporate. It was clear that by maintaining the status quo,

Mr. Poleway would not be able to deliver the desired results. *Fortune Magazine* was,

therefore, faced with a number of critical long-term decisions. Was the format and style of

the editorial content appropriate for meeting the consumers' wants and needs? Was *Fortune*

targeting the right consumer demographic? Could production specifications be altered so

as to cut costs, while still producing a superior product? Was *Fortune* charging the correct

open rate for its advertising pages? Was the right amount of copies of the magazine being

entered into the circulation stream? The main question facing the President of*Fortune* was

how to differentiate *Fortune* from the competition in order to achieve a winning edge over

competitors within a competitive and rapidly changing environment.

**INDUSTRY AND COMPETITIVE MARKET ANALYSIS: MEDIA INDUSTRY**

7 Media is defined as a means of mass communication. The media industry was comprised

of companies that owned, operated, sold, or distributed through forms of communication.

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As shown in Figure 1, these products included television, film, music and radio, information

collection & delivery services, Internet search engines, Internet content providers, and

publishing companies [Hoovers, 2005].

8 Total consumer spending on media, in the United States in 2004, was approximately $190

billion. **In** all segments of the media industry, there was a shift toward spending in digital

media. The sectors which had been most impacted by this shift thus far were the television,

film, and music industries [Plunkett Research, 2005A].

9 The media industry had substantially evolved over the past decade. Loss of control was

the major issue that had faced the media industry. Digital media allowed the consumer to

have increased control. The days when viewers would plan their schedules around their

favorite TV show and sit through all the ads during that show were long gone. Consumers

were now demanding more control over what they watched, read, and listened to. Downloading

of songs and recording of shows using Digital Video Recorders (DVRs) and Video

on Demand services had put the consumer in control of what they watched and when they

watched it. The consumer could choose to skip over all commercials and advertising if

desired. Downloading of music allowed the consumer to only purchase the songs they

wanted, rather than purchase an entire CD of songs that they might not enjoy.

10 The shift in control had made the traditional business model of the media industry obsolete

and had greatly altered the way in which media companies had traditionally operated.

Advertising revenue, which traditionally had been the largest revenue component ofa media

company, was being replaced with soaring revenues from subscription-based vehicles, such

as Digital Video Recorders (DVRs and TIVO's), which are devices that allow viewers to

record television shows. Programming schedules were losing relevance, while electronic

programming guides were becoming more vital [Plunkett Research, 2005A]. Also, an

increasing amount ofadvertising dollars was being displaced from traditional media vehicles

and being allocated to the Internet. For instance, in 2005, Internet search engine, Google, had

announced that it expected to sell $6.1 billion in ads, which was more than the ad revenue of

any newspaper, magazine publisher, or television network [Hansel, 2005].

**11** Media companies were being forced to radically change to deal with new demands from

consumers. The immediate issues facing this industry included: the rise of multi-purpose

cell phones, which were being used for far more and more entertainment purposes, including

video and TV programming; the increasing use ofDVD's and DVR's; commercial free,

legal, and illegal sharing of music; and electronic gaming and gambling.

**FIGURE 1 The Media Industry**

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**Television**

**12** For instance, in the television sector, out ofthe 73 million cable TV subscribers in the United

States, 27 million ofthem were digital cable subscribers. In 2004, the number ofhomes in the

U.S. with DVD recorders was approximately 7 million. This number was expected to grow

to 33.5 million by 2008. Also in 2004, there were 19 million video-on-demand subscribers,

2.3 million TIVO subscribers and 7.2 million digital televisions sold. These numbers were

all expected to sharply increase over the next few years [Plunkett Research, 2005A].

**Film**

**13** In the film sector in 2004, US box office revenues totaled $9.4 billion; however, DVD

rentals and sales in the U.S. in 2004 totaled $21.2 billion. This more than double increase

in DVD rentals and sales over box office revenues showed that the consumer would rather

watch movies at home, on their own terms [Plunkett Research, 2005A].

**Music/Radio**

**14** In the music sector, in 2004, global music sales were approximately $32 billion; however,

only $12 billion came from traditional CD purchases. In 2004, there were approximately

230 legitimate music download sites and 200 million tracks sold off these sites in the U.S.

and Europe. There were 4.4 million iPods sold and these numbers were expected to increase

in the coming years [Hoovers, 2005]. In the Radio sector, which is the distribution channel

for music, in 2004, there were 150 radio stations broadcasting digitally. This number was

expected to sharply rise over the coming years [Plunkett Research, 2005A].

**Information Collection & Delivery**

**15** These were companies that collected, retrieved, and delivered various types of information

via online services and the Internet.

**Internet Search Services**

**16** These were companies that owned and operated search engines and other websites.

**Internet Content Providers**

**17** These were companies that created or acquired content for distribution via the Internet.

**Publishing**

**18** The publishing segment is the focus of this study and is discussed in detail in the following

sections.

**INDUSTRY AND COMPETITIVE MARKET: PUBLISHING**

**19** As shown in Figure 1, the Publishing industry was comprised of companies that published

books, directories, greeting cards, baseball cards/comics, newspapers, and magazines

[Hoovers, 2005].

**20** The publishing industry had also been affected by the digitization of media and had been

forced to make changes in its business models. Publishing was no longer only concerned

with producing printed pages, but was now about managing content and adapting it to a variety

of formats, ranging from printed pages to Web-enabled phones [Pfeiffer Report, 2005].

**21** Many publishing operations were questioning their current setup. The publishing industry

was currently based on technology that was over a decade old. This may not seem long;

however, this was an eternity with respect to digital advances, which had occurred, in the

past decade. It would be essential to find a new publishing platform, which would take into

account the challenges of the online world. Also, because of the hardware and operating

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system changes, which were constantly going on, software used for publishing would also

have to be rethought.

**22** Experts were predicting that the publishing industry was headed for the second wave

of Desktop Publishing. The first wave occurred with the arrival of Macintosh and desktop

page layout tools, which encouraged most publishing companies to convert their print

production to computer-based tools. What was needed were new platforms that supported

a web-centric publishing model [Pfeiffer Report, 2005].

**23** The area of the publishing industry under study in this case was the Magazine industry.

**INDUSTRY AND COMPETITIVE MARKET: MAGAZINE SUB-SEGMENT**

**24 In** 2004, U.S. magazine revenues were approximately $21.4 billion. Even in changing times,

magazines remained indispensable to both readers and marketers. Consumers had an emotional

bond with their favorite magazines and this helped to give credibility to the advertising

in the pages of the magazine, causing consumers to take action. Magazines were constantly

developing and growing with the readers [Magazine Publishers Association, 2005].

**25** Economic conditions were highly correlated with the profitability of magazines. Magazines

earned revenues by either selling ad pages or by consumers purchasing the magazines.

**In** bad economic times, advertising budgets are cut and therefore, ad revenues decline. Also,

in bad economic times, consumers have less disposal income to spend on non-essential

items. Since magazines were considered to be a non-essential item, the number of copies

sold decreases, lowering circulation revenue.

**26** According to a survey of adults 18 and over, the popularity of reading was at an all time

high. **In** 1995, people spent 28% of their time reading, 25% watching TV, 8% going to the

movies, 2% on the computer and 5% listening to music. **In** 2004, people spent 35% of their

time reading, 21% watching TV, 10% going to the movies, 7% on the computer and 6%

listening to music. Of the people surveyed, 84% read magazines. An average reader spent

45 minutes reading each issue [Magazine Publishers Association, 2005].

**HOW THE SEGMENT WORKS: ESSENCE OF THE**

**BUSINESS MODEL**

**27** Figure 2 shows the essence ofthe magazine business model. The main product ofthe magazine

sub-segment of the media industry was the printed magazine. The first distinguishing

factor among the magazines in the industry was frequency. A magazine could be weekly,

bi-weekly, monthly, and the like. Magazines were divided by topic of interest. Topics

included sports, news, health, beauty, business and finance, and many other topics. The

demographic group, or the consumer, that a magazine targeted was in large measure based

**FIGURE 2 Magazine Business Model**

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on the topic covered. For instance, home-decorating magazines would generally target

people who lived in the suburbs, rather than in urban areas.

**28** Magazines were made up ofad and editorial pages. The number ofad pages that a magazine

could obtain generally drove the size of the magazine. The production department of

the magazine had the role ofputting the issue together, based on specific instructions. These

instructions included ad and edit placement and separation. For instance, many advertisers

did not want their ad positioned near depressing editorial topics, such as 9/11.

