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# COVID-19 and the **Impact on Print Media**

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# Changing **Landscape**

It's fair to say that 2020 is not turning into the year anyone expected. Personal plans are on hold, society is in lockdown and businesses are either literally shutting up shop or getting to grips with new working practices.

Like all industries, print publishing is facing up to these challenges but, unlike all industries, print publishing is somewhat accustomed to operating in a disrupted market.

Much has been written in recent years of the challenges facing print publishing. Circulation figures released each six months make for a tough read - average circulation declines around 7% annually - and publishers will talk about the difficulty of competing for advertising revenue against other platforms.

The rapidly changing socioeconomic landscape will affect the publishing industry in familiar weak spots - circulation, advertising and supply chain - albeit as a shock rather than a gradual impact. Here we will explore what the potential impacts might be and, more importantly, what the industry can do about it.

This is, after all, an industry where business as usual is already anything but.

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# Circulation **Impact**

**P**erhaps the most obvious immediate impact to publishers will be a reduction in circulation, although there is some logic in thinking that might not be the case, at least not uniformly across the category.

One could argue that now, more than ever, the public will demand and consume more trusted news sources. Furthermore, with an increase in spare time and kids at home to entertain, perhaps magazine sales could flourish. Indeed, during the early stage of the pandemic this seemed to be the reality playing out. Initial reports talked to positive week-on-week sales numbers for magazines (particularly TV Listings, Children's, Puzzles and Interiors) and flat performance for Newspapers, probably a net position accounting for small national growth and regional decline.

As we've entered the more serious and recent stages of the pandemic, circulations have dropped 10-20% and one can only expect that to continue as both demand and supply side pressures increase.

On the demand side, the longer the situation continues, the more likely people are to grow fatigued with the news agenda and any short-term boost to demand could wane. Furthermore, key content categories such as sport or celebrity are effectively ceasing and therefore remove the driver behind some buyers' demand. This is all before mentioning the most obvious downward force on demand – the lockdown restricting the public to their homes. A recent Vendigital survey showed that 32% of newspaper purchases were made on impulse and it goes without saying that one can't impulse buy a newspaper or magazine from your home (yet!).

On the supply side, the main challenge will be getting product to those who want to buy.

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# Retail **Universe**

**T**he government announcement on Monday 23rd March enforced severe restrictions on commerce but did allow newsagents to remain open, for the time being. The biggest risk to the publishers is that restrictions become more severe and newsagents are put in lockdown. A sign of what might be to come is Italy, which at the time of writing continues to allow the opening of newsagents and news kiosks.

Even without newsagents being shut down, the retail universe for newspapers and magazines has seen unprecedented erosion. The nearly 700 stores reported by Smiths News to have delisted in a week accounts for perhaps 2.5% of the overall landscape (assuming a similar decline within the Menzies portfolio). That is a huge impact in such a short period of time and could account for £60-75m of RSV.

A potentially more worrying prospect would be if the big grocers make a decision that managing the category is too onerous as they focus on core grocery lines. The major grocers account for around 40% of all newspaper and magazine retail sales value (RSV) so this is a major risk to the publishers. The wholesalers are already relaxing their returns rules in a move to make the category easier to manage in the short term.

Spare a thought also for the free brand-to-hand publications, specifically those such as the Evening Standard, Time Out and Stylist in London as TFL reports commuter numbers on the tube having dropped by over 90% only one week into the lockdown. Already [the Evening Standard has announced](#) a new door-to-door delivery service but this cannot be an efficient delivery model compared to their traditional method of distribution.

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## Advertising **Revenue**

**P**robably less immediately obvious but more material of an impact to publishers has been and will be the reduction in advertising revenues, which make up anything from 40% to 90% of a publisher's revenue.

Key sectors buying ad space tend to be travel, grocery, FMCG, betting, automotive, banking, telecommunications and luxury goods. In the wider economic slowdown brought on by the crisis, it's fair to say that most businesses are tightening their purse strings and looking at what discretionary spend they can put a hold on. The recession in 2008 [reportedly caused a 27% drop](#) in print advertising in the US, showing just how much a general downturn can impact advertising spend.

Couple that general downturn with the direct hit on key sectors, such as travel or betting, which from our experience account for 20-30% of print advertising spend, and you have a potential 50% or greater hit to advertising revenues for the publishers. Think again of the 'free' papers, such as the aforementioned London products but also national (The Metro), regional and local frees, which rely hugely on their advertising revenues and may not be able to weather the current storm.





# Supply Chain

**T**he daily newspaper has probably the shortest shelf-life of any product; our survey suggested 69% of purchases are made before midday and certainly none are made the next day. The process of getting words from a journalist's keyboard at 10pm onto the page overnight and into the hands of a reader by 7am, to repeat it day after day has been honed over 200 years and it works. It is, however, a fragile operation that relies on a critical mass of volume to allow a universal coverage model to be sustained.

It is widely recognised that the continued decline of circulation will place pressure on the network in the future, though exactly when is debatable. What cannot be up for debate is that timeline will be accelerated by the shock caused to the market during the crisis.

Wholesalers make most of their revenue from a margin on RSV, supplemented by carriage service charge (CSC) from retailers and some other incomes. As we've already observed, RSV is likely to decline either in line with or as a function of circulation decline (depending on whether publishers adjust cover prices). Store closures have a double hit for wholesalers, as they see a reduction in RSV margin and they are unable to collect CSC. We previously forecasted 1,500 stores to have closed in the last week, which would have driven £2.7-5.0m annual revenue for the wholesalers.

In terms of other revenue sources for wholesalers, one consideration is Panini and Topps football stickers, which are a key revenue driver for the wholesalers in any year but particularly a championship year. With the postponement of Euro 2020 into next year, this is a further blow to the commercial equilibrium.

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# What Can **Be Done**

**T**he situation outlined above is admittedly rather bleak and it would be wrong to suggest that there is a single silver bullet solution to the sector's woes. One strength the sector has, however, is the underlying demand for great content, whether that is trustworthy and reliable news or specialist content that excites a person's passions in the case of magazines. Recent problems for publishers have arguably been borne out of a lack of a direct relationship with their consumers, who are often people at the end of a supply chain in Tesco or clicks on the other side of a Google browser.

The actions publishers have needed to take for some time, to build more direct relationships with consumers, are the same actions they need to take now to improve their prospects. Largely they are actions that have either already been taken in pockets or have been discussed within the industry as potential future opportunities. In many ways, the Covid-19 pandemic may act as a catalyst for positive change within the sector.



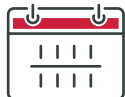
## Home Delivery

Home Delivery is one option for premium newspapers and magazines to improve circulation. The Times has already got a direct to consumer (DTC) service within London and other publishers will be looking at following suit in London and probably beyond in more heavily populated urban centres.



## Local Delivery

Local delivery from newsagents is a channel that may see a resurgence via the 'Deliver My Newspaper' scheme. This collaboration between independent retailers and publishers has seen many publishers introduce an offer of free delivery for 6-12 weeks to entice new customers.



## Subscription Models

Subscription models utilising the postal service are a fundamental element of the customer engagement strategy of many monthly (and some weekly) magazine brands. Growing the subscription file will already be a goal of most magazine publishers, who will now need to consider marketing strategies that will allow them to sweep up lapsed newsstand customers.



## Last Mile Delivery

Last mile delivery has seen huge growth in recent years as more and more products and services can be ordered on an app and delivered to your door (Prime Now, Deliