THE CASH-FLOW IMPACT OF MAGAZINES IN AUSTRALIAN NEWSAGENCIES

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In an average month Australian newsagents lose $3 million from magazine operations.

Only 35% of magazines in newsagencies are cash-flow positive.

The top 50 performing magazines account for 40% of positive cash-flow from magazines in newsagencies.

The bottom 50 performing magazines account for 20% of negative cash-flow from magazines in newsagencies.

Eliminating the bottom 50 titles from a newsagency would add between $12,000 and $60,000 to the valuation of the business.

Newsagents are propping up all but the top publishers.

Greater competition and the increasing cost of retail real-estate and labour make carrying the traditional magazine range non-viable for newsagents.

Sales of some magazines are in free-fall as a result of the disruption brought about by technological and social change.

Newsagents cannot sustain the current situation.

Executive overview

"Cash is king" in business. This paper presents the findings of a study into the impact on cash in Australian newsagencies by the magazine department.

The magazine department is bleeding cash. The supply paradigm is out of date. Newsagents are in trouble. Good magazines are being held back by the 60% of titles which perform poorly.

This paper seeks to provide understanding so that an equitable solution may be found.

In the past, a newsagency's magazine department has been considered as a whole in assessing the department's performance. Deregulation in the late 1990s, the subsequent placement of magazines in other retail channels and no change to the pre-deregulation supply model makes such a whole of department analysis redundant. Today, each title must pay its own way. Since such vertical analysis is appropriate for petrol, convenience and supermarkets, which only stock the top selling magazines, it is now appropriate for newsagents.

In most newsagencies there is a dramatic swing from one month to the next in the cash-flow impact of magazines – making cash-flow management a challenging given that newsagents are unable to forecast the cash impact.

<u>More than half the titles supplied to every one of the thirty newsagencies researched for this study was found to be cash-flow negative (unprofitable) for the twelve months analysed</u>.

Put another way, more than half the titles being carried by newsagents are not paying their way. They are simply not profitable. What's more, carrying these titles actually cost a newsagent.

When considered with shopping basket data, that is, data showing what else magazine customers purchase in the same sale, it is reasonable to conclude that the current supply model for magazines fails newsagents. The situation is unsustainable.

This paper provides newsagents with hard evidence of their cash-flow problem. What they do with it is up to them. However, time is short. As the following pages reveal, there are three steps which, if taken, could strengthen magazine sales in newsagencies and arrest the concerning sales leak to other retail channels.

Introduction

Newsagents have complained about magazines for decades and probably longer – over-supply, under-supply and terms of trade.

The Australian Newsagents Federation convened a Magazine Summit in July 1997 and a follow-up in November 1998 to discuss supply and cash-flow issues with distributors and publishers.[1] Distributors and publishers have had their own complaints about newsagents for just as long.

The need for research into the cash-flow impact of magazines on newsagencies became clear when several newsagents in quick succession sought my help with their businesses. In every case cash-flow was the problem and the magazine department was the key contributor.

Cash-flow is defined as the pattern of income and expenditure and the resulting availability of cash. Cash-flow impacts on newsagencies in terms of bank balance, use of overdraft facilities and the ability to settle month-to-month accounts on time. As used in this paper, cash-flow could equally refer to profitability.

The magazine department is suspected of being problematic due to the lack of control newsagents have in terms of supply and operational costs. In all departments except for magazines, newsagents have control over the range of stock they carry.

As a newsagent I have always known that cash-flow was a challenge in the magazine department but have ignored the need for research because of the complexity of such a project and the risk of what one might discover. But with greater competition in the magazine retail space and the rising costs of newsagent real-estate and labour, we could no longer put off such an examination.

This research project commenced with analysis of business data collected from thirty newsagencies covering a twelve month period. The pool of thirty was slowly culled to six. The six were selected for the quality of their data and that they where considered to provide a reasonable cross-section of Australian newsagencies based on location and size.

All six are clients of Tower Systems. This was necessary because of certainty of data quality and access to the **Magazine Cash-flow Analysis Tools** (see Appendix A) which have been created and included in the Tower software specifically to harvest data for this project.

[1] The ANF summits have not amounted to any progress for newsagents. The same problems documented in the ANF journal, *National Newsagent* in October 1998 exist today, the ANF action plan remains a plan.

The results of the study are shocking. Newsagents now have evidence proving the extent of the cash-flow crisis caused by the current magazine supply model. They know the categories causing and specific titles causing the problem.

The question is whether newsagents and their suppliers will take the findings of the cash-flow study as presented in this paper seriously. The old excuse of protecting range as a point of difference is no longer cost-effective. As the evidence suggests, it is time for fundamental structural and operational change in the magazine department for without this the value of the newsagent channel to all stakeholders is doubtful.

It is my hope that this study is a catalyst for change to the current newsagent magazine supply model. In the final section of this paper, I suggest possible actions/reforms that would make magazines more equitable for all involved.

Data collection and analysis

There are six measurable factors which lead to the calculation of cash-flow associated with magazines in a newsagency:

1. Cost of goods (stock) as invoiced by suppliers;
2. Unsold stock returned to suppliers;
3. Labour involved in receiving and returning goods;
4. In-store real estate;
5. Value of sales;
6. Shrinkage (theft).

Each of these measurement points, when used collectively, allows us to calculate the cash-flow from magazine activity within a newsagency.

- **Cost of goods.** This is the amount invoiced as recorded in the electronic invoice (EDI) data provided by each magazine distributor. We process the cash-flow impact in the month following receipt of the stock in store. Several titles are provided on delayed billing but these account for less than 1% of titles carried in an average newsagency.

- **Returns.** This is the value of returns as scanned by the newsagent for each supplier. We process the cash-flow impact in the month following the in store processing of the returns. It is possible that returns scanned in a newsagency are not credited in the next month by the distributor as the newsagent may have returned stock early. While not perfect, our approach provides the closest placement of the cash-flow impact.

- **Labour.** We sought from each newsagent the total monthly labour cost (wages plus measurable on-costs) attributable to magazines. In consultation with the newsagent we apportioned the cost between receiving, returning and managing stock on a day to day basis.[2]

- **In-store real-estate.** To determine in-store real-estate costs for magazines we started with the total monthly lease cost for the newsagency. We then measured the floor space given over to magazines. This was then divided by the number of display pockets to determine a per pocket month cost. Pocket costs were capped so that we did not reflect

[2] The returns portion is spread across the quantity returned for each title returned that month. The stock receipts labour portion is spread against all stock received that month.

in our reporting real-estate costs for the magazine department greater than the actual costs for the month.

To ensure accurate apportionment of real-estate by title, we allowed for a specific number of pockets allocated by title where this was fixed for the on sale period (typically weekly titles and major monthly titles); we also set a maximum pocket allocation equal to one complete waterfall – usually eight or nine pockets, assuming that the rest of supplied stock is flat stacked; we 'assumed' a fixed number of copies per title per pocket – this is set by the newsagent based on their fixturing.

We did not attribute a real-estate cost for promotional displays at aisle ends, on the counter or elsewhere in the newsagency outside of the primary magazine department.

We have not weighted real-estate based on its location in-store nor have we weighted flat stack space versus a pocket even though a flat stack is considered by many to be worth more.

- **Sales.** This measurement is all scanned magazine sales for the calendar month.
- **Shrinkage (theft).** Due to lack of consistency in stock-taking processes, we have not considered shrinkage as part of this study. However, it is generally accepted, based on past studies, that shrinkage is around 3% of annual turnover.

In the **Magazine Cash-flow Summary Report**[3] we compressed the six data points to four columns for each month: Sales (for that month); Expenses (stock invoices last month less returns processed last month); operational expenses (labour for stock in and stock returned this month, real-estate cost this month); and net cash.

The data was then segregated based upon the magazine distributors, Network, Gordon and Gotch and RDS/NDD as well as by two publishers, ACP Magazines and Pacific Magazines. The separation of ACP and Pacific was done in order to demonstrate the impact of their successful titles on the overall data pool.

For each distributor/publisher we have analysed data at the MPA category[4] and title levels. At its most detailed point, our analysis provides twelve months of data for each measurement point for each title – a considerable pool of data to analyse and consider. Each case study is supported by more than 100 pages of data reports.

[3] The Magazine Cash-flow Report suite is an integrated part of the Tower Systems software. Newsagents using the software are able to provide a series of cash-flow reports without having to export data for analysis external to their newsagency software. A feature of the reporting tools is a Pack and Send facility which enables the newsagent to share the cash-flow data with anyone regardless of whether they have the Tower Systems software.
[4] The Magazine Publishers of Australia (MPA) developed industry categories for all magazine titles in consultation with publishers and distributors several years ago. These categories have been adopted by all newsagent software companies to enable comparison across stores.

Store-specific data collected

From our initial pool of thirty, we selected our six case-study newsagencies based upon three factors: the quality of their data, their ability to reflect the trends emerging in the data of the thirty newsagencies, and their ability to represent a newsagency type, based on their size and location. Out of the six, two represent shopping centre newsagencies, two represent major suburban high street newsagencies, one represents suburban high street newsagencies and one represents rural newsagencies.

From each site we collected twelve months of magazine arrivals, returns and sales data. We conducted extensive telephone consultations to determine number of pockets, floor space allocation, pocket depth (to enable estimation of number of pockets used per title per day) and labour allocation for magazine arrival and return tasks.

The data for the case studies was verified in a second call and checked against similar newsagencies in the original group to ensure that it was representative. In some circumstances we worked with the newsagent to tune the labour and real estate costs.

To provide a better understanding of the data presented in this paper, the real-estate and floor space allocation data for the six case study newsagencies is:

	Total Magazine Related Labour	Per Pocket Real Estate	Pockets	% floor space for magazines	Type
Case #1	$3,000	$3.00	1,600	30%	Suburban shopping centre
Case #2	$3,540	$4.52	1,424	33%	Suburban shopping centre
Case #3	$1,600	$3.27	1,620	40%	Major suburban high street
Case #4	$2,201	$0.30	785	18%	Rural high street
Case #5	$3,801	$4.01	1,400	50%	Major suburban high street
Case #6	$1,600	$1.97	1,204	30%	Suburban high street

Table 1. Operational costs associated with the magazine department.