**29** Once the magazine was put together, files were sent electronically to the printing plants to

begin printing and binding the magazines. From the plant, the magazine was sent via trucks

to postal facilities or wholesalers for home and newsstand delivery.

**30** Marketing tactics for the magazine were aimed at the two sources of revenue for the

Company: circulation and advertising. The goal of the magazine was to maximize these

revenues, while keeping production costs low, and producing a magazine with strong editorial

content, that was different and better than other magazines in the industry. Marketing

tactics such as direct mail promotions to obtain new subscribers, cover wraps to retain

existing subscribers, and presentations to media planners to garner advertising pages were

all used to boost the two revenue streams.

**31** The competition in the magazine industry was fierce. Magazines competed against

other magazines within the topic of interest covered, as well as other forms of media. For

instance, business magazines competed against other business magazines as well as business

websites, and all-day business news channels such as CNBC.

**Products**

**32** The main product of the magazine sub-segment was the printed editions, containing a mix

of advertising and editorial pages, and digital editions. Another product was the digital

editions.

***Printed Editions***

**33** Magazines were defined by topics. Topics ranged from sports to automotive, food, business,

beauty, health etc. In 2004, the top three magazine categories, in regards to editorial pages,

were entertainment/celebrity (23,767 pages), apparel (19,626 pages), & home furnishings

(11,622 pages). Business and Industry ranked number 7 with 10,365 pages [Magazine

Publishers Association, 2005].

**34** Magazines were also defined by editorial format and style. Magazines could be either

formal or informal in nature. They could report the latest news, or they could tell a story.

The editorial style ofweekly magazines tended to be more newsworthy, usually reporting the

events ofthe past week. Monthly or Bi-monthly magazines tended to blend news stories with

more edit that told a story, which was longer and involved more research, rather than hard,

factual news. For instance, business magazines tended to be more formal. *Business Jll7eek* was

a weekly magazine that reported on the economic events that had occurred in the last week.

Among other business topics, it focused on the current week's stock market activity and

interest rate fluctuations. *Fortune* was a bi-weekly magazine. While *Fortune* would report on

significant news stories, the cover story was more editorial in nature, usually spotlighting a

particular company or business leader. In-depth research went into these stories to make the

reader feel as ifhe or she was walking down the halls of the company under review.

**35** In 2004, on average, a magazine was comprised of 48.1% advertising pages and 51.9%

edit pages. In 1994, there were 15,069 magazines for consumers to choose from. This number

had grown to 18,821 in 2004. In 2004, there were 480 new magazines introduced into

the market [Magazine Publishers Association, 2005].

**36** The keys to success when dealing with products were to deliver magazines that consumers

wanted and demanded to read in the marketplace. Magazines were tailored to consumer's

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interests; therefore they needed to provide relevant information to the consumer. Magazine

readers were loyal; therefore an editor needed to be cautious when changing the editorial

style of the magazine. Magazines needed to engage the reader. High quality editorial

content, through articles and photographs, were key to capturing an audience. Magazines

needed to be physically attractive **in** order to draw readers. The paper type and size needed

to be appealing to readers. Also, magazines needed to be trustworthy **in** order to gain brand

recognition and a positive reputation. Finally, advertising should be pertinent to the topic of

the magazine, **in** order to be most effective.

***Digital Editions***

**37** As technology changed, many magazines were introducing digital forms oftheir magazines

to subscribers. A digital magazine was a copy of the printed magazine **in** digital format.

Digital magazines brought **in** subscription revenues for the magazine. Due to increasing

popularity of the Internet, digital magazines were expected to gain popularity **in** the future.

Also, magazines were utilizing individual web sites **in** order to draw on-line customers to

the printed magazine.

**38** The keys to success when dealing with digital editions were to deliver a technically

superior product. There could be no glitches **in** the edition and the performance, **in** terms

ofpicture quality, speed, and readability needed to be up to the viewer's standards. Also, an

adept support staff needed to be available to readers if he/she should encounter any problems

when reading the digital magazine.

**Consumers/Readers**

**39** The audience was the consumer of the magazine. Audience is defined as the number of

people claiming to have read the magazine. It is made up of primary readers, those who

have purchased the magazine through either newsstand sales or subscription, and secondary

or pass-along readers. Digital readers were a new type of magazine consumer. Consumers

could be divided by demographic characteristics. The main demographic categories of the

magazine industry were age, gender, and income & level of management.

***Age***

**40** The coveted demographic **in** the media industry was believed to be the 18-34 year old

demographic. It was believed that advertising has the greatest influence on this demographic,

due to the fact that people this age tended to spend more money on luxury items

and were concerned with being on the cutting edge. The key to success when targeting

demographics was to know the audience and deliver appropriate editorial content. Also, the

topic had to be relevant for the targeted audience. For example, a children's magazine would

have an entirely different editorial style and topic than a business publication, catered to

adults. The language also had to be of the correct complexity for the targeted age group. It

was believed that the younger the advertising target, the better.

***Gender***

**41** Magazine topic was what determined the gender compositism ofthe audience. For instance,

traditionally, men more often than not would be drawn to a magazine like *Sports Illustrated,*

while women would be drawn to *InStyle.* **In** today's society, gender stereotypes were increasingly

being broken down. Therefore, a magazine needed to be cognizant of the fact that

breadth of readers attracted to a topic was increasing. The topic of the magazine was what

drew a specific audience to the product. A change **in** topic could greatly alter the audience

composition. The nature and category of the magazine would determine the target demographic,

**in** terms ofgender. The keys to success when dealing with the gender demographic

were a consistent and relevant editorial topic. Also, advertising needed to be catered to the

gender demographic targeted.

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***Income* &*Management Level***

**42** Generally, magazines wanted to target high-income consumers, since advertisers would be

more likely to advertise in magazines read by people who had the money to spend on their

products. In the business sector, a coveted demographic characteristic was targeting upper

management. Upper Management were the people deemed to be in control of the decision-

making aspects of the corporation. Advertisers were inclined to want to focus on this

group. For instance, Xerox would want someone in upper management to respond to its ad

by having Xerox's copiers installed in the offices, rather than a competitor's brand.

**43** The keys to success in regards to income and management level were to target the highest

income level possible. In regards to management level, upper management was the targeted

demographic. In order to capture the interest ofthis demographic, the quality ofthe product

needed to be superior. The quality of the product was measured in terms of paper quality,

trim size, and editorial quality. Advertising also needed to be appropriate to capture the

interest of this demographic. A magazine catering to a high income demographic would

feature editorial content about Mercedes, rather than Hyundai.

**44** Regardless of demographic targeted, the magazine's format and style were important to

reach the correct consumer. For instance, in the business sector, if a consumer was pressed

for time and needed to get hard economic facts quickly, a news-focused magazine such as

*Business Week* would be more appropriate. However, if a consumer wanted to take the time

to thoroughly research a particular company, a magazine like *Fortune,* which contained

more in-depth company information, would be more suitable.

**45** Since consumers were loyal, switching editorial styles could be detrimental for readership.

A magazine wanted to add new readers, while sustaining current readers. Also, the

magazine needed to be distributed properly in order to reach the appropriate audience.

For instance, women's lifestyle magazine would be appropriately sold in supermarkets.

Advertising and promotions needed to be effective, in increasing sales. For instance, selling

a health magazine in a health food store may boost sales. Also, research needed to be

accurate in order to obtain the correct demographic characteristic information within the

target population. For instance, a male magazine wanted to make sure it is reaching male

readers. Finally, consumers needed to be attracted to the magazine; it had to have the right

look and feel for its price range.

**Production**

**46** Magazine production involved the steps and costs necessary to physically put the book

together. The production process was similar across all magazines in the industry. Ads

for the magazine were received in advance. Edit then got positioned next to appropriate

ads in order to complete the book make-up process. Once the book was put together and

approved, the files were sent to the printing plant via computer systems. Before this technology

was invented, actual films would need to be delivered to the printing plant. From

there, the plant followed instructions and printed and bound the magazine. Magazines were

then shipped to wholesalers, trucking agents and postal facilities for either home or newsstand

delivery.

**47** The three main expenses during the production process were paper costs, printing costs,

and distribution costs. These physical costs could represent 35--40% of the total cost base

of the magazine. Paper was looked at in terms of cost per ton. The paper industry was a

very capital-intensive industry; a paper machine could cost $600m and cost 2 years to

build. Paper was priced as a commodity. The paper industry was an oligopoly; there were

relatively few suppliers, which gave them strength in the market. No single company had

a dominant share and there was increasing industry consolidation. In the current environment,

paper prices were on the rise.

