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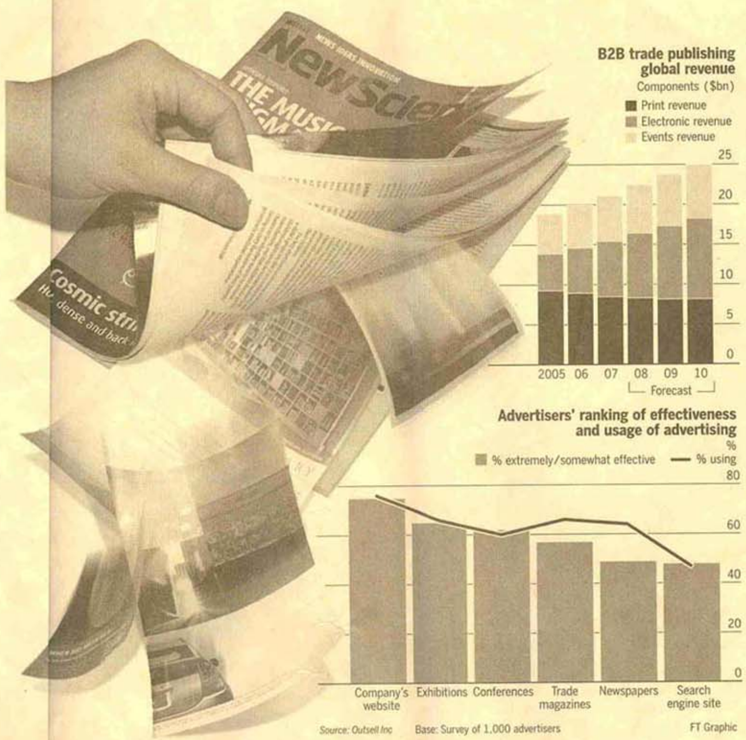
MEDIA

Advertising decline hits the trade press

NEWS ANALYSIS

B2B titles are being sold as their owners try to tackle the fall in their traditional revenue streams, writes Andrew Edgecliffe-Johnson



A decade ago, Reed Elsevier made its money from thick volumes lining lawyers' office walls, authoritative tomes on doctors' desks and magazines that were required reading for the professions they were aimed at.

Today, most of the Anglo-Dutch publisher's legal and medical information is delivered via online databases to which well over 90 per cent of its customers renew their subscriptions each year.

One corner of the company, however, has remained uncomfortably reliant on print and on less dependable advertising revenues. Trade magazines are taking longer than other professional publishing businesses to make the transition from paper to data.

Reed and peers such as Thomson of Canada or the UK's Informa have been envied by consumer publishers for their ability to develop profitable digital business models.

However, Reed's announcement last week that it was putting its trade magazines up for sale makes it the latest business-to-business publisher to distance itself from any dependence on advertising revenues.

Nielsen, the private equity-backed group, sold the former VNU's European titles, including Computing and Accountancy Age, to 3i in December 2006 to concentrate on its marketing information business.

Emap sold its B2B titles to Apax and Guardian Media Group two months ago, while rivals such as DMGT and United Business Media sat out the auctions of print titles and invested instead in exhibitions businesses.

Trade magazines were until recently seen as among the most promising advertising media. Because they enabled brands to reach highly targeted audiences, they were supposed to be more resilient than newspapers. Now, however, a structural shift of advertising revenues to the internet has combined with cyclical fears that advertisers will cut budgets in a downturn to make even specialist media owners nervous.

Reed is selling Reed Business Information – home to Variety in the US, Estates Gazette in the UK and Elsevier in the Netherlands – "because it's an ad-driven model," explained Sir Crispin Davis, its chief executive: "It's more cyclical and lower growth."

Advertising accounts for 56 per cent of the division's £906m turnover, he added, and online activities bring in just 30 per cent of revenues, roughly half the share in Reed's other divisions.

About 36 per cent of the $24bn (£12.2bn) sector's income comes from advertising, while subscription revenues equal just 26 per cent, according to Outsell, a research firm which advises the information industry. Since 2005, trade publishers' print revenues have fallen by $1bn, or more than 10 per cent, because advertisers have turned their attention elsewhere. In part, this reflects specific problems such as falling public sector recruitment advertising, which prompted Reed to close healthcare titles such as Hospital Doctor and Independent Practitioner in January.

However, in a poll of advertisers last year, Outsell discovered that the decline in print revenues did not simply reflect the triumph of search engines. Advertisers believed trade magazines were better at generating business leads than search engines, but that trade shows were more effective still, says Chuck Richard, lead analyst at Outsell. Tellingly, "transactional" activities such as trade shows have now overtaken advertising, accounting for 39 per cent of the sector's revenues.

"A publisher that is not offering events is missing out on marketing dollars," the study concluded.

Reed runs more than 500 events a year, but has kept them largely separate from its magazines. Its decision not to include exhibitions in its disposal plans is one reason why analysts expect Reed Business Information to sell for a lower multiple than Emap's more event-heavy B2B division. RBI has adjusted operating margins of 13 per cent, compared with a 36 per cent margin at Emap's B2B business.

Trade magazines are unusual in another way that suggests a more optimistic outlook: next year, according to Outsell, their online revenues will overtake revenues from print. Although this in part reflects the decline in print advertising, it also demonstrates the success of initiatives such as specialist search engines including Reed's Zibb brand and targeted recruitment sites such as Reed's KellySearch.

Industry-specific social networks are also taking off. "When we host an event, we have an entire industry for five days of the year," one industry chief executive says. "We are now looking at how we can use social networking tools to keep them for the remaining 360 days."

There is still hope for print, says Mr Richard, as advertisers find their campaigns work best run across several media at once.

Slowdown fears

Investors' flight from advertising-dependent media stocks has already begun – well before most of the companies themselves have provided any evidence of a slowdown in their advertising revenues, **writes Andrew Edgecliffe-Johnson**.

In the past month, results from leading advertising agencies including Havas, Omnicom and Publicis have been accompanied by cautiously confident statements about this year's outlook.

One advertising chief executive told the Financial Times he had seen data suggesting the agencies started the year with revenues up 5 per cent in January. Several consumer goods groups, he added, had gone on record as claiming they would not cut spending in a downturn.

"It may not be that bad," Citigroup's global advertising analysts wrote last week, as they presented the findings of a survey which estimated that the world's largest advertisers' spending was likely to be "flat to slightly up" in 2008.

This is in part explained by the "quadrennial effect" of having the Olympic Games and US presidential election fall in the same year.

It also reflects what Fernando Rodes, chief executive of Havas, calls "an inertia effect", in which brands typically decide each year's advertising and marketing budgets by looking at what they spent the previous year, seeing what competitors did and then lifting their budgets a little.

"I think 2008 will be an OK year," Mr Rodes said.