There is a significant difference in real-estate for rural newsagencies versus city based shopping centre newsagencies. We also found significant differences in labour costs, however these were more due to whether the newsagent was doing the work versus an employee. The wage for an employee is more measurable. We navigated this by applying a standard hourly rate for owner's time.

We are confident that the data in the six case studies examined in this paper is accurate and that this subset of newsagencies is a reasonable representation of the industry overall.[5]

[5] We do not identify specific newsagencies in this report out of respect for their contractual obligations to the magazine distributors.

Findings

Summary of primary findings

- Half the newsagencies analysed were cash flow positive from magazines and half negative.
- RDS/NDD and Network titles perform worst.
- The month by month cash-flow fluctuation is extraordinary in each newsagency.
- Gotch titles were the big improver in 2005.
- Special Interest and Buying & Selling are the worst performing magazine categories. Other categories are worse but only in individual store situations.
- The total magazine related cash-flow across all Australian newsagencies is a loss of more then $3 million per month.

Magazine distributor / publisher performance

The best starting point for understanding and measuring the impact of magazine cash-flow is to look at the total cash-flow for a full year by publisher/distributor for each of the case studies used in this paper.

	Gotch[6]	Network[7]	RDS	ACP	Pacific	Total	Type
Case #1	($343)	($6,883)	($8,466)	$6,841	$7,170	**($1,681)**	Suburban shopping centre
Case #2	$10,366	($16,953)	($9,043)	$12,128	$8,311	**$4,809**	Suburban shopping centre
Case #3	$5,809	($7,259)	($6,092)	$7,539	$4,478	**$4,475**	Major suburban high street
Case #4	($4,993)	($2,438)	($3,789)	$6,783	$4,454	**$16**	Rural high street
Case #5	$9,836	($6,287)	($7,189)	$17,296	$3,792	**$17,448**	Major suburban high street
Case #6	($1,976)	($3,630)	($5,046)	$722	$766	**($9,164)**	Suburban high street

Table 2. Full year magazine related cash-flow for each of six newsagencies by distributor/publisher.

[6] Gotch data does not include data for Pacific titles even though most Pacific titles are distributed by Gotch
[7] Network data does not include data for ACP titles even though all ACP titles are distributed by Network

This table represents accumulated cash-flow for a full year in the six case study newsagencies. The considerable difference between distributors/publishers across the newsagencies is surprising.

A question also needs to be asked about the top selling titles, mainly ACP and Pacific titles, and their performance given that they are the titles more often carried by the outlets competing with newsagents. Given the data represented in the cash-flow figure (sales, less cost of goods, less cost of real-estate, less cost of labour, plus value returned of stock), it is reasonable to consider this a net profit position for the newsagent from trading related to each distributor and publisher.

Each of the six case study newsagencies is subsidising their magazine operations from elsewhere in their business and/or their overdraft. Further, the cash benefit from ACP and Pacific titles in each case is lower than expected considering the real-estate, labour and capital investment.

Month-by-month analysis

The biggest strain on a newsagent's cash-flow is the unpredictability of the call on cash by the magazine department. Magazine distributors are aware of this problem from their monthly battle with newsagents to achieve payment by strict deadlines.

Newsagents are not able to budget for their cash obligation because they do not control: the timing of stock arriving in store, the volume of stock they are supplied, the on-sale period[8], or the sell through rates[9]. Therefore, newsagents do not have any significant control on the month-by-month cash impact. One could argue that they have stock for between 20 and 50 days before they have to pay for it. However, with a sell through rate of 50% and a shelf life of 30 or more days for most titles, newsagents cannot generate enough cash in the current month to settle the previous month's accounts.

The following graphs illustrate the month-by-month cash-flow implications for each of the six newsagencies included in the study for titles from distributors Gotch, Network and RDS/NDD as well as from publishers ACP and Pacific. While the graphs are not provided for detailed analysis of the impact on cash, they reflect a significant outcome of this research as illustrate the month-by-month cash situation for each supplier.

The graphs, and the data farmed in their creation, illustrate the severity of a month-by-month cash-flow problem which can no longer be ignored.

[8] The length of time an issue of any magazine title is to remain on the shelf.
[9] The sell through rate of a title is the percentage of copies received which are sold. If ten copies of an issue of a title are received by a newsagent and three sell then the sell through rate is 30%.

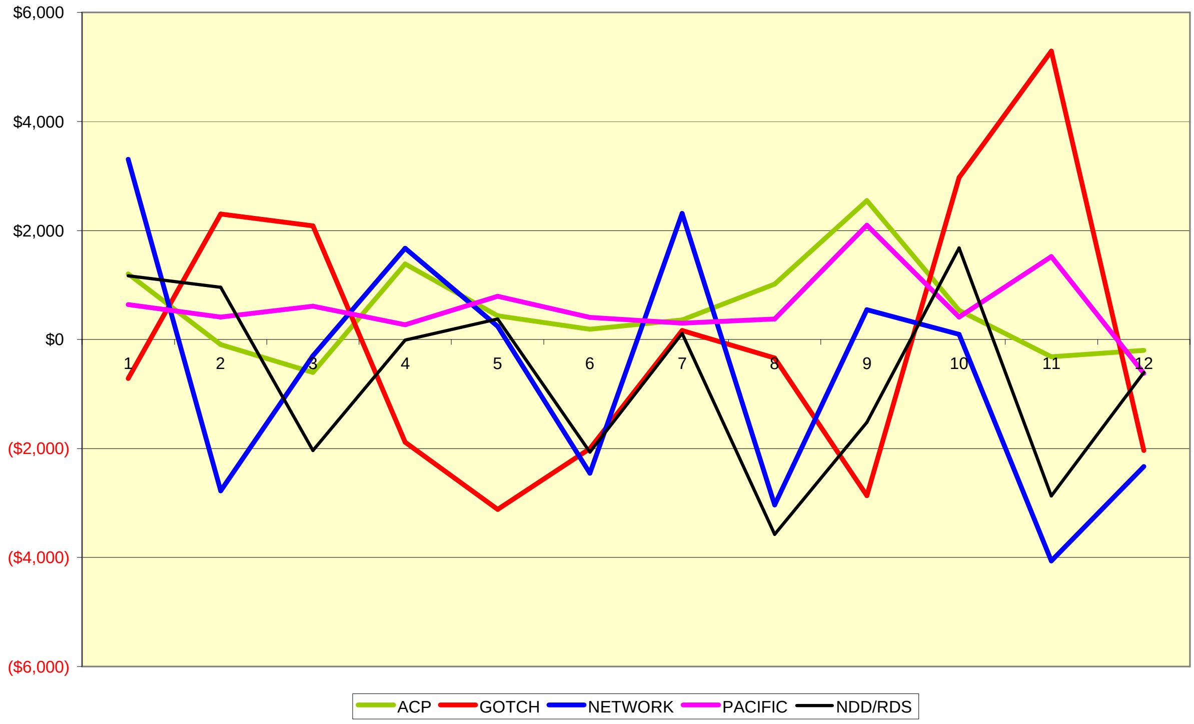

Figure 1. Major shopping centre

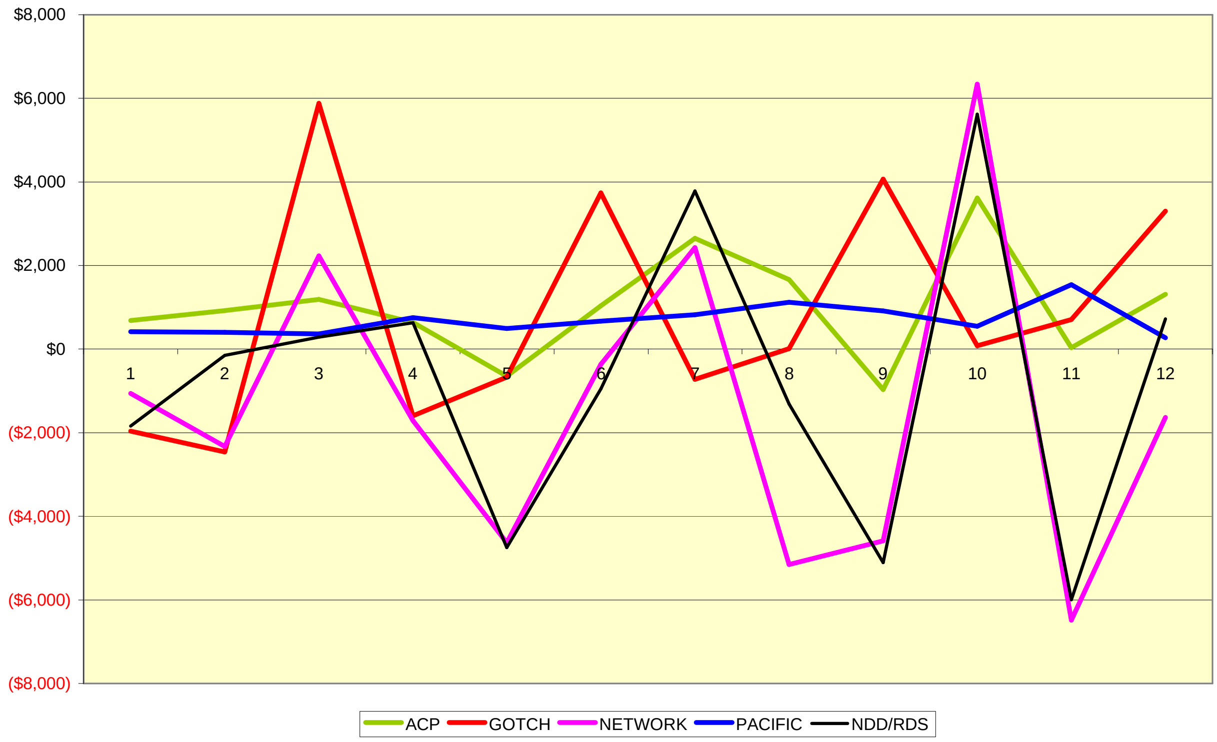

Figure 2. Suburban shopping centre.

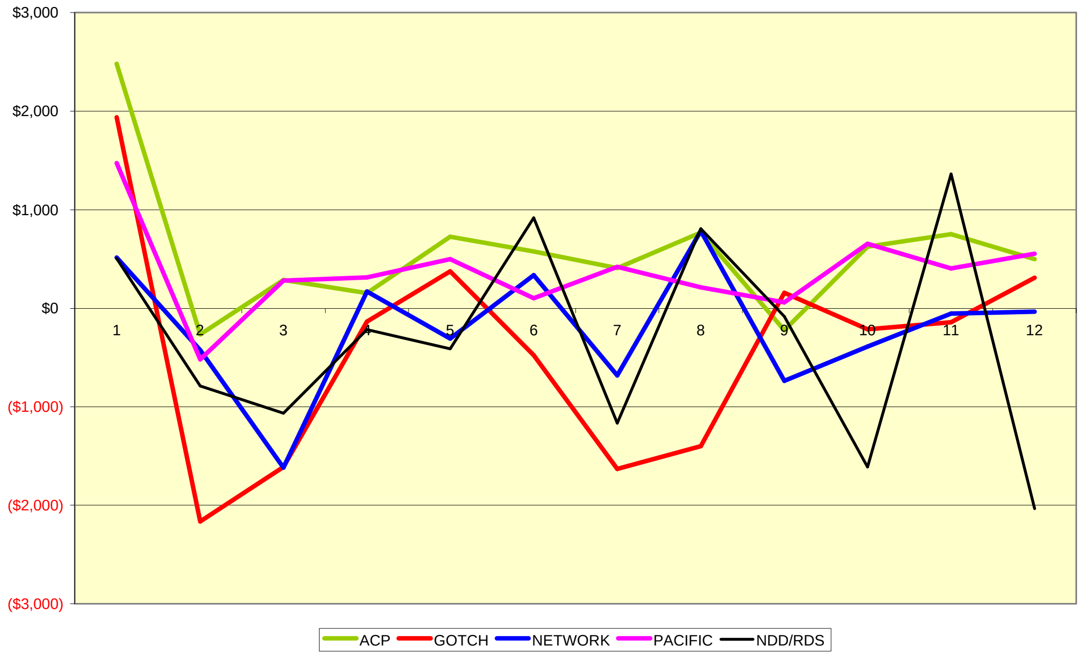

Figure 3. Rural

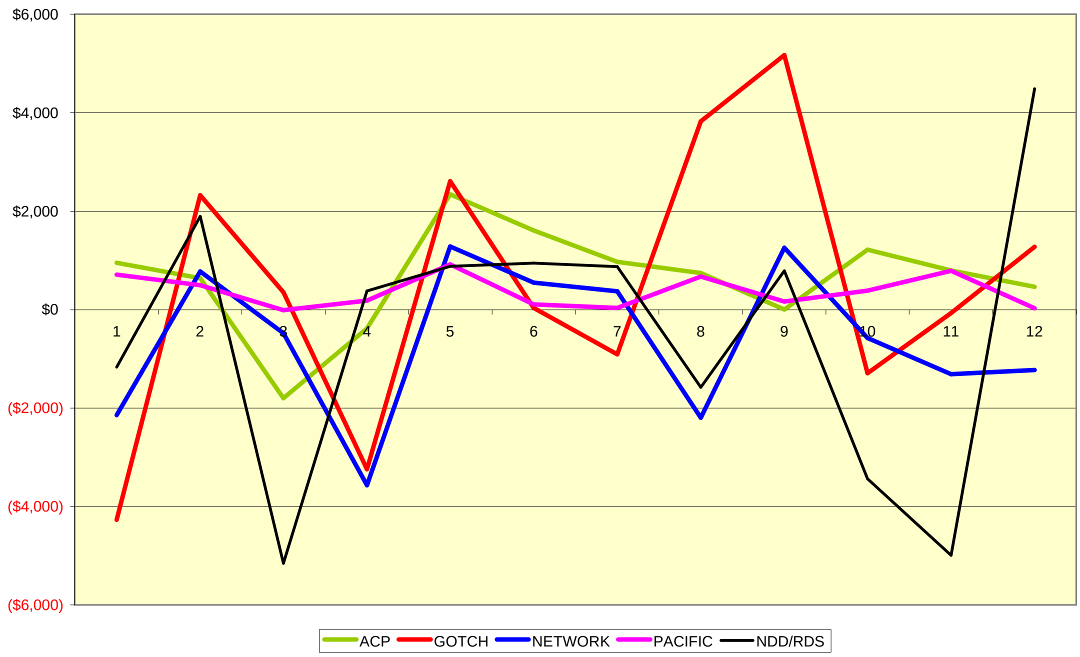

Figure 4. Major suburban high street

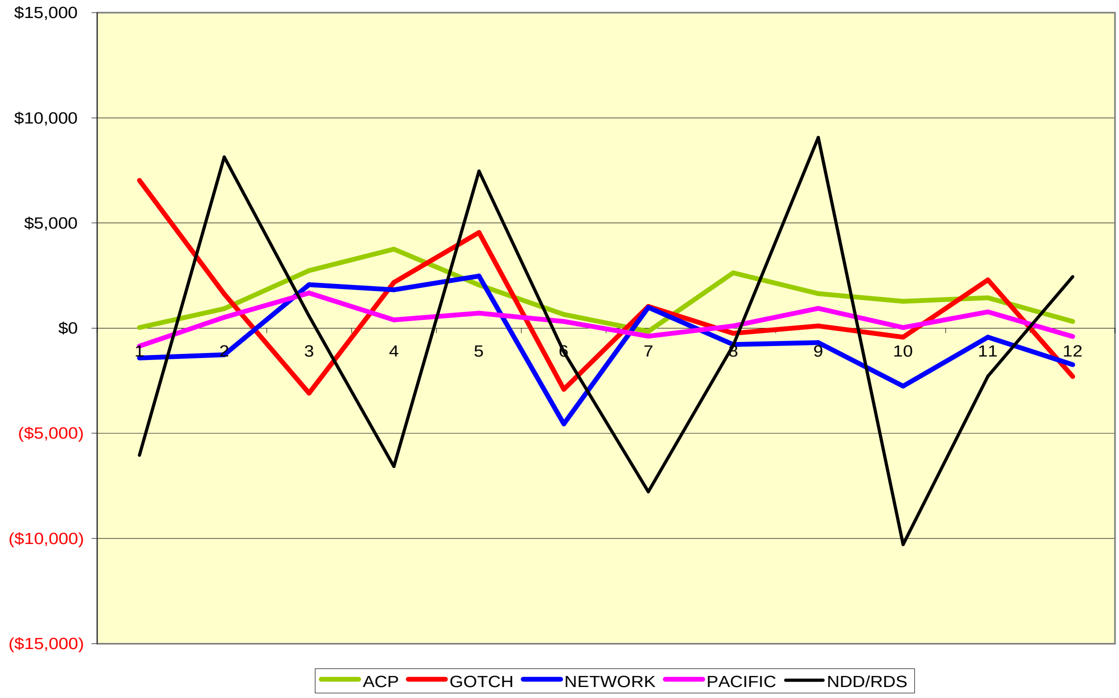

Figure 5. Major suburban high street.

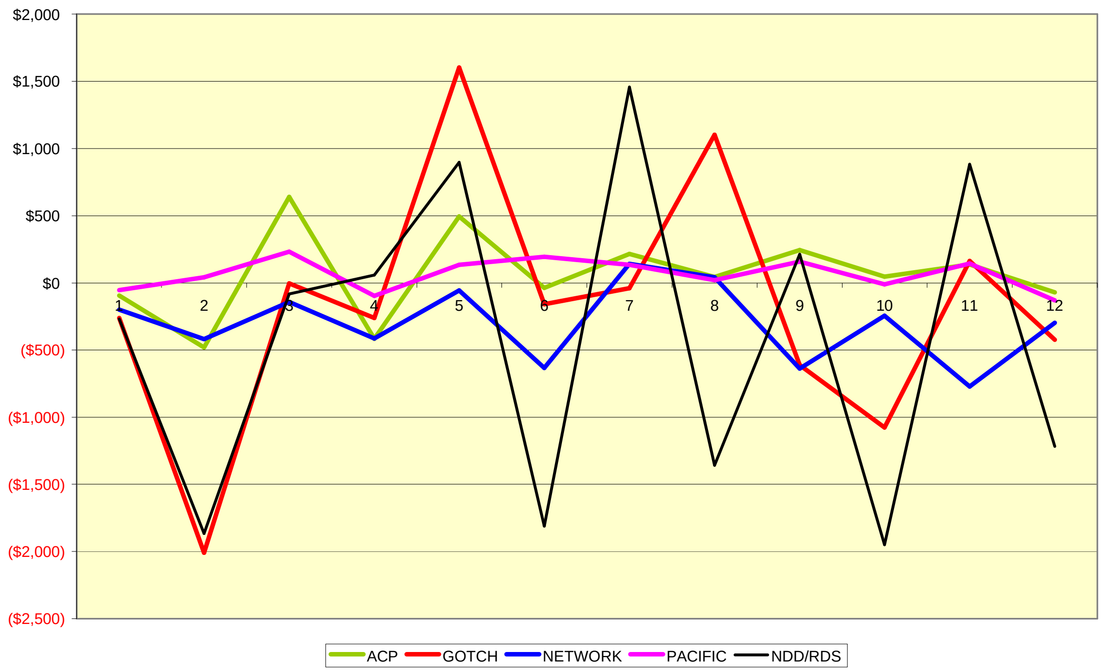

Figure 6 Suburban high street

Behind each graph are more than one hundred pages of data collected by computer systems in the newsagencies.

The monthly cash-flow variation for Gotch, Network and RDS titles is considerable, whereas the variation for ACP and Pacific titles is less so. It is this considerable variability, caused by the titles not in the 50 top sellers, which makes cash management such a challenge for newsagents. To go from being $2,000 cash-flow positive one month to $2,000 cash-flow negative the next month, as shown in case #1 is a circumstantial change beyond the capacity of many small businesses.

The significant cash-flow variations need to be considered against the backdrop of magazine trading terms and how those terms are administered by magazine distributors. Newsagents who do not settle their account in full on time, even once, are punished by having supply stopped and not being re-started for several days. Given that newsagents have little control over the supply model and therefore the cash impact on their businesses, it seems unreasonable that those in control of creating a cash shortfall also enforce rigid trading terms.