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**48** In the printing industry, 5 suppliers controlled 85% of the market. Because of the low

returns in this industry, there had been little capital investment. Three-five year term contracts

protected against price variances and justify targeted capital investment.

**49** Distribution costs included postal costs and trucking costs. In 2006, postal costs were

expected to rise anywhere from 5-15%. This could translate into millions of dollars.

Increasing fuel costs would also drive up trucking costs, which could significantly hurt a

magazine's bottom line.

**50** The key to success of any magazine was to produce a high quality product. Magazine

publishers needed to have good relationships with printing plants, which were ultimately

responsible for the quality of the magazine. Generally, the more business a magazine publisher

gave a printer, the better the relationship. The better the paper prices secured, the

cheaper the publisher could produce the magazine. Good relationships with distributors

also helped to guarantee that magazines were delivered to newsstand and subscribers in a

timely manner, without damage. Low prices in printing contracts would also help to save

money. Generally, the more business a printing plant was given, the lower the contractual

prices granted.

**51** Production specifications could greatly impact the physical costs of the magazine. The

magazine also had to have the right look and feel for its price range. Paper quality and trim

size were important for creating the look of the magazine. For instance, since a newspaper

was cheap, it was okay for it to be on thin paper. However, if a consumer was paying $5 for

a magazine, the quality of the paper and printing should reflect the higher price paid. The

main specifications that had the greatest impact on costs were number ofpages, number of

copies produced, type and weight of paper used, size of the magazine, and type of binding

(spine or stapled).

**Circulation**

**52** The circulation goal was to deliver the ratebase required of the magazine while maximizing

circulation profits. Ratebase is defined as the guaranteed circulation by the publication,

which advertising space rates were based upon. The readers per copy was the number of

people actually reading the magazine. Readers per copy assumed that the person buying the

magazine will pass along their copy to other readers. If a magazine failed to make ratebase,

it needed to compensate the advertisers that ran in that magazine. For an average magazine,

46% of magazine revenue stemmed from circulation. The Audit Bureau of Circulation

(ABC) was an independent body that reported the circulation information for the magazine

industry. Reports, called pink sheets, were then released to examine whether magazines

were truthfully making their ratebases as promised to advertisers. Failing a pink sheet

could severely hurt the reputation of a magazine in the advertising community [Magazine

Publishers Association, 2005].

**53** Circulation was divided into two categories: subscriptions and newsstand sales. These

were the two main ways that magazines participated in the marketplace. In 2004, 86% of

magazines purchased came from subscription sales, while 14% were from newsstand sales.

Due to the increasing popularity of digital media, digital subscriptions were expected to

obtain an increasingly larger portion of the circulation mix. By 2010, it was expected that

digital subscriptions would make up approximately 10% of all subscription sold. In 2004,

70% of circulation revenue was from subscriptions, while 30% was from newsstand sales

[Magazine Publishers Association, 2005].

**54** The keys to success in regards to circulation were pricing the magazine correctly, and

determining the correct ratebase. Too high a ratebase could lead to lower circulation profits

because there would be an excess of copies in the marketplace over demand. Also, subscription

renewal rates were important for judging the success of the magazine. Another

key to success was maintaining a high quality and accurate list of potential subscribers.

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A magazine needed to be assured that a subscriber would actually pay for the magazines

provided.

***Subscriptions***

**55** Subscriptions were broken down into two categories: renewals and new business. The goal

with renewals was to sustain these existing customers. New business could be acquired

through agents such as schools, libraries, airlines, and other public places and also through

direct ways such as direct mail, TV, gifts, and partnerships. **In** the 1990's the largest source

of subscriptions was sweepstakes companies, such as Publishers Clearing House. However,

due to legal reasons, this outlet was no longer available. **In** 2004, the average basic I-year

subscription rate was $25.93.

**56** The keys to success when dealing with subscriptions were high renewal rates. While

the consumer would renew their subscriptions if the product was desirable and they felt

that they needed it, programs such as continuous service plans helped magazines to keep

renewal rates high, since the renewing was automatic. The customer's credit card would get

automatically billed. Another key to success was securing the highest price possible for the

subscription, meaning the highest average subscription price. Maintaining a high quality

and accurate list of subscribers was also important. This tied into the type of demographic

which a magazine was targeting. A high quality subscriber was one that has money and

would be able to pay for his/her subscription as well as be a likely purchaser ofthe products

advertised in the magazine. Circulation files and mailing lists that located these types of

subscribers were the most valuable. Collecting payment from subscribers in a timely manner

was also a key to success. Obtaining new subscribers was also a key to success.

***Newsstand Sales***

**57** Newsstand sales, or single copy sales, could arise from various locations. **In** 2004, 38% of

all single copy sales came from supermarkets, 17% from mass merchandisers, **11**% from

bookstores, 10% from drug stores, 6% from terminals, 7% from convenience stores, and

10% from actual newsstands [Magazine Publishers Association, 2005]. The major key to

success affecting single copy sales was price. **In** 2004, the average cover price on the newsstand

was $4.40. This was up from $2.81 in 1994. Another major key to success was to be

able to sell the highest number of copies on the newsstand. Other factors affecting single

copy sales were the efficiency ofthe copies on the newsstand, i.e. putting the correct amount

of copies in the market. :The unsold copies in the newsstand were thrown out. Therefore,

costs were incurred to produce these magazines; however, no revenue was received from

these copies. Therefore, it was important to not have an excess of copies **in** the newsstand

to avoid this waste. The quality of the displays was also important, so that the magazines

looked attractive to potential buyers on the newsstand.

**Advertising Sales**

**58** For an average magazine, advertising revenue represented 54% of a magazine's total revenue.

Advertising revenue was acquired by selling ad pages in the magazine. The Publishers

Information Bureau (PIB) was an independent agency that tracked advertising pages and

set the rules for the consistent auditing of magazines' ratebases.

**59 In** 2004, there were 234,428 advertising pages sold in magazines. This was equivalent

to $21.3 billion in advertising revenues. Since 2000, magazines had held a solid 17% of

share of all advertising dollars spent in the media industry [Magazine Publishers Association,

2005].

**60** Numerous research studies had been conducted to show that advertising in magazines

had benefits over advertising **in** other forms of media. Multiple studies showed that consumers

were more likely to find magazine advertising acceptable and enjoyable compared

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to advertising in other media. Also, they found it less interruptive and more trustworthy.

It had also been proven that advertising related experience increased magazine usage.

Advertising helped to build the nature of the magazine. Studies also showed that readers

were more likely to take action from magazine ads than television ads and that allocating

more money to magazine advertising improved marketing and advertising ROI (Return on

Investment) across a broad range ofproduct categories [Magazine Handbook, 2005].

**61** The type of advertisers that advertised in a magazine was also driven by the topic of the

magazine. For instance, in *InStyle* the majority ofadvertisements were for beauty and fashion

products. In a business publication, high-end advertisers such as Mercedes and Rolex

tended to advertise.

**62** A magazine's rate card was a listing of the open-rates, before any discounting occurred,

that they charged to advertise in their magazine. In order to entice potential clients, a discount

was normally offered off the open rate. A discount was the reduction in the amount

that an advertiser actually paid for the unit within the magazine. Examples of discounts

included contractual discounts, frequency discounts, waived premiums, corporate discounts,

and bonus space. The actual cost that an advertiser paid was called Out of Pocket.

This cost included any discount and production premiums paid. The CPM is the cost per

thousand. It is a figure used in comparing the cost efficiency of media vehicles. It is calculated

by dividing the out-of-pockets costs by the rate base per thousand.

**63** The key to success when dealing with advertising sales was to secure as many advertising

pages as possible. Correctly calculate the open rates ofthe magazine, given the competition,

economic environment, reader profile, and quality of the reader was also a key to success.

For instance, a magazine that targeted high-income readers could legitimately charge a

higher base rate since these higher income readers were valued more in the advertising marketplace.

Also, the discount level and type of discount offered to an advertiser needed to be

at such a level that the advertiser agreed to the business, but the magazine was still making

a profit and not giving away pages for free. Another key to success was to closely listen to

the demands ofthe advertiser in term ofplacement ofthe ad. The advertiser might be sensitive

to certain edit or might not want to be positioned too close to a competing advertiser.

If the advertisers stated this and the magazine did not follow instructions, more often than

not, the magazine had a responsibility to the advertiser to re-run that ad or a new ad at no

additional cost to the advertiser. These make-goods could become very expensive for the

magazine. Another key to success was keeping advertising costs low. Travel and Entertainment

were often used to secure ad pages. These costs needed to be controlled and watched

carefully. Finally, the physical quality of the magazine needed to meet advertisers' expectations.