Category performance

We have seen that the top titles, mainly those published by ACP and Pacific are more likely to be cash-flow positive or neutral and have less impact on monthly variance. But what about those titles that are cash-flow negative? If we look for trends according to magazine categories, across all distributors and publishers, the problem areas for newsagents become apparent.

The top five categories in order are: Women's Weeklies, Partworks[10], Women's Interests, Crosswords & Puzzles, and Teenager. While sales are stronger in other categories, longer shelf life and a lower sell through rate lead to a significant (detrimental) cash-flow impact.

The Special Interest, Sport & Leisure, Children's, Motoring and Adult categories are all cash-flow negative. Special Interest is the worst performer and within that, the Travel & Tourism and Other segments are in trouble. Other is a catch-all segment that includes such seriously cash-flow negative titles as: *New Dawn*, *Irish Echo*, and *Adbusters*. These titles are not alone in causing the cash-flow problem: 90% of titles in the Other segment of Special Interest are cash-flow negative.

[10] Partwork titles are titles published in a series, usually with a finite number of issues and covering a specific topic. Newsagents are the only retailers of partworks. A partwork series can consist of twelve issues to 60. They usually publish a new issue every week or two weeks.

Special Interest is the category delivering the worst cash-flow impact, yet newsagents see many of these titles central to their point of difference. Few understand the cash drain on their business caused by this commitment.

The data considered for this paper indicates an annual per store cash-flow impact (loss) of Special Interest titles ranging from -$4,000 to -$13,000.

In half of the newsagencies assessed, eliminating the cash-flow impact of Special Interest titles would create a cash-flow positive situation for magazines. Considered another way, Special Interest titles cost newsagents more than the cash gain from the top two magazine titles – usually *Woman's Da*y and *New Idea*.

The Craft & Hobbies category is also worthy of further examination. While overall sales are strong, titles are typically on sale for more than one month and the average sell-through rate is rarely above 50%. This means is a higher real-estate cost, a longer period before unsold stock is credited and a higher labour cost in managing the stock and in processing returns.

In a shopping centre newsagency every pocket needs to generate at least $7.00 per month to cover the costs of real-estate and labour. For an $8.95 title, this means three sales. However, with a scale-out[11] of 20 copies of a title requiring, say, three pockets, the monthly break even point for the newsagent in a shopping centre becomes nine.

While outside the scope of this paper, it is appropriate to take a moment to consider sales trends for Special Interest titles. Data from 2003 through 2005[12] suggests that sales of many Special Interest titles are falling. It is now easier for people to access information about their specialised area of interest online and without cost. A month of broadband access can cost less than one Special Interest magazine. This is the challenge for publishers and newsagents.

Top ranked titles

New Idea, *Woman's Day, TV Week*, *Take 5*, *That's Life*, *Who*, and *Australian Women's Weekly* dominate the top positions as the best cash generators.

In individual stores certain titles perform particularly well. In one store, for example, *People's Friend*, *Art of Calligraphy* and *Star Trek Collection* were in the top ten and generating in excess of $1,000 profit annually each for the business. In another store, located in an affluent suburban area, it is easy to see the impact of store location with *Donna Hay*, *Delicious*, *Marie Claire* and *Gourmet Traveller* in the top ten, generating more than $1,000 in profit each.

[11] Scale-out is a common industry term for newsagent channel wide allocation and supply of a title by a distributor.
[12] Shopping Basket Study undertaken by Tower Systems in 2005 analysing 8,000,000 baskets of data covering three years in over 100 newsagencies.

Partwork titles feature prominently in the top performing magazines, as do common putaway titles (titles customers have on order for collection). Partworks titles such as *Art of Calligraphy*, *Mind Body Spirit*, *Essential Guide to Beauty*, *Horrible Science*, *Stargate*, *Star Trek Collections* and *Pocket Watch Collections* feature in the list of top ranked magazines.

A recent shopping basket study revealed that partworks and putaway customers are twice as likely to purchase other products in the same visit than regular magazine customers. This makes them considerably more valuable to newsagents. Contrary to what was previously assumed, it is not the depth of magazine range in newsagencies that draws customers to purchase from non-magazine departments. Rather, it is the regular pick-up of putaways and the necessity of collecting all issues of a partworks publication that requires a visit to the local newsagency, which leads to additional sales outside the magazine department.

The decline in cash-flow moving down the top 50 titles is rapid as shown below for each of the six case study newsagencies. The tables list the top five titles followed by the details for the title at position 20, 30, 40 and 50.

Position	Title	Annual cash	Position	Title	Annual cash
1	*New Idea*	$4,268	1	*New Idea*	$4,488
2	*Woman's Day*	$3,681	2	*Woman's Day*	$3,982
3	*That's Life*	$1,782	3	*That's Life*	$1,803
4	*Take 5*	$1,516	4	*New Weekly*	$1,729
5	*TV Week*	$1,490	5	*TV Week*	$1,624
20	*Lovatts Starhunt*	$375	20	*Radio Cont. Partwork*	$643
30	*Marie Claire*	$281	30	*Stargate SG 1*	$453
40	*Pocket Watch Col.*	$246	40	*Dickens Collection*	$354
50	*Lovatts Sudoku*	$216	50	*Who Weekly*	$321

Position	Title	Annual cash	Position	Title	Annual cash
1	*Woman's Day*	$2,410	1	*Woman's Day*	$2,049
2	*New Idea*	$2,298	2	*Take 5*	$1,712
3	*Delicious*	$1,087	3	*New Idea*	$1,602
4	*Donna Hay*	$798	4	*That's Life*	$1,525
5	*Gourmet Traveller*	$774	5	*TV Week*	$962
20	*Hello*	$391	20	*Build The Victory*	$140
30	*Stargate SG1*	$285	30	*Pocket watch Collection*	$97
40	*Kitchens & Bathrooms*	$221	40	*Lovatts Cluewords*	$77
50	*Cuisine*	$187	50	*Nitro Monster Truck*	$61

Position	Title	Annual cash	Position	Title	Annual cash
1	*Woman's Day*	$3,241	1	*NW*	$555
2	*NW*	$2,975	2	*Woman's Day*	$488
3	*New Idea*	$2,645	3	*New Idea*	$438
4	*Aust. Women's Weekly*	$2,350	4	*Cmarie Claire*	$299
5	*Who Weekly*	$1,519	5	*Aust. Women's Weekly*	$261
20	*Donna Hay*	$661	20	*Scoop*	$94
30	*New Woman*	$506	30	*Perth Bride*	$77
40	*Cleo*	$360	40	*Black & White*	$60
50	*Wellbeing*	$310	50	*Vanity Fair*	$51

Table 3. Net cash-flow for top performing titles.

The annual cash-flow of the top 50 titles in the six case study newsagencies ranges from $15,750 for the rural newsagency to $41,368.00 for one of the suburban newsagencies. This underscores the importance of top selling magazines to newsagencies, yet these are the titles publishers are pushing more and more to non-newsagency retail channels.

In each case, the total cash-flow achieved by the top 50 titles is between 40% and 78% of all positive cash-flow in the magazine department. 78% was for the rural newsagency and all others between 40% and 53%.

The top 50 titles suffer at the hands of poor performing titles. It is reasonable to speculate as to whether sales of the top 50 would increase if additional labour and real-estate resources were available for their promotion.[13]

Almost all but partworks titles in the top 50 are available outside the newsagent channel. This underscores the risk to the newsagent channel of changes reported elsewhere in consumer behavior in terms of magazine purchases[14].

Bottom ranked titles

Very few of the titles in the bottom 50 are available outside the newsagent channel, yet all of the top 10 are available at non-newsagency outlets like supermarkets and petrol stations.

There is little in common in the bottom performing titles as measured by cash-flow in this study. This is because supply volume for poor performing titles has a big effect on negative cash-flow. In looking for common bottom titles we have considered the bottom thirty ranked titles across the six newsagencies. The most common titles in the bottom thirty are (in no particular order): *British Soccer Weekly*; *Inside Football*; *Cosmos*; and, *AWW Cookbooks* (selected titles). Sport, food and special interest magazines dominate the bottom 30 magazines.

The cash impact within the bottom 50 is not nearly as wide spread as it is for the top 50.

What is interesting looking at the bottom 50 for each month in each of the six newsagencies is the decrease in the number of poor performing titles distributed by Gotch over the course of 2005.

Many poor performing titles one might expect to see in the bottom ranked title list are not there because of the scale-out and the shelf life. A scale-out leading to a sell-through of 50%

[13] A recent shopping basket study revealed that newsagents are able to achieve sales growth in the top 50 titles more easily than outside the top 50.

[14] Consumer research presented by ACP to newsagents in 2004 and 2005 demonstrates a fall-away in consumer recall of newsagencies as the place they prefer to purchase magazines.

and a shelf life of a month or less works in favour of the title in terms of cash-flow. It is longer life and high supply volume titles which are more likely be on this list.

With real-estate costing around $3.00 per pocket, the operational cost of a title using multiple pockets and being on-sale for several months can be such that the title will never come close to breaking even.

The following tables list the bottom-ranked titles for the six case study newsagencies. In considering the tables please note that position 1 for each newsagency is the overall worst performer for that newsagency with performance improving as position increases.

Position	Title	Annual cash
1	*Now!*	($494)
2	*British Football Weekly*	($450)
3	*Cosmos*	($449)
4	*Folk Art & Decorative Painting*	($442)
5	*Irish Echo*	($437)
20	*Australian Traveller*	($256)
30	*Hard Evidence*	($219)
40	*Amateur Photo (UK)*	($189)
50	*Investigate*	($167)

Position	Title	Annual cash
1	*Inside Football*	($1,062)
2	*Hyper*	($790)
3	*British Football Week*	($669)
4	*Platinum Girls*	($486)
5	*Phantom*	($481)
20	*Aust. Computer Trader*	($375)
30	*Cosmos*	($352)
40	*Good Taste*	($319)
50	*Modern Wedding*	($306)

Position	Title	Annual cash
1	*Starscroll*	($371)
2	*Investigate*	($361)
3	*AWW Dinner Lamb*	($335)
4	*AWW Cooking Class*	($331)
5	*Fresh*	($285)
20	*Cosmos*	($255)
30	*Luxury Travel*	($215)
40	*Object*	($192)
50	*Backyard Design Ideas*	($146)

Position	Title	Annual cash
1	*Time*	($183)
2	*Equipment Trader*	($168)
3	*TV Week Diary*	($142)
4	*Bulletin*	($131)
5	*Eng. Women's Weekly*	($128)
20	*Penthouse Plus*	($69)
30	*Reader's Digest*	($61)
40	*Bad Babes*	($56)
50	*Disney Girl*	($52)

Position	Title	Annual cash
1	*Travel + leisure Aust.*	($718)
2	*Aust. Aviation*	($579)
3	*Madison*	($474)
4	*OK Weekly*	($430)
5	*British Soccer Weekly*	($392)
20	*Ad News*	($269)
30	*NZ Rugby News*	($237)
40	*Chick*	$197
50	*Follow*	($171)

Position	Title	Annual cash
1	*British Football Week*	($277)
2	*Best Bets*	($232)
3	*Starscroll*	($230)
4	*Fresh*	($180)
5	*People*	($176)
20	*Lifelight*	($111)
30	*TV Week*	($86)
40	*Model Collector*	($79)
50	*Guitarist Aust.*	($73)

Table 4. Net cash-flow for bottom performing titles.