Heavier paper stock and high print quality were extremely important to an advertiser

in terms of how attractive the ad would look to the reader. Trim size of the magazine was

moderately important in helping to make an advertisement look more attractive.

**Marketing**

**64** A magazine needed to have effective campaigns in order to effectively promote the magazine.

The main part of marketing was to build sales for the magazine. Sales were generated

from either advertising or circulation.

***Advertising***

**65** The goal ofmarketing for advertisers was to obtain advertising pages. The sales call was the

main way that advertisers were told of the benefits of advertising in a particular magazine.

Return on Investment, meaning the return that an advertiser would get from running their

ad in terms of increased units sold, was the most important metric to an advertiser.

**66** The main way that an advertiser was incentivized to run pages in a magazine was through

the discount offered. The advertiser needed to feel that he was being given a good deal.

**34-11** Case 34

The discount could be in monetary terms, such as a percentage offthe open rate, or in terms

of free ad space or special programs.

**67** Entertainment was also used to incentivize advertisers to run pages. After hours events

were used to convince advertisers to run pages. These events included dinners, shows, sporting

events, spa treatments, and the like.

**68** The key to success in marketing to advertisers was to create a positive image of the

magazine. The advertiser needed to be confident that his ad was associated with a premium,

trustworthy product. The way to convince an advertiser of this was through effective presentations,

which stressed the statistics that an advertiser wanted to hear, such as household

income of readers, level of education readers, and return on investment. Another key to

success was to go on as many sales calls as possible. It was important to be in the field in

order to create buzz for the magazine.

**69** Finding the appropriate discount was also a key to success. The sales representative had

to know their clients preferences in terms ofoffering discounts in terms ofpercentages, free

space, or special programs.

**70** A final key to success was utilizing the correct mix of entertainment to lure advertisers

to your magazine. The correct people needed to be contacted and their interests needed to

be known ahead of time. For instance, someone in the upper 50's would probably not enjoy

a rock concert as much as someone in their 20's.

***Subscribers***

**71** The goal of marketing subscribers was to build sales. The goal was to keep existing subscribers,

while building new ones.

**72** The key to success when marketing to subscribers was to keep renewal rates high. One way

to do this was through utilization of continuous service plans. When a customer originally

subscribed to a magazine, they could opt to have uninterrupted service; when the year was

up, their credit card would still be charged and they would continue to receive the magazine.

The renewal rates for continuous service were higher than those under the "bill me" option.

**73** Another key to success when marketing to new subscribers was to have effective direct

mail offers, which was a combined offer with other magazines. Also, targeting the correct

subscribers was important for new business. This could be achieved through renting of

mailing lists, which was a cost effective way of obtaining new names.

**74** Insert cards in newsstand copies were also keys to obtaining new subscribers. Finally,

promotion of the individual magazine web-site could also draw in new subscribers.

**Competition**

***75*** *Fortune* magazine directly competed against publications in the business segment of the

magazine industry. The two main competitors in the business and industry magazine segment

were *Forbes* and *BusinessWeek. Fortune* also competed against other forms of media

such as the Internet and television, which delivered up to the minute news information.

***Forbes***

**76** Since *Forbes'* inception in 1917, its mission had been to provide information and insights

to ensure its readers success, giving the business leaders the tools they needed to compete

in the capitalist game. *Forbes* prided itself on being preemptive, predictive, counter-conventional,

uncompromising, independent, and concise. *Forbes* claimed to get the news first,

report what's next, run against popular opinion, never settle, and get quickly to the point for

time-starved executives. *Forbes* was an independent company; therefore it did not have to

report its results to Wall Street *[Forbes, 2005].*

***77*** *Forbes* delivered 26 issues a year and had a North American as well as an Asia editorial

edition. Like *Fortune, Forbes* had annual editorial lists that defined those corresponding

*Fortune Magazine* ***34-12***

issues. These lists included The World's Billionaires, The 100 richest celebrities, and the

400 richest People in America. *Forbes'* style, while business based, was more focused on

individuals and the secrets of their financial successes. Other items produced by *Forbes*

are *Forbes.com,* its up to the minute business web site as well as FYI, *Forbes'* dedicated

lifestyle edition. *Forbes* also sponsored conferences and seminars, such as *Forbes Live* and

Peer-to Peer networking events.

***78*** *Forbes* targeted 4.9 million adult readers each issue. Its readers per copy were 5.44 per

issue. Eighty-eight percent were male and 12% were female. Ninety-three percent were

college educated. *Forbes* targeted a very elite demographic; the median household income

was $167,000 and average net worth was $2.1 million. Eighty-four percent of*Forbes* readers

were employed in business and industry and 67% were in top management. *Forbes* readers

also spent their money on luxury goods; 80,000 readers owned a premium luxury car and

20,000 owned a boat, 257,000 have a wine cellar and 113,000 spent over $5k on watches

and jewelry in the past year. *Forbes'* readers were also frequent travelers. *Forbes'* readers

spent $6.4 billion of all vacation travel in 2004 *[Forbes, 2005].*

**79** *Forbes'* magazine measured 8 x *lOW'* and was printed on 32# paper stock and 80# cover

stock. *Forbes* employed computer interfaces when transmitting the pages to the printing

plant *[Forbes, 2005].*

**80** *Forbes'* circulation was 96% subscription sales and 4% newsstand sales. *Forbes'* ratebase

was 900,000 and they generally delivered a 2.7% bonus above ratebase. The pUblisher's

selected I-year price was $59.95 and the newsstand cover price was $4.99. The average

subscription price per copy was $1.52. Nearly 83% of subscriptions came from consumer

requests, such as insert cards, or renewal business.

**81** In 2005, *Forbes* open rate for a full national page was $91,570. *Forbes* frequency discounts,

which were one of the many types of discounts used by Forbes, were as follows:

if an advertiser ran 4 insertions, the rate dropped to $80,580. For 8 insertions, the rate

dropped to $77,850. Besides frequency discounts, Forbes utilized other forms ofdiscounts

such as free pages and special kickers to increase business. *Forbes'* average of total discounts

offered to advertisers was aground 60%. *Forbes'* black and white open rate was

$62,260. A full color half-page cost $54,940 and a black and white halfpage cost $37,370.

In 2004, *Forbes'* total revenue from advertising was $324 million and it sold 3,460 ad

pages *[Forbes, 2005].*

**82** Since *Forbes* was a private company, financial results did not need to be reported. This

was a benefit since *Forbes* did not need to be held financially accountable to Wall Street for

the business decisions that it made.

***83*** *Forbes* was strong in creating a product that was in high demand in the marketplace and

was relevant in topic. *Forbes* received average marks for delivering a high quality editorial

product in terms of stories and pictures. *Forbes* ranked average in delivering a physically

attractive book; it was on heavy paper stock (32#) and was larger than some competitors

(8 x *lOW'). Forbes* was strong in containing appropriate advertising. *Forbes'* highest categories

of advertisers were technology and automotive, which fit the business and industry

topic. *Forbes* ranked average in delivering a product, which was highly trusted in the industry.

*Forbes* was strong in terms ofconsistency ofeditorial style. *Forbes* continued to discuss

business and economy in terms of individual wealth success stories.

***84*** *Forbes* was average in targeting the age demographic; the magazine tended to skew older;

*Forbes* targeted in the late 40's / early 50's. It did offer appropriate editorial content, a relevant

topic and the correct level of language complexity for the age targeted. In regards to

gender, *Forbes* was strong in regards to relevance of topic and appropriateness of advertising.

It was also strong in consistency of editorial product.

**85** In regards to income and level ofmanagement, *Forbes* was very strong in targeting a high

household income and percentage of upper management targeted.

34-13 Case 34

***86*** *Forbes* was strong at reaching its correct demographic; it targeted high quality subscribers,

had strong newsstand presence and appeared to be priced correctly.

***87*** *Forbes* was average in producing a high quality product. Because *Forbes* was not a large,

multi-title magazine publisher, *Forbes* was probably weak at the following: securing the

lowest paper prices in the industry, relationships with printers, contractual printing rates,

and relationships with distributors. *Forbes* was also strong in terms of quality ofpaper used

and average in trim size.

**88** In regards to subscriptions, *Forbes* was average in terms of ratebase and strong in

subscription price. *Forbes,* however, was weak in subscription renewals, average in list

maintenance, and strong in collection of payments, since it catered to such a high income

demographic. *Forbes* ranked average in terms of obtaining new subscription business.