In the six case study newsagencies, the annual cash-flow of the bottom 50 titles ranges from –$3,739.00 for the rural newsagency to –$16,655.00 for one of the suburban newsagencies.

In each case, the bottom 50 titles accounted for between 18% and 20% of all negative cash flow. Put another way, eliminating the bottom 50 titles in the case study newsagencies would cut negative cash-flow by between 18% and 20%.

Given the way newsagencies are valued, a cash-flow savings of $4,000 conservatively equates to a $12,000 increase in the sale price sought for a newsagency. This means that eliminating the bottom 50 titles is worth, in terms of the sale price of a newsagency, between $12,000 and $60,000.

These numbers are an indictment against the magazine supply model and the companies in control of that supply model. Newsagents cannot sustain such losses from a small number of titles.

It is important to be aware of the negative cash-flow titles because the bottom 50 titles in any newsagency is an excellent starting point for any supply reduction or title elimination as discussed elsewhere in this paper.

Overall cash-flow analysis

Considering a full year of data from the six case study newsagencies, on average, 31% of all titles supplied over the year analysed were found to be cash-flow positive, 1% are cash-flow neutral and 68% cash are flow negative.

It is reasonable to assume the magazine distributors would know from their supply and return data (without even considering real-estate and labour data) that two thirds of titles supplied to newsagents are cash-flow negative.

The following table breaks down this data by each of the case study newsagencies and indicates the associated profit and/or loss. The difference between most of the stores, in percentage terms, is not as great as one might have expected.

	Titles Cash Flow Positive	Amount	Titles Neutral	Titles Cash Flow Negative	Value	Total
Case #1	39.04%	$72,389	1.08%	59.87%	($74,071)	($1,681)
Case #2	34.02%	$82,642	2.23%	63.75%	($77,834)	$4,809
Case #3	42.40%	$59,684	0.99%	56.61%	($55,210)	$4,475
Case #4	24.78%	$20,507	0.06%	75.16%	($20,492)	$16
Case #5	37.15%	$98,472	1.17%	61.68%	($81,025)	$17,448
Case #6	38.12%	$14,069	0.42%	61.47%	($23,235)	($9,165)

Table 5. Percentage of titles cash-flow positive and their value compared to cash-flow negative titles and their value.

An immediate question is *why would newsagents tolerate such a situation?* The data suggests that concentrating only on the top performing titles would be the most logical course of action. Of course, this is common practice in supermarkets, petrol outlets, convenience stores and other retail outlets selling newspapers. They do not take anything more than 10% of the range of magazines in a newsagency and focus only on the cash-flow positive titles.

These non-newsagency magazine outlets usurp profits from top performing titles without sharing the burden of the bottom performing titles, thereby reducing a newsagent's ability to offset the cost of loss-making titles. This leaves successful departments of newsagencies to cover the losses incurred in the magazine department.

I doubt that any newsagent has calculated the full cash-flow impact of magazines, certainly not to the extent of this study. For the first time we have included the cost of real-estate and the cost of magazine-specific labour to reach an accurate cash-flow impact position for each title.

So, the answer to the question *why would newsagents tolerate such a situation* is: because they never knew the extent of the cash-flow problem for their magazine department as it has always been hidden by other successful departments and by the complexity of the magazine supply model.

Title level analysis

It is only at the title level, store-by-store that one can see the month-by-month cash challenges experienced by newsagents.

A full title level analysis runs to over one hundred A3 pages for any newsagency.[15]

To illustrate the title level data collected and analysed in this study, a table has been included on the following page. It lists the income from sales, the supply invoices paid, the real-estate and labour expenses paid, and the net cash contribution (or cost) each month for eight titles for one newsagency.[16] These titles have been selected for no particular reason except for *PC World* which has been included to show the cost during a switch in distributors.

'Sales' reflects scanned sales in the month. 'Expenses' reflects the total value of invoices for that title for the previous month and payable this month. 'Operational expenses' reflects the cost of real-estate used for that title for the month plus the cost of labour used for the title for the month. This is the most contentious of measurements in that magazine distributors and publishers have said in the past that it is unfair for newsagents to apportion real-estate costs to titles.[17]

[15] A sample of the title level analysis report is available for anyone wanting to drill to that level.

[16] To protect the newsagents who provided access to their data, the titles have been replaced with generic descriptions.

[17] This has been discussed at industry forums, trade shows and conferences.

	Irish Echo	M. Stewart Living	Folk Art & Dec. Paint	Aust. Traveler	PC World (GG)	PC World (RDS)	Threads	Amat. Ph. (UK)
Sales	$6.20		$6.32	$0.00	$79.50	$0.00	$35.05	$79.55
Expenses	$21.48	$12.92	$26.06	$0.00	$70.47	$0.00	$47.94	$46.87
Op. Exp.	$15.00	$1.51	$3.32	$0.00	$14.11	$0.00	$14.87	$17.59
Net	**($30.28)**	**($14.43)**	**($23.06)**	**$0.00**	**($5.08)**	**$0.00**	**($27.76)**	**$15.09**
Cumulative	**($30.28)**	**($14.43)**	**($23.06)**	**$0.00**	**($5.08)**	**$0.00**	**($27.76)**	**$15.09**
Sales	$6.36	$0.00	$6.32	$0.00	$79.50	$0.00	$72.64	$46.36
Expenses	$21.48	$25.85	$10.42	$0.00	$102.99	$0.00	$0.00	$28.13
Op. Exp.	$20.86	$2.73	$4.36	$0.00	$25.42	$0.00	$11.92	$15.94
Net	**($35.98)**	**($28.58)**	**($8.46)**	**$0.00**	**($48.91)**	**$0.00**	**$60.72**	**$2.29**
Cumulative	**($66.26)**	**($43.01)**	**($31.52)**	**$0.00**	**($53.99)**	**$0.00**	**$32.96**	**$17.38**
Sales	$19.09	$0.00	$0.00	$0.00	$115.64	$0.00	$14.53	$29.32
Expenses	$33.42	$12.92	$49.06	$0.00	$65.04	$0.00	$65.92	$16.79
Op. Exp.	$29.72	$2.73	$10.28	$0.00	$18.08	$0.00	$15.37	$14.79
Net	**($44.05)**	**($15.65)**	**($59.34)**	**$0.00**	**$32.52**	**$0.00**	**($66.76)**	**($2.26)**
Cumulative	**($110.31)**	**($58.66)**	**($90.86)**	**$0.00**	**($21.47)**	**$0.00**	**($33.80)**	**$15.12**
Sales	$15.91	$0.00	$0.00	$0.00	$79.50	$0.00	$0.00	$39.77
Expenses	$47.73	$12.92	$16.88	$0.00	$65.05	$0.00	$52.30	$27.71
Op. Exp.	$28.08	$3.84	$13.06	$0.00	$16.17	$0.00	$20.41	$20.08
Net	**($59.90)**	**($16.76)**	**($29.94)**	**$0.00**	**($1.72)**	**$0.00**	**($72.71)**	**($8.02)**
Cumulative	**($170.21)**	**($75.42)**	**($120.80)**	**$0.00**	**($23.19)**	**$0.00**	**($106.51)**	**$7.10**
Sales	$6.36	$17.23	$0.00	$7.23	$14.45	$122.86	$0.00	$39.77
Expenses	$7.15	$25.85	$61.06	$0.00	$108.41	$0.00	$30.49	$71.07
Op. Exp.	$28.57	$2.23	$11.35	$7.85	$8.48	$10.58	$13.06	$24.62
Net	**($29.36)**	**($10.85)**	**($72.41)**	**($0.62)**	**($102.44)**	**$112.28**	**($43.55)**	**($55.92)**
Cumulative	**($199.57)**	**($86.27)**	**($193.21)**	**($0.62)**	**($125.63)**	**$112.28**	**($150.06)**	**($48.82)**
Sales	$6.36	$17.23	$0.00	$57.82	$28.91	$85.27	$0.00	$39.20
Expenses	$21.48	$25.84	$27.10	$336.07	($75.89)	$151.77	($10.89)	$12.78
Op. Exp.	$28.70	$2.67	$9.29	$31.73	$0.00	$15.77	$6.46	$20.17
Net	**($43.82)**	**($11.28)**	**($36.39)**	**($309.98)**	**$104.80**	**($82.27)**	**$4.43**	**$6.25**
Cumulative	**($243.39)**	**($97.55)**	**($229.60)**	**($310.60)**	**($20.83)**	**$30.01**	**($145.63)**	**($42.57)**
Sales	$6.36	$0.00	$0.00	$14.45	$14.45	$115.64	$0.00	$45.45
Expenses	$38.18	$12.92	$43.43	$189.72	$0.00	$151.77	$43.58	$25.58
Op. Exp.	$32.67	$2.05	$9.21	$55.49	$0.00	$16.36	$8.42	$21.68
Net	**($64.49)**	**($14.97)**	**($52.64)**	**($230.76)**	**$14.45**	**($52.49)**	**($52.00)**	**($1.81)**
Cumulative	**($307.88)**	**($112.52)**	**($282.24)**	**($541.36)**	**($6.38)**	**($22.48)**	**($197.63)**	**($44.38)**
Sales	$12.73	$0.00	$0.00	$0.00	$14.45	$93.96	$0.00	$51.14
Expenses	$38.18	$38.76	$31.30	($92.15)	$0.00	$157.19	$59.92	$89.48
Op. Exp.	$40.02	$3.38	$10.95	$30.23	$0.00	$16.63	$4.86	$27.45
Net	**($65.47)**	**($42.14)**	**($42.25)**	**$61.92**	**$14.45**	**($79.86)**	**($64.78)**	**($65.79)**
Cumulative	**($373.35)**	**($154.66)**	**($324.49)**	**($479.44)**	**$8.07**	**($102.34)**	**($262.41)**	**($110.17)**
Sales	$15.91	$17.23	$0.00	$14.45	$7.23	$88.59	$0.00	$35.00
Expenses	$0.00	$25.84	($17.69)	($65.04)	$0.00	$119.25	$43.59	$8.51
Op. Exp.	$35.12	$4.12	$9.62	$14.78	$0.00	$17.17	$12.14	$10.59
Net	**($19.21)**	**($12.73)**	**$8.07**	**$64.71**	**$7.23**	**($47.83)**	**($55.73)**	**$15.90**
Cumulative	**($392.56)**	**($167.39)**	**($316.42)**	**($414.73)**	**$15.30**	**($150.17)**	**($318.14)**	**($94.27)**
Sales	$9.55	$17.23	$0.00	$0.00	$36.14	$97.64	$0.00	$49.09
Expenses	$45.34	$0.00	$36.12	$32.52	$0.00	$170.86	$59.92	$92.72
Op. Exp.	$36.20	$3.05	$11.25	$17.06	$0.00	$32.65	$15.39	$15.27
Net	**($71.99)**	**$14.18**	**($47.37)**	**($49.58)**	**$36.14**	**($105.87)**	**($75.31)**	**($58.90)**
Cumulative	**($464.55)**	**($153.21)**	**($363.79)**	**($464.31)**	**$51.44**	**($256.04)**	**($393.45)**	**($153.17)**
Sales	$9.55	$17.23	$0.00	$0.00	$0.00	$122.05	$24.41	$55.23
Expenses	$40.57	$0.00	$63.91	($37.94)	$0.00	$213.58	$39.88	$88.45
Op. Exp.	$34.29	$2.56	$12.01	$18.51	$0.00	$29.73	$12.76	$19.58
Net	**($65.31)**	**$14.67**	**($75.92)**	**$19.43**	**$0.00**	**($121.26)**	**($28.23)**	**($52.80)**
Cumulative	**($529.86)**	**($138.54)**	**($439.71)**	**($444.88)**	**$51.44**	**($377.30)**	**($421.68)**	**($205.97)**
Sales	$9.55	$0.00	$0.00	$0.00	$0.00	$170.86	$8.14	$60.75
Expenses	$45.34	$0.00	$3.93	$124.67	$0.00	$146.46	$14.17	($9.19)
Op. Exp.	$32.33	$3.14	$12.12	$27.34	$0.00	$30.70	$12.02	$14.99
Net	**($68.12)**	**($3.14)**	**($16.05)**	**($152.01)**	**$0.00**	**($6.30)**	**($18.05)**	**$54.95**
Cumulative	**($597.98)**	**($141.68)**	**($455.76)**	**($596.89)**	**$51.44**	**($383.60)**	**($439.73)**	**($151.02)**

Table 6. Month by month cash-flow for seven titles in one newsagency.

The data for each title covers a different twelve month period. The second column of *PC World* picks up where the first column ends.

The question one must ask in considering this data is *at what point is a magazine distributor likely to act on the supply quantity?* Most of the titles listed on the following page show a worsening situation month by month for the twelve months reported yet no correcting action is taken by the distributors.

Analysing twelve months of data for each title in this way is impractical. The data shown above has been included to demonstrate the ebb and flow of cash at the title level. Expenses are shown as a negative in some months because the value of returns processed is greater than that for arrivals.

It is only at title level analysis that one can see the cash-flow problem unfold:

> ***PC World*****.** This title changed distributor mid year and such a change temporarily increases the drain on cash for newsagents. Notice the increase in expenses. This is what the newsagent has been invoiced by the distributor. The increase in the value of stock supplied is around 40%. Under Gotch, the title had a sell-through rate of under 50%. After switching to RDS this falls further because of excessive supply. One could speculate that a title changes from one distributor to another because of the promise of a stronger retail presence, an increase in sales and/or lower distribution costs. Distributors have access to enough accurate sales data to make more appropriate scale-out decisions for many titles yet this often remains unused.
>
> ***Martha Stewart Living*****.** Not only are sales inadequate for this title, the cover price is high and therefore an additional drain on cash.
>
> ***Folk Art and Decorative Painting* and *Threads*****.** The performance of these titles epitomise the challenge facing newsagents. On the one hand we want the point of difference that the depth of range provides, while on the other hand we need to be economically viable. These titles are not viable on the current supply terms for this newsagency.
>
> ***Australian Traveler*****.** This title was launched in 2005. The data demonstrates the cost of a new title launch in this one newsagency. Multiply this cost across a channel of in excess of 4,000 stores and one soon sees the investment made by newsagents in supporting start-up titles. At the very least and based on sale and return data, the scale-out to the newsagency ought to have been reduced by the distributor.
>
> ***Amateur Photography*****.** Sales of this once-strong title have been falling for the last

eighteen months. Scale-out by the distributor is not reflecting this sales fall. The newsagent is losing money based on real-estate use and a low sell through rate.

Irish Echo. The performance of *Irish Echo* in this newsagency is almost identical to each of the case study newsagencies. The volume supplied and its status as a newspaper requires premium space. While newsagents would agree they need to have the title, its performance is a good example of why a stocking fee would be appropriate to support low net return titles.

The cost of a new title

It is important to consider the performance of a cash-flow negative new title across each of the case study newsagencies. To illustrate this, *Cosmos* was selected as it demonstrates the challenges for newsagents in carrying a new title while it finds an audience.

Over the page is the cash-flow data for *Cosmos* for the first four months the title was on sale in each of the case study newsagencies.

What these figures do not take into account are the additional expenses incurred in supporting *Cosmos* during its launch: real-estate and labour for feature display space, second location real-estate in store (as some newsagents did for the first few months), poster space and time spent reading and considering material provided in support of the new title.

		Case #1	Case #2	Case #3	Case #4	Case #5	Case #6
Jun-05	Sales	$15.45	$16.27	$48.82	$0.00	$32.55	$8.14
	Expenses	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
	Op. Exp.	$9.79	$4.29	$5.34	$1.36	$4.72	$16.38
	Net	**$5.66**	**$11.98**	**$43.48**	**($1.36)**	**$27.83**	**($8.24)**
	Cumulative	**$5.66**	**$11.98**	**$43.48**	**($1.36)**	**$27.83**	**($8.24)**
Jul-05	Sales	$32.55	$32.55	$48.82	$8.14	$47.80	$24.41
	Expenses	$390.55	$158.67	$158.67	$24.41	$237.99	$170.86
	Op. Exp.	$32.11	$18.46	$14.98	$1.63	$12.76	$25.18
	Net	**($390.11)**	**($144.58)**	**($124.83)**	**($17.90)**	**($202.95)**	**($171.63)**
	Cumulative	**($384.45)**	**($132.60)**	**($81.35)**	**($19.26)**	**($175.12)**	**($179.87)**
Aug-05	Sales	$48.82	$8.14	$16.27	$0.00	$103.74	$40.68
	Expenses	$366.14	$36.61	$146.46	$24.41	$219.68	$292.91
	Op. Exp.	$62.10	$18.98	$18.55	$3.38	$12.35	$45.02
	Net	**($379.42)**	**($47.45)**	**($148.74)**	**($27.79)**	**($128.29)**	**($297.25)**
	Cumulative	**($763.87)**	**($180.05)**	**($230.09)**	**($47.05)**	**($303.41)**	**($477.12)**
Sep-05	Sales	$24.41	$8.14	$32.55	$0.00	$104.76	$40.68
	Expenses	($335.63)	($115.95)	$0.00	($6.10)	$79.33	($115.94)
	Op. Exp.	$29.28	$5.92	$12.85	$1.73	$7.51	$31.24
	Net	**$330.76**	**$118.17**	**$19.70**	**$4.37**	**$17.92**	**$125.38**
	Cumulative	**($433.11)**	**($61.88)**	**($210.39)**	**($42.68)**	**($285.49)**	**($351.74)**

Table 7. Cash-flow for *Cosmos* June 2005 through September 2005.

While newsagents appreciate new titles and especially a title of the calibre of *Cosmos*, the impact on their business is significant. If they had exclusivity in return for the effort or were somehow stakeholders in the broader success of a new title then their commitment to building a new title would make more economic sense.

Newsagents are a cost-effective way of getting a new masthead seen. That most new titles are accompanied with a strong subscription push demonstrates a lack of respect for the investment made by newsagents in launching new titles.[18] It would be valuable to know the subscription numbers achieved by *Cosmos*. It is fair to record that without newsagents and their advertising of the *Cosmos* brand, the cost of acquiring subscriptions would likely be uneconomical for the publisher.

With the significant number of title launches in 2005 and those projected for 2006, one can soon see the funding difficulties newsagents face with new titles.

To see the cost of launching a new title, it is valuable to compare the performance of *Cosmos* to an established title from the Science category. For this purpose we selected *Nexus* and extracted data for the same period as the *Cosmos* data for each of the case study newsagencies.