***89*** *Forbes* was strong in terms of newsstand price, average in the correct number of copies

in the marketplace, and average in sell-through, meaning there was not an excessive amount

of copies wasted on the newsstand.

***90*** *Forbes* ranked strong in terms of number of ad pages secured, as compared to its competition.

*Forbes* was average in terms of its open rates. *Forbes* was weak in terms of level

of discounts and type of discount offered, its average of 60% was high compared to competitors.

*Forbes* was average in terms of advertiser positioning and keeping the number of

make-goods low.

***91*** *Forbes* was probably weak in terms of keeping advertising sales costs low. Since *Forbes*

was privately owned, it did not have the corporate mandates to meet Wall Street expectations

and keep expenses low. Though *Forbes* had the highest number ofadvertising pages, it

might have been paying a lot for these pages in terms of high client entertainment costs.

**92** *Forbes'* sales staff was strong in giving presentations. The sales staff was effective in

conveying *Forbes'* positive brand image. *Forbes* went on an average volume of sales calls.

The *Forbes'* sales staffwas given flexibility to offer discounts, which they felt, would secure

business. *Forbes* spent a lot on entertainment expenditures; therefore, this was positive in

the eyes of potential advertisers.

***93*** *Forbes* was weak in keeping subscribers, they had lower renewal rates than competitors.

They offered continuous service plans, and tried to build business by offering incentives

to opt for the continuous service option. *Forbes* was weak at utilizing direct mail combo

offers. Forbes was also strong at utilizing mailing list rentals, insert cards and average at

web-site promotions.

*BusinessWeek*

***94*** *Business Week* was the business publication of the McGraw Hill Company. *BusinessWeek's*

mission for the past 75 years had been to give professionals worldwide the insight, information,

and inspiration they needed to make smarter decisions about business, finance, and

careers. *Business week's* edit focused on business issues and events, financial trends and

projections, and technology *[Business week,* 2005].

***95*** *BusinessWeek* produced 50 issues a year. *Business week* had a North American edition as

well as editions in Europe and Asia. Besides the printed magazine; *BusinessWeek* offered a

variety of other products to readers. These products included *Business week Online-an* up

to the minute business website which included a subscription component for the MBA user.

*BusinessWeek* also had a weekend television program called *BusinessWeek weekend,* which

was a consumer business and personal finance television program. This show aired in over

79% ofthe U. S. television market. *BusinessWeek* also sponsored conferences and corporate

events *[Business Week,* 2005].

***96*** *Businessweek* targeted 5.8 million readers worldwide every issue. The readers per copy

were approximately 5.98 per issue. *BusinessWeek's* audience was made up of 67% male

and 33% female. The median age of a reader was 44 years. Fifty-five percent of readers

*Fortune Magazine* ***34-14***

graduated from college, the median household income was $88,381, and 43% of readers

were in professional/managerial positions [BusinessWeek, 2005].

***97*** *BusinessWeek* magazine measured 8 x lOW' and was printed on 30# paper stock and 60#

cover stock. *Business Tfeek* employed computer interfaces when transmitting the pages to

the printing plant.

**98** *Business Tfeek's* ratebase was 970,000 per issue and its circulation was comprised of97%

subscribers and 3%newsstand sales. The cover price of*BusinessWeek* on the newsstand was

$4.95 and the yearly subscription price was $59.97 *[Business Week,* 2005].

**99** In 2005, *BusinessTfeek's* open rate for a full national page was $106,500. *BusinessTfeek*

offered a variety of discounts to attract advertisers. One type ofdiscount was the frequency

discount. *BusinessTfeek's* frequency discounts were as follows: if an advertiser ran 3 insertions,

the rate was $95,850. For 13 insertions a year, the rate was $90,525. For over 26 insertions,

rate was $79,875. Other forms of discounts used were free pages and special kickers.

*Business Tfeek's* average ofthe total discounts offered to advertisers was approximately 70%.

*BusinessTfeek's* black and white open rate was $72,000. A full color half-page cost $66,500

and a black and white half page cost $45,000. *BusinessTfeek's* total revenue, in 2004, from

advertising was $365 million and it sold 3,164 ad pages *[BusinessTfeek, 2005].*

***100*** *BusinessWeek* was a subsidiary of the McGraw Hill Company. The entire company

reported total revenues in 2004 of $5 billion and net income of $756 million [Hoovers,

2005].

***101*** *BusinessTfeek* was strong in creating a product that was in high demand in the marketplace

and was relevant in topic. *BusinessTfeek* received weak marks for delivering a

high quality editorial product in terms of stories and pictures. *Business Tfeek* was strong in

containing appropriate advertising. *Business Tfeek's* highest categories of advertisers were

technology and automotive, which fit the business and industry topic. *Business Tfeek* ranked

low in delivering a product, which was highly trusted in the industry. *Business Tfeek* was

strong in terms of consistency of editorial style. It continued to discuss the current week's

business and economy news.

***102*** *Business Tfeek* was strong in targeting the age demographic; the magazine tended to skew

younger. It did offer appropriate editorial content, a relevant topic and the correct level of

language complexity for the age targeted. In regards to gender, *BusinessWeek* was strong

in regards to relevance of topic and appropriateness of advertising. It was also strong in

consistency of editorial product.

**103** In regards to income and level of management, *Business Tfeek* was weak in targeting a

high household income and percentage of upper management targeted.

***104*** *Business Tfeek* was strong at reaching its correct demographic; it targeted successfully to

subscribers, had strong newsstand presence and appeared to be priced correctly.

***105*** *Business Week* was weak in producing a high quality product. Through *BusinessWeek's*

relationship with McGraw Hill, which was not as large of a magazine publisher as Time

Inc., it was probably average at the following: securing the lowest paper prices in the industry,

relationships with printers, contractual printing rates, and relationships with distributors.

*Business Tfeek* was weak in terms of quality ofpaper us8d and weak at trim size.

**106** In regards to subscriptions, *Business Tfeek* was strong in terms of ratebase and strong in

subscription price. *Business Tfeek* was also strong in subscription renewals, average in list

maintenance, and average in collection ofpayments. *Business Tfeek* ranked average in terms

of obtaining news subscription business.

***107*** *Business Tfeek* was average in terms ofnewsstand price, average in the correct number of

copies in the marketplace, average in sell-through.

***108*** *Business Tfeek* was weak in terms of number of ad pages secured, as compared to

its competitive set. *BusinessWeek* was strong in terms of it open rates. *Business Tfeek* was

weak in terms of level of discounts and type of discount offered, they had high discount

**34-15** Case **34**

percents. *Business Tteek* was average in terms of advertiser positioning and keeping the

number ofmakegoods low. *BusinessTteekwas* probably average in terms of keeping advertising

sales low.

***109*** *BusinessWeek's* sales staff was average at giving presentations. The sales staff was

average in conveying *BusinessTteek's* positive brand image. *BusinessTteek* went on an

average volume of sales calls. The *Business Tteek* sales staff was given flexibility to offer

discounts, which they felt, would secure business. *Business Tteek was* average at entertainment

expenditures.

***110*** *BusinessWeek* was average in keeping subscribers. They offered out the continuous service

plans, and tried to build business by offering incentives to opt for the continuous service

option. *Business Tteek* was weak at utilizing direct mail combo offers. *BusinessWeek*

was also weak at utilizing mailing list rentals and insert cards, and average at web-site

promotions.

*Other Media*

**111** *Fortune* also competed against other forms of media in terms of delivering business news

and information. Business websites were the latest form ofcompetition. Business websites,

such as Yahoo! Finance and CNN.com had the advantage ofhaving the ability to deliver up

to the minute information. On these websites, one could find the latest stock prices as well

as detailed analysis. Also, these websites had extensive archives which aided the consumer

while researching. These websites were available 24 hours a day and most were free to the

user. Subscription fees might apply for more advanced services that these website offered.

These vehicles were also becoming major players in the advertising market. As stated earlier,

websites such as Google, were becoming the largest areas for advertising expenditures

in the industry.

**112** Television was another form of media, which business magazines competed against.

Financial news networks, such as CNBC and CNNfn also had the ability to deliver up to the

minute information. Most of the financial networks had scrolling stock tickers that delivered

the latest stock market information. This source of information was essentially free tr)

the consumer.