		Case #1	Case #2	Case #3	Case #4	Case #5	Case #6
Jun-05	Sales	81.50	25.27	56.86	18.95	44.23	75.82
	Expenses	0.00	0.00	0.00	0.00	0.00	0.00
	Op. Exp.	17.01	6.02	8.88	1.83	14.23	22.53
	Net	**64.49**	**19.25**	**47.98**	**17.12**	**30.00**	**53.29**
	Cumulative	**0.37**	**(117.49)**	**(41.46)**	**(41.62)**	**(66.60)**	**25.83**
Jul-05	Sales	50.55	0.00	18.95	12.64	25.27	69.50
	Expenses	90.04	37.91	28.43	37.91	47.39	127.94
	Op. Exp.	10.58	3.68	4.02	1.65	12.88	13.07
	Net	**(50.07)**	**(41.59)**	**(13.50)**	**(26.92)**	**(35.00)**	**(71.51)**
	Cumulative	**(49.70)**	**(159.08)**	**(54.96)**	**(68.54)**	**(101.60)**	**(45.68)**
Aug-05	Sales	63.18	12.64	49.64	12.64	12.64	75.82
	Expenses	99.51	52.13	66.35	37.91	75.82	142.16
	Op. Exp.	11.80	5.72	6.11	4.35	11.00	22.23
	Net	**(48.13)**	**(45.21)**	**(22.82)**	**(29.62)**	**(74.18)**	**(88.57)**
	Cumulative	**(97.83)**	**(204.29)**	**(77.78)**	**(98.16)**	**(175.78)**	**(134.25)**
Sep-05	Sales	18.95	0.00	10.82	0.00	11.73	37.91
	Expenses	(42.65)	(47.39)	(14.22)	(28.43)	0.00	(33.17)
	Op. Exp.	4.54	2.71	4.50	1.46	12.18	9.40
	Net	**57.06**	**44.68**	**20.54**	**26.97**	**(0.45)**	**61.68**
	Cumulative	**(40.77)**	**(159.61)**	**(57.24)**	**(71.19)**	**(176.23)**	**(72.57)**

Table 8. Cash-flow for *Nexus* for June 2005 through September 2005.

[18] Newsagents are not paid any portion of subscription sales by a publisher even if the subscription form was found in a magazine on display in a newsagency.

It must be noted that the Science category is one of the most challenged in newsagencies. Sales are flat as more consumers access the information in these titles online. This is a trend which will continue as online offerings improve.

This table shows that *Nexus* is struggling in all cases except case #2 and that an adjustment of supply quantity could correct the situation. Compared to *Cosmos*, *Nexus* is healthier by the cash-flow measure. I suspect that a review of *Cosmos* data a year from now will demonstrate results similar to *Nexus* – cash-flow negative, but not too far off being manageable.

Currently, the distributor is responsible for newsagent scale-out and while there would be some consultation with publishers, distributors would act/make decisions based on their own supply model. Distributors currently scale-out based on sales data which is three months old, meaning that it could take four months for any change reflected in sales data to be reflected in scale-out.

The publishers of *Cosmos* and *Nexus* are two of hundreds represented on the shelves of newsagents. The cash-flow challenges caused by these titles are not unique.

The data presented in this paper makes such publishers accountable for their engagement, through distributors, with newsagents. It is rare that a trading partner would accept the terms newsagents are forced to live with.

Differences between store types

As part of this project we have compared the same trading period across a subset of stores. This has shown some similarities in month-by-month cash-flow.

While more research is needed to see if the similarities are demographic or merely coincidental, the data indicates difference by store type:

Shopping centre

The high cost of real-estate and a bigger range of titles is a key reason shopping centre newsagencies experience, as seen in this study, worse magazine-related cash-flow than any other category of newsagency.

High street

Larger high street newsagencies fared worse than their smaller colleagues. This has to do with the amount of real-estate devoted to magazines and lease costs. Smaller newsagencies with 800 or fewer pockets performed more like rural newsagencies.

Rural

Rural newsagencies seem to have fewer peaks and troughs. However, they remain cash-flow negative like their colleagues. That the total amount is less is merely a reflection of their size, relative to their turnover, the problem is as large as elsewhere.

Summary

The magazine supply model has not changed in decades and it is reasonable to assert that magazine distributors know the cash-flow implications of the supply model they impose.

Newsagents are funding more than 60% of titles supplied to them.

Poor performing titles are consuming a disproportionate amount of resources.

A significant portion of newsagent real-estate, labour and capital resources are being invested in cash-flow negative titles and this puts newsagents at a competitive disadvantage against supermarkets, convenience stores and petrol stations.

No matter how one cuts the data, the view is the same. Magazines, under the current supply model, are not profitable for newsagencies.

Possible recommendations

The current situation cannot continue. Newsagents are carrying a disproportionate share of the financial risk of low selling titles. A 25% commission on cover price for product sold does not sufficiently compensate newsagents for the labour, real-estate and stock costs associated with magazines, especially with the current range of magazines scaled out.

There are several options available to address the magazine-related cash-flow situation newsagents are experiencing:

Stocking fee

Payment of a fee to newsagents by publishers and/or distributors for titles not meeting agreed cash-flow performance criteria would recognise the labour and real-estate assets invested by newsagents in support of those titles. Based on the data seen in this paper, a reasonable stocking fee for titles with negative cash-flow would be 35 cents per copy per month.

Publishers of titles outside the top 200 may argue that they cannot afford to pay a stocking fee. To this I would counter that newsagents cannot afford to continue with the current arrangements for cash-flow negative titles. Just having a title on the shelves of hundreds, if not thousands, of newsagencies is a considerable benefit to a publisher. Newsagent shelves are like a billboard, advertising magazine mastheads. At no current cost to the publisher the newsagent makes expensive real-estate available for promotion and sampling of the product. While browsing, prospective purchasers can soon find the subscription forms inside the magazines and leave the store and sign-up to have the magazine home delivered (usually by Australia Post) for 20% to 50% off the cover price the newsagent is forced to sell at.

Newsagents make nothing out of subscriptions they help promote.

Newsagents need to consider their real-estate as an advertising billboard and price its use accordingly.

Subscription sales

Publishers could consider compensating newsagents for selling subscriptions or developing a new subscription model in partnership with newsagents. Since we see the consumer and their interests we could identify the opportunity. In such a case the up-sell to subscription ought to be worth a year of regular retail sales commission for the title.

Reduction in range

Business coaches and advisors outside the newsagency channel recommend this as the first and only step to improve cash-flow from the magazine department. "Stop selling these titles which are a burden" is their immediate statement. While it seems like the sensible approach, it does not take into account the challenges newsagents have in dealing with distributors when they attempt to reduce volume and/or titles. There are other newsagents who complain about the cash position but refuse to dilute range as they see range as their only point of difference.

The data presented in this paper and the more comprehensive data analysed in research for this paper leaves little choice on range. If more equitable terms are not delivered by publishers and distributors in support of cash-flow negative titles, newsagents must undertake a thorough cull process. The question is how far such cuts should go. Based on data analysed for this paper, a 10% cut across the board of bottom titles in every newsagency would have only positive impact. Such a cut would free real-estate and enable better promotion of titles more likely to achieve growth.

A reduction in range would need to consist of:

- Identifying titles to be cut. This needs to be based on consistently poor performing titles. Cutting the bottom 50 titles would make the magazine departments profitable in three of the six case study newsagencies. While somewhat arbitrary in approach, I suggest that cutting bottom performing titles as measured by cash-flow would be a reasonable starting point.

- Distributor agreement to not reintroduce those titles to that retailer without prior agreement from newsagent involved.

- Distributor agreement to not replace the title with any other title to the newsagent.

'Pay on scan'

With many newsagents now using point of sale technology to track sales in their stores, it would be reasonable that newsagents only pay magazine distributors for product once sold. This would eliminate the situation where newsagents pay for stock which is to sit on their shelves for anything from a month to six months prior to return. If 'pay on scan' were adopted, agreement would be needed between newsagents and distributors on sharing the cost of in store shrinkage.

I would expect magazine distributors to reject 'pay on scan' citing poor use of technology by newsagents and the possibility of fraud. The introduction of 'pay on scan' with appropriate checks and balances would immediately lift the quality of IT use among newsagents.

Extended payment terms

The requirement to pay for stock which is not likely to sell is a big drain on cash for newsagents. With a sell-through rate of 50% or less for titles outside the top 200, distributors know newsagents will never sell half of what they supply and so charging for this stock seems to be more a matter of cash-flow for the distributors than a fair commercial transaction. Extended payment terms, seeking payment two months after supply for long shelf life titles, for example, would seem fairer.

Increased commission

Given that retailers competing with newsagents choose the titles they carry and that they only choose top 200 titles (in most cases), it is reasonable to assume that their assessment is that titles outside the top 200 are not profitable. Newsagents ought to be compensated for these less successful titles on more equitable terms. A commission of, say, 35% for non top 200 titles would help focus newsagent attention on these titles with the result, hopefully, being an increase in sales.

Promote specialisation

Since deregulation in 1999, foot traffic in newsagencies has fallen. It would be timely for small publishers, magazine distributors and newsagents to pool funds for a national high profile campaign promoting range as a point of difference in newsagencies. Lack of support for such a campaign by publishers, distributors and/or newsagents would demonstrate a lack of faith in the economic viability of selling these specialists titles in newsagencies.

The days of placing stock on the shelves and expecting existing newsagent traffic to make them viable are over. If publishers of titles outside the top 200 want a value the newsagency channel they will collaborate to increase traffic to newsagencies.

A television campaign focusing on special interest titles should boost sales. It would also demonstrate publisher and distributor faith in the newsagency channel. At present newsagents are left to promote these products alone for little return.

Improved performance

What can newsagents do to improve the performance of magazines and therefore the cash-flow? Newsagents will say there is not much else they can do. Publishers and distributors will say there is plenty. The reality, as usual, lies somewhere in-between these opposing views. The opportunities I see are:

Focus on early on-sale opportunities. Sales decay data shows the dramatic fall off after day two of the seven day on-sale period for weekly titles, and after week one for monthly titles. By training and motivating newsagents and their employees to focus on these early shelf life opportunities, I expect that greater cash return could be achieved. However, most gains would be felt in already well performing titles and this strategy does not address the core of the cash-flow problems – the titles which are cash-flow negative.

Promote worst cash-flow titles. While this might seem like a high cost/low return, strategy many of the special interest titles could benefit from feature promotion. Reminding customers that you stock even quite obscure titles could reawaken interest. Newsagents could run themed front-of-house promotions focusing on their range. In my own newsagency we regularly promote special interest magazines near newspapers and in more than 50% of cases we achieve a sales kick. This strategy requires real-estate and time which many newsagents to do not have.

Loyalty program. In August 2004 I launched the newsagency channel's first magazine loyalty card in my store. The program has run ever since. Three months after launch the loyalty program started delivering sales growth at five times the industry average. The sales growth has not subsided. The cost of the campaign is 2% of gross sales and this is more than offset by sales in magazines as well as sales in other categories. The results of the loyalty program are compelling, with basket size and category depth both increased.