**THE COMPANY**

**Time Warner**

**113** Time Warner was considered to be the world's #41 media firm. The company combined

new media, such as AOL and New Line Cinemas, with old media spanning film, TV, cable,

and publishing. Figure 3 shows the different business units ofTime Warner. In 2004, Time

Warner's sales totaled $42 billion and its net income was $3.3 billion. Time Warner's top

competitors were Viacom and Disney [Time Warner, 2005].

**FIGURE 3 Time Warner**

F*artune Magazine* ***34-16***

**Time inc.**

**114** Time Inc., a subsidiary ofTime Warner, was the leading US consumer magazine publisher

with more than 140 magazines. Time Inc.'s magazines included news, sports, celebrity,

fashion, women's lifestyle, business, personal finance, entertainment, and the like. The

advertising revenues ofTime Inc. accounted for nearly a quarter ofthe advertising revenues

of all u.s. consumer magazines. In 2004, 13% ofTime Warner's revenue came from Time

Inc. [Time Warner, 2005].

**115** Time Inc. would continue to maintain its current strategy in the coming years. That strategy

was to maintain excellence and reinvention of its core magazines, while overseeing a

seamless management ofacquisitions, an ongoing cost management program and continuing

launches ofnew magazines. Time Inc.'s main competitors in the magazine industry were

Hearst Magazines, Conde Naste and Advance Publications [Time Warner, 2005].

***Fortune Magazine***

***116*** *Fortune Magazine* was Time Inc.'s sole purely business magazine. *Fortune's* mission was to

be a global magazine and world-class brand. *Fortune* reached the most sought after leaders

in business-offering advertisers incomparable access and prime positioning. *Fortune* served

up in-depth, cutting edge editorial coverage and exclusive insider access to the sharpest

minds in the world *[Fortune, 2005].*

***117*** *Fortune's* first issue was released into the market in 1930, over 75 years ago, for $1 per

copy. The magazine was released during the Great Depression, which was a strange time

to start a magazine about business. The mission of *Fortune* was to explain how the world

really worked [Gkrent, 2005].

**118** Figure 4 shows the different business departments of*Fortune Magazine.*

**Product**

**119** The main product of*Fortune* was the magazine that was produced 26 times a year domestically,

and 23 times a year in Europe and Asia. Today's product was very different in terms

of style and editorial content than the product developed by Henry Luce 75 years ago. The

**FIGURE 4** *Fortune Magazine*

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very first issue was extremely large for a magazine of depression times, 11 inches by 14

inches. Also, the paper stock used was much heavier than other publications.

**120** Even 75 years ago, *Fortune's* editorial content set it apart from the competition. At

its inception, *Fortune* staffed unknown writers, who were future Pulitzer Prize winners.

*Fortune's* stories took many forms; however, the main story form, which *Fortune* employed,

was the company story. The company story was defined by *Fortune* as a long, vivid portrait

ofone ofthe major businesses ofthe day. *Fortune's* goal was telling its readers how to make

money by using real life company stories as examples.

**121** Over time, *Fortune* evolved. During harder economic times, the lavishness was toned

down. The magazine became smaller and the paper stock, lighter. After the World War II,

Luce changed the mission of*Fortune* to be a magazine that "assists in the successful development

ofAmerican business enterprise at home and abroad" [Okrent, 2005].

**122** The editorial content and format of*Fortune* has evolved as well. While *Fortune* still was

about storytelling, the focus of the stories has changed. More recent stories had focused on

the intersection of business and government, democratization of the capital markets, and

the influence of technology. *Fortune* had evolved into more of a business news magazine,

rather than simply a Company Storytelling magazine.

**123** *Fortune Magazine* was strong in creating a product that was in high demand in the

marketplace. *Fortune* received high marks for delivering a high quality editorial product

in terms of stories and pictures. *Fortune* also delivered a physically attractive magazine; it

was on heavy paper stock (32#) and was larger than competitors (8 x 10%"). *Fortune* was

strong in containing appropriate advertising. *Fortune's* highest categories of advertisers

were technology and automotive, which fit the business and industry topic. *Fortune* also

delivered a product, which was highly trusted in the industry.

***124*** *Fortune Magazine* was weak in terms of consistency of editorial style. In 2005, with

a change in managing editors, *Fortune* changed its format from, that of a "story-telling"

magazine to more news-based magazine. Switching editorial style could hurt loyal readers,

who were used to the original product.

*Product Extensions*

**125** *Fortune's* superb reputation in the business community has afforded it the opportunity to

expand its brand beyond the actual magazine issue. Following are some of the product

extensions of*Fortune Magazine.*

***126*** *Fortune Small Business. Fortune Small Business (FSB)* was a separate magazine that

was spun-off from *Fortune.* The goal of*Fortune Small Business* was to celebrate the drive,

passion, and intensity of small business. *FSB* strived to keep the leading edge of today's

entrepreneurs connected. *FSB* shared the advertising sales and production staff of *Fortune*

magazine. The name *Fortune* in the title had given *FSB* credibility in the market and while

it was still in the investment stages; this magazine was expected to become profitable in its

own right in 2006.

***127*** *Fortune's Lists. Fortune's* signature lists, which were published in the magazine periodically,

were recognized around the world as a measure ofbusiness success. The most famous

list was the *Fortune 500 issue,* which ranked the top 500 companies. Other lists included

*America* s*Most Admired Companies, 50 Most Powerful Women,* and the *100 Fastest Growing*

*Companies* issues. These annual lists increased newsstand sales, created media buzz,

and were the most eagerly awaited scorecards in the industry.

**128** *Digital Edition.* The Digital edition of *Fortune* magazine was an on-line version of the

magazine. The digital version of the current issue was, in 2005, being sent to a test group

of subscribers on a trial basis. The digital version mirrored the layout of the print version;

however, there were some enhanced HTML features in the document, such as video images

*Fortune Magazine* ***34-18***

of advertising. This service was just launched in September 2005 and was expected to gain

presence in the market over the next few months.

**129** *Fortune. com. Fortune.com* was a website that gave more of*Fortune* the magazine. It gave

more company news, investor analysis, technology advice-every day. As of 2005, each

business unit ofTime Inc. had its own separate website. Planned for January 2006, was an

integrated website called CNNMoney.com, which would be powered by the business publications

of Time Inc.; *Fortune, Money, CNN, Business 2.0,* and *FSB. Fortune.com* would

reside within this site. The company believed that this would be the most insightful and

comprehensive business and finance destination. Its mission was to produce the premier

and most trusted site for business leaders and savvy investors by informing, inspiring, and

advising. It was going to contain breaking news and up-to-the minute markets coverage, as

well as company and CEO profiles. Personal finance advice would also be available on this

website. There will be 35 journalists and editors producing news daily and access to CNN's

resources. Ten Thousand magazine articles would be delivered through the website each

year [Shah, 2005].

***130*** *Fortune Custom Projects/Fortune Marketplace. Fortune Custom Projects* created targeted

special advertising sections to provide advertisers an effective and unique way to

deliver their message to the business community. The benefit of custom projects was

that they drew readers to a specific topic. Clients benefited from this targeted advertising.

Examples of *Fortune Custom Projects* were issue or section reprints for a particular

advertiser. Also, *Fortune Marketplace* gave direct response advertisers a showcase for

their products.

**131** *Conferences. Fortune* was the leading producer of conferences for senior executives.

Conferences provided for a unique opportunity for top-level executives to gather with peers

and exchange ideas. Programs were strategically oriented; case studies were conducted in

order to examine future trends that would shape the business environment. Examples ofthe

conferences offered in 2005 were *The Fortune Boardroom Forum, Fortune Global Forum,*

*The Most Powerful Women,* and *Fortune Innovation Forum.*

**Consumers/Readers**

**132** The reader was the consumer of *Fortune* magazine. The median age of the *Fortune* reader

was 49.4 years old. Eighty-three percent of readers had graduated from college and 53%

had received a postgraduate degree. The median household income ofa *Fortune* reader was

$165,200 and the average household income was $347,500. The median personal income

was $119,400 and the average personal income was $288,400. The median net worth was

$871,900 and the average net worth was $2,223,600. The median value ofa reader's investment

portfolio was $663,400 and the average value was $1,902,800 *[Fortune, 2005].*

**133** Eight-five percent of readers were employed in a business profession. Sixty-four percent

were in top management and 35% were either in middle management or were professionals.

Almost 90% ofall readers owned stocks, used a computer at work and home, had access to

the Internet, have traveled by airline in the past year, and owned or leased 2 or more vehicles

*[Fortune,* 2005].

**134** From the statistics presented above, *Fortune Magazine* targeted a very elite readership

based on income and net worth. Most were business professionals and the advertising in the

magazine accurately reflected this demographic. An untapped market was MBA students,

who were the business leaders ofthe future. *Fortune* recognized this and planned to increase

promotions to build a solid base within this group.

**135** *Fortune* was strong at targeting the age demographic. *Fortune* targeted in the upper 40's.

It did offer appropriate editorial content, a relevant topic, and the correct level of language

complexity for the age targeted. In regards to gender, *Fortune* was strong in regards to

**34-19** Case 34

relevance of topic and appropriateness of advertising. It was weak, however, in consistency

of editorial product.

**136** In regards to income and level of management, *Fortune* was strong in targeting a high

household income and average in percentage of upper management targeted. *Fortune* was

strong in its physical attributes; paper quality and trim size. *Fortune* was strong in regards

to editorial quality and appropriateness ofadvertising.

***137*** *Fortune* was also strong at reaching its correct demographic; it targeted successfully to

subscribers, had strong newsstand presence and appeared to be priced correctly.

**Production**

**138** The domestic edition of *Fortune* magazine was printed 26 times a year in Clarksville,

Tennessee. Europe and Asia editions were printed in their respective countries. *Fortune's*

association with Time Inc. allowed it the luxury of obtaining some of the best paper prices

and printing rates in the industry. Paper was bought by Time Inc. as a whole company and

managed by a Central Production Group. This group then expensed paper costs to the

individual magazine titles, based upon the pounds of paper used on an issue. Time Inc.,

as a large bargaining unit, could obtain more competitive prices in the paper industry than

*Fortune* magazine could do on its own.

**139** Contracted printing rates worked similar to paper. Time Inc. negotiated printing contracts

for the company as a whole, while each individual title had its own price list. Time Inc.'s bargaining

power allowed it to gain some ofthe most competitive printing rates in the industry.

*Fortune* magazine benefited from these lower rates.

**140** Once the magazine was printed at Clarksville, magazines were sent via trucks either

directly to wholesalers or to postal hubs. The costs incurred during this process included

trucking freight costs and postage. For the remainder of2005 and 2006, *Fortune* was expecting

to be hit with increased trucking costs, on the 200,000 newsstand copies it put out

each issue, due to surging fuel prices. After not raising periodical postage for the past few

years, the United States Postal Service was expected to raise periodical postage rates from

anywhere between 5% to 15%. This could translate into hundreds of thousands of dollars

against *Fortune's* bottom line.

**141** Advertiser production premiums were also included in the magazine. These were special

units that an advertiser bought that were intended to make an impact. They were normally produced

on heavier paper, which translated into higher paper and postage charges. These could be

complex units, such as pop-ups, which translated into higher printing costs as well. Typically,

an advertiser would pay for the incremental production costs incurred to produce these units.

**142** One way to mitigate the effects of production input increases was to change the production

specs of the magazine. Currently, *Fortune* magazine measured 8 x 10%"and was

produced on 32# body stock paper and 80# cover stock paper. *Fortune* was currently larger

than its main competitors. The magazine was perfect bound, meaning it had a spine rather

than being stapled, and had a UV coating on the cover to give it that glossy look. Currently,

the physical costs to produce one average issue of*Fortune* magazine were approximately $1

million. An average issuehad approximately 190 pages and an average page cost approximately

$4500 to produce. Changes to production specs such as smaller trim size and lighter

paper stock could translate into hundreds of thousands of dollars of savings in paper and

distribution costs, due to cheaper paper being used and a lighter magazine being mailed

out. All changes to the production specs of the magazine needed editorial approval, since

the look of the magazine could be greatly altered by these changes. Also, an evaluation

needs to be conducted to ensure that the advertising community and the reader accepted the

new book.

***143*** *Fortune* was strong in producing a high quality product. Because of its affiliation with

Time Inc, *Fortune* was strong at the following: securing the lowest paper prices in the

*Fortune Magazine* ***34-20***

industry, relationships with printers, contractual printing rates, and relationships with

distributors. *Fortune* was also strong in terms of quality of paper used and trim size.

**Circulation**

***144*** *Fortune Magazine* guaranteed a ratebase of 830,000. This meant that *Fortune* as guaranteeing

that 830,000 readers will see the ads, per issue. On average, *Fortune* delivered a rate

base bonus to advertisers of 10%. The total paid circulation for an average issue of*Fortune*

was 918,739 copies *[Fortune, 2005].*

***Subscribers***

**145** Close to 96% ofcopies sold were to subscribers, who paid on average $1.43/issue or $40.16

per year.

**146** In regards to subscriptions, *Fortune* was weak in terms ofratebase and subscription price,

they were both lower than the industry average. *Fortune,* however, was strong in subscription

renewals, list maintenance, and collection of payments. *Fortune* ranked average in

terms of obtaining new subscription business.

***Newsstand Sales***

**147** Four percent were newsstand copies, with a cover price of $4.99. A newsstand copy of

*Fortune* cost approximately $2 in production and editorial costs. Out of the $4.99, *Fortune*

was able to keep over 50%, with the rest going to the newsstand owners.

***148*** *Fortune* was strong in terms of newsstand price, correct number of copies in the marketplace

(200,000), and sell-through, or amount of units sold.

**Advertising Sales**

**149** In 2004, *Fortune* sold 3,405 ad pages. In 2005, a full color page in *Fortune* magazine cost

an advertiser $88,500 based on open rates. A black and white full page cost $61,950. A half

page color ad cost $53,100 while a halfpage black and white ad costs $37,200. Advertising

on the back cover was the most expensive position in the book. It would cost an advertiser

$115,050 to advertise on the back cover *[Fortune, 2005].*

**150** The rates listed above were the open, rate card, rates of*Fortune* magazine. Almost never

would an advertiser pay the open rates. Pages were discounted in order to entice advertisers

to increase business. Discount rates needed to be examined closely to make sure that

*Fortune* was not losing money in the deals. A common form of discount was the frequency

discount. This discount was based on the total number of National Equivalent Pages run

in an advertiser's current year. The more ads that ran, the greater the discount. For *Fortune*

magazine, the total of the average discounts were around 50%.

**151** In 2004, *Fortune's* top three advertisers in terms ofad pages were IBM, Hewlett Packard,

and the American Stock Exchange. The advertisers in *Fortune* magazine were suitable for

the editorial content of the magazine.

**152** *Fortune* ranked average in terms of number of ad pages secured, as compared to its

competitive set. *Fortune* was weak in terms of it open rates; it was the lowest. *Fortune* was

strong in terms oflevel of discounts and type ofdiscount offered; it had the lowest discount

percents. *Fortune* was strong in terms of advertiser positioning and keeping the number of

make-goods low.

***153*** *Fortune's* strength in Advertising Sales was that the magazine secured advertising pages

without having to spend enormous amounts on Travel and Entertainment, in the form of

wining and dining clients. Because of budget cuts, sales representatives' T&E expenses

were closely monitored. Clients were buying pages in *Fortune* because they were aware that

it was a premium product with a high Return on Investment, not because they were being

bribed with perks.

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***154*** *Fortune* was strong in terms of paper quality, print quality and trim size, making the

magazine attractive to advertisers.

**Marketing**

**155** *Fortune's* best source of marketing was its reputation. In all campaigns, the *Fortune* brand

name was used to draw business. References to the *Fortune* lists and *Fortune Conferences*

gave campaigns credibility. Cross promotions with sister publications in Time Inc., especially

*Money Magazine,* Time Inc.'s personal finance publication, helped to bring business

to *Fortune.*

***Advertisers***

***156*** *Fortune Magazine's* sales staff was strong at giving presentations. The sales staffwas effective

in conveying *Fortune's* positive brand image. *Fortune* also went on a high volume of

sales calls. The *Fortune* sales staff was given flexibility to offer discounts, which they felt,

would secure business. *Fortune* was weak at entertainment expenditures, due to corporate

mandates.

***Subscribers***

***157*** *Fortune* was strong in keeping subscribers. They offered the continuous service plans,

and tried to build business by offering incentives to opt for the continuous service option.

*Fortune* was also strong at utilizing direct mail combo offers; it had the benefit ofthe sister

publications of Time Inc. *Fortune* was also strong at utilizing mailing list rentals, insert

cards and web-site promotions.

**Finance**

**158** Time Warner corporate always looked to *Fortune* magazine to bring in substantial year over

year gains to its divisional income. In 2004, total circulation revenue was approximately

$24 million. Total circulation expenses were approximately $16 million. Total advertising

revenues were approximately $134 million. Advertising expenses were approximately $28

million. Total physical costs were approximately $30 million. Total divisional income for

*Fortune* magazine in 2004 was approximately $35 million.