Customer service. If newsagents nationwide delivered consistently better customer service, the channel would be better appreciated by consumers. In my view, the decline in consistency of customer service at newsagencies since deregulation in 1999 has devalued the 'newsagency' shingle.

Recommendations

Of the recommendations canvassed in the previous section, there are three which provide the best outcome for consumers, newsagents, publishers and distributors:

- **Stocking Fee.** Such a fee needs to be struck based on data easily measured at the store level. It is a fact that real-estate costs more in a city based shopping centre newsagency compared to a rural newsagency. Newsagents cannot afford to have non income producing real-estate in their businesses.

  If a stocking fee is not agreed to it would be reasonable that newsagents with access to cash flow data reduce space allocation for poor performing titles so they can better support the successful titles. This could be considered a real-estate strike of sorts. Since the distributors and publishers would not place a value on the newsagency real-estate then newsagents could reasonably respond as noted.

- **Reduction in range.** I see this as an on going project. It should commence with the elimination of the bottom 50 titles supplied to each newsagent. For those who have cash-flow data this could be used as the measurement. For others, a calculation using sell-through rate and supply quantity could be used. The key is to take the step of urgently cutting titles. As noted elsewhere, cutting just the bottom 50 titles would release around $20,000.00 in cash to the average newsagency and add at least three times to the sale value of the newsagency.

  Three months after the first cull of titles have been completed, magazine distributors should consider further cuts in consultation with appropriately knowledgeable data-ready newsagents to determine further cuts which might be made.

  Not reducing range while knowing that such inaction is causing consistent loss for newsagents could be considered unconscionable conduct.

- **Promotion of specialisation.** All magazine publishers, all magazine distributors and all newsagents need to fund a high profile media campaign which promotes the range of magazines in newsagencies and available only at newsagencies. Such a campaign would need to run at regular intervals and be developed with appropriate in-store support materials.

The data uncovered in this study is damning against the existing magazine supply model and all who participate including newsagents and their representatives. The future of the newsagency channel will be determined by the response.

Rebuttal to expected criticisms

It is likely that some will criticise this paper and its insular approach to analysing the performance of magazines in newsagencies. To counter such criticism, it is worth speculating on what might be said and presenting a rebuttal here.

Magazines increase customer traffic, leading to other sales.

This might be true. Newsagents are known for depth-of-range of magazines and this draws customers into newsagencies seeking out specialist titles or to browse a whole category. We know from shopping basket research[19] that magazines are sold alone 52% of the time in a shopping centre situation, 48% high street and 34% rural. This tells us that magazine customers are purchasing other product in half or more instances. Does this allow us to conclude that magazines pull customers into newsagencies and therefore lead to other sales? I'd suggest that it is irrelevant. Perhaps magazines are the 'other sales' earned from traffic generated through lottery, greeting card, newspaper and stationery sales. If a newsagent benefits from add on sales, that is their benefit to enjoy.

Newsagents have an exclusive range of magazines.

It is a common held view within government and by non-newsagent retailers that newsagents have exclusive access to many magazines. This is not true. Many hundreds of magazine titles are on newsagent shelves and not on retail shelves elsewhere because of the magazine supply model under which newsagents are supplied. Non-newsagent retailers – supermarkets, petrol, convenience – control what magazines they carry. Newsagents do not have this control. They are supplied based on a scale-out model controlled by the magazine distributors and some publishers. The data presented in this study shows that the titles carried by newsagents and not other retailers are the least profitable titles.

If newsagents cut range what is their point of difference?

This paper is not advocating that newsagents reduce range to that of a convenience store, supermarket or a petrol outlet. With an average newsagency carrying between 850 and 1,200 titles a cut of, say, 10% would be barely noticeable if the released space is used well to promote more successful titles.

[19] Research undertaken in 2005 by Tower Systems involving data from over 100 newsagencies and considering 8,000,000 shopping baskets worth of data covering a three year period.

Product is ‘sale or return’ so the risk is minimised.

This is technically true as magazines are supplied on a ‘sale or return’ basis. The ‘sale or return’ model means that newsagents do not risk a loss on stock which is not sold. However, they do carry the cost of unsold stock while the product is on sale. As this study shows, the cost underperforming titles this can be significant. Further, with shrinkage (theft) costing between 3% and 5% of sales, the availability of product on newsagent shelves adds to the cost of shrinkage for the newsagent.

Newsagents have been protected by the government.

This comment has been made by politicians from all sides many times during the last ten years from the Prime Minister down. Barely a year ago the Minister for Small Business, the Prime Minister and the Minister for Communications asserted that they have been good friends of newsagents and had ensured they were provided a framework within which they could successfully trade.

The fact is that when the government facilitated deregulation of the distribution of newspapers and magazines in 1999, it did not ensure that newsagents were professionally represented in the negotiations newspaper publishers and magazine distributors nor did it ensure that the pre-deregulation newsagent magazine supply model and trading terms were adjusted for the post-deregulation marketplace.

The government failed in its duty of care to the newsagent small business channel as it did not ensure that the changes were equitable.

The result was that newsagents had the significant benefit of exclusivity taken from them without compensation and were left to face tough competition while trading under what would later be shown to be an uneconomic supply model.

Newsagents have not been protected by government.

Poor decisions cause newsagency cash-flow problems.

This is true in some stores. Newsagents who immediately return stock without displaying it will register negative cash-flow. These situations are rare in our experience. From detailed analysis of the cash-flow data store by store, the most common causes of negative cash-flow are oversupply and supply of a title of no interest to the demographic served by the newsagency. Newsagents seem powerless to influence the supply model for most titles, especially those which are cash-flow negative.

Small publishers cannot afford to pay higher commission or fund a marketing campaign for newsagents.

Small publishers are in business, as are newsagents. Newsagents need to price their services and charge accordingly. This is what the magazine distributors do today.

The current magazine supply model is based on newsagents financing most titles outside the top 200 performers. Newsagents are not able to continue this funding. If publishers are unable to provide a more equitable arrangement then there is no value to newsagents in any continued investment of real-estate and labour for little or no return.

Jobs will be lost because small magazines will close.

If a small magazine is surviving because newsagents are subsidising its retail presence then the closure of the title may be appropriate. There is no economic value to newsagents in them continuing to carry a title which loses money and does not contribute positively in any way to the performance of the store.

Conclusion

The performance of magazines in the six newsagencies documented in this paper is not an aberration. Analysing magazine-related cash-flow in any newsagency will, I suggest, result in overall similar numbers.

While it sounds melodramatic, the data supports the view that newsagencies are in crisis. Sales are flat at best, yet the magazine supply model harks back to the halcyon, pre-1999 deregulation, days of higher foot traffic and more efficient basket penetration.

The supply model is not sustainable in the more competitive and deregulated marketplace. Those weakest in the chain are carrying the heaviest financial burden and have been powerless at bringing greater equity to their magazine supply relationship.

Now is the time for action. Not a conference or a summit, but action – collectively between magazine distributors and newsagents.

The action must include: payment of use of newsagent real-estate and labour (regardless of sales), more commercially appropriate supply levels, and promotion of the channel for specialist titles. Newsagents need to focus more on successful titles and less on unsuccessful titles. The result will be reflected in their bottom line.

The findings presented in this paper cannot be ignored if the newsagent channel is to remain.

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About Mark Fletcher
Mark Fletcher started Tower Systems in 1981 to focus on developing technology solutions for newsagents. In 1996 he purchased Forest Hill Newsagency and in 2005 he took a shareholding in the newsXpress newsagent marketing group. A regular columnist in newsagency magazines through the 1980s and 1990s, Mark also authored *Marketing Your Newsagency*, a book commissioned by Reed Publishing. Today Mark writes daily at the Australian Newsagency Blog in addition to owning and managing Tower Systems.

About Tower Systems
Tower Systems has served newsagents since 1981. It is one of Australia's oldest vertical market software houses. Today, the company's software is in use in more than 1,300 newsagencies in Australia. The company has offices in Victoria, New South Wales, Queensland, South Australia and Western Australia. It supports newsagents with genuine 24 hour a day seven days a week support coverage, regular user meetings and regular software enhancements. www.towersystems.com.au

About Tower Systems newsagency software
The data used in this study has been reported directly from the Tower Systems newsagency software. While many small business systems require data export for analysis by specialist tools, Tower Systems has built significant industry-specific reporting tools into its software to help newsagents better understand, and therefore manage their businesses. The Tower Systems software is used in all areas of newsagency operation including: receiving new stock (via EDI), processing sales (Point of Sale), managing customers (accounts, CRM and newsagency specialist tools such as put aways), magazine stock (reordering, tracking shrinkage) and management reporting.

Appendix A: Tower Systems Magazine Cash-flow tools

One outcome of this study has been the creation of Magazine Cash-flow Tools in the Tower Systems software.

These tools gather all data from within the Tower Systems' *Retailer for Newsagents* software based on scanned sales data, invoice arrival data and scanned returns data. To this, monthly shop lease costs are input along with magazine floor space usage, magazine related labour costs, pocket depth and the number of magazine display pockets.

Once data is gathered, newsagents are able to instantly access a series of reports. These reports can be navigated on the screen. That is, users are able to click on data of interest to go immediately to the next, deeper, level. For example, one could display cash-flow by distributor, click on one distributor and immediately their data is detailed by MPA category. The user could click on one category and this is expanded to MPA segment. A click on segment will take you immediately to title data.

The data can be displayed as net cash per month or with this one column expanded to four for each month: sales, expenses, operational expenses and Net.

The reports include:

- Cash-flow by supplier
- Cash-flow by quarter
- Cash-flow by category
- Detailed report: from top level (supplier) down to title level.
- Ranked titles – Top selection
- Ranked titles – Bottom selection

It is our experience with the Magazine Cash-flow Toolset that newsagents will need to run the data gathering facility several times, making data adjustments in between each run. This paper highlights data 'issues' such as incorrect categorisation of stock as magazines when it is not, incorrect recording of sales SKU with a different stock arrival SKU and recording as stock non-saleable data items sent through XchangeIT such as display materials. Tower Systems has advice ready to easily address these and other issues.

A key feature of the cash-flow tools is Pack and Send – built in software which packages the cash-flow data and a small program to enable anyone produce the same reports as the newsagent. This will help newsagents and distributors work from the same dataset.