**Management & Strategy**

**159** The President of*Fortune Magazine* was ultimately responsible for the income delivered to

Time Warner corporate. He relied on the heads of*Fortune's* divisional units to make the best

decisions for *Fortune* in order to allow them to be different and better and thus win against

the competition.

**160** The Publisher of*Fortune* was responsible for the ad sales and advertising and marketing

expenses of the magazine. He and his staff aggressively went out into the market and tried

to sell as many ad pages as possible.

**161** The head of circulation and his staff determined the correct iatebase of the magazine.

Issues such as cover prices, subscription price, issue frequency and consumer demographics

resided in the circulation division.

**162** The managing editor of *Fortune* and his staff were responsible for the editorial content

and covers of the magazine.

**163** The Production Director of *Fortune* was responsible for printing and distributing the

magazine as efficiently and cheaply as possible.

**164** The Business Manager heads the business office, which was in charge of setting the

open advertising rates and discount level of pages. The business office was responsible for

monitoring advertising, marketing, production, and editorial expenses.

*Fortune Magazine* ***34-22***

**165** Given the tough economic environment, one issue facing *Fortune's* management team

was keeping office costs down. It was the responsibility of each department head to currently

monitor their department expenses.

**LOOKING TOWARDS THE FUTURE**

**166** The President of *Fortune Magazine* was faced with many crucial decisions affecting the

future of the magazine. One very important decision involved production changes for the

magazine. The current state of the advertising environment and technological changes,

causing changes to consumer preferences, such as digital magazine, has cast a shadow of

doubt over the magazine industry. The one thing that was certain was that in order for a

magazine to be viable, expenses needed to be kept to a minimum and all processes needed to

be running as efficiently as possible. Production specifications were the one area where he

could make decisions that could greatly affect the physical costs spent on the magazine.

**167** The production decision revolved around two alternatives. The first was to leave the

magazine at its current specifications in regards to type ofpaper used on the magazine and

dimensions of the magazine, which was known as trim size. The second alternative would

be to lower the weight ofpaper stock used and to make the book smaller, thus saving money

in paper and postage.

**168** Alternative 1 **(definition)** proposed that *Fortune* not make any changes to its production

specifications. *Fortune* was produced on 32# body paper and 80# cover paper. The trim

size of*Fortune* was 8 x 10%". Since, its inception 75 years ago, *Fortune* had strived to be a

premier product with a lavish look. The size of the magazine and type of paper used were

associated with the physical quality of the magazine. Business magazines were generally

larger and on heavier paper stock than other magazines. For instance, *People Magazine* and

*Sports Illustrated* are both on 30# body stock, 60# cover stock and measure 8 x lOW'.

**169** By maintaining its current production specifications, *Fortune* would maintain its superior

quality among the business publications. *Fortune* was printed on the same body paper

as *Forbes;* however its trim size was larger. *Fortune* was on both heavier paper and was

larger than *Business lfeek.* The Managing Editor of *Fortune* wanted strongly for *Fortune* to

maintain its current specifications. While his main role in the magazine was the editorial

content, he was also concerned about the look and feel of the magazine. In the magazine

industry, packaging was almost, if not more, important than content. The **benefit** of keeping

production specs the same would be that *Fortune* would maintain its lavishness and rich

look, making it more attractive to the reader and advertiser.

**170** Keeping production specifications the same is **feasible,** considering *Fortune* would simply

have to continue its existing processes. For instance, *Fortune* already has an inventory

of 32# paper that is managed by a Central Production group. Also, *Fortune* already has set

contracts with its printers; therefore all the necessary equipment to print *Fortune* at its trim

size was already in place.

**171** By keeping production specifications the same, *Fortune* would **win** against the competition

because it was producing a superior product. As stated above, *Fortune* was larger

and on better paper than the competition. Assuming consumers were aware of these different

production specifications, which market research suggested they were, consumers

would choose *Fortune* over the competition. Advertisers would also be attracted to *Fortune*

because ofits lavishness. The positive physical image of*Fortune* would make the advertisements

look better.

**172** By maintaining its current production specifications, *Fortune* was expected to be hit hard

in 2006. Paper prices were expected to rise 5% and postage costs were expected to rise up

to 8%. The combined effects ofthese 2 increases on *Fortune* magazine were approximately

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$1 million. By not making any changes, *Fortune* could expect a $1 million hit directly to its

bottom line. Because of the tough economic times that *Fortune* was facing, this hit would

be detrimental and would cause *Fortune* to miss profit projections.

**173** The way around the drawback was to evaluate other parts of the business and make

expenditure cuts that were feasible and appropriate. Also, effort would need to be made to

build up the revenue streams of the business.

**174** Alternative 2 proposes that *Fortune* made some drastic changes to its production specifications.

After meeting with people in the Central Production area, the President learned of

a new quality of 30# paper which was just entering the market. While the paper did weigh

less, it was coated and therefore ofbetter quality than the type ofpaper used on most weekly

publications including *People* and *Sports Illustrated.* Also, *Fortune's* cover stock could

move from 80# to 70# paper. Also, after evaluating the size ofthe competition's magazines,

the President felt that taking down *Fortune's* trim size to 8 x lOW' would be acceptable.

**175** The benefits of this strategy would be cost savings. By changing body stock to 30,

*Fortune* was expected to save $80k in paper costs (mostly from using less paper) and $175k

in postage costs, since the magazines that would be mailed out would be lighter. Changing

from 80 to 70 cover stock would save approximately $lOOk. Lowering the trim size of

the magazine would save approximately $500k in paper and postage costs. The combined

savings of all these changes was approximately $900k, which was almost the hit that

*Fortune* would take if it made no changes.

**176** These changes were feasible for *Fortune.* Paper was bought by Central Production for the

company as a whole. Central Production would have no problem purchasing the new type

of paper for *Fortune.* Any inventory of *Fortune's* old paper stock would either be passed

along to other titles or sold outside the company. Since Time Inc. secured some ofthe lowest

paper prices in the industry, this paper could likely be sold outside the company at a slight

profit. Changing trim size would be more difficult, though not impossible. Through Time

Inc, *Fortune* has set long-term printing contracts with its plants to produce its product. The

current contract was based on the current specifications of the magazine. Contracts would

need to be altered if this change was to take effect. *Fortune* would need to be printed on a

different type of machine if it were to change trim size. Management needed to make sure

the current printing plant had the necessary machinery available. Ifnot, *Fortune* might have

to switch printing plants, which could be a costly endeavor and cause legal problems, since

a contract might need to be broken. However, the printing plant would probably do all possible

to help secure *Fortune's* business for the long term.

***177*** *Fortune* could win against the competition since it would be saving money which could

be used in other areas to build its business. This money could be used to build up revenue

streams, such as more direct mail to potential subscribers and enhanced sales presentation

on sales calls. The saved money could be invested back into the magazine and be used to

strengthen the magazine. Money could be used to enhance the editorial content by securing

award winning writers and photographers. Money could also be spent on research for

stories. Also, this savings could be used to improve circulation research programs to reach

new subscribers, and increase marketing programs for the magazine, which would build

exposure to *Fortune* and boost advertising and circulation sales.

**178** The drawback of the alternative was the *Fortune's* look would be altered. The managing

editor would not be happy because the magazine would be smaller and possibly not as

rich looking. The smaller size of the magazines would necessitate the changing of edit's

templates, which would create additional work. There might also be some backlash on

the advertising side. Because the paper would be not as thick, show through might occur.

Show through is when an image on one side ofthe paper bleeds through the other side. The

Publisher of*Fortune,* felt that advertisers would be angry if an ad from one side bleeds onto

their ad. Advertisers would insist on make-goods, which could be costly for the magazine.

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**REFERENCES**

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Also, advertisers would be dissatisfied with the smaller size oftheir ads, due to the smaller

trim size of the magazine. They might feel the impact on the reader might not be as great.

The consumer would also be getting an inferior product compared to before. *Fortune* would

not stand out as much against the current competition. Also, new competition, such as

Conde Naste's proposed business launch in 2007, could enter the market with more attractive

specifications, taking consumers away from *Fortune.*

The way **around the drawback** was to test the new paper and have a prototype of the

magazine in its new size before all was committed to the new specifications. Since trim size

was only moderately important to advertisers, it would not be as big an issue as the quality

of the paper.

Since both of these alternatives seemed reasonable, the President had the tough task of

deciding what route *Fortune* would take regarding production specifications.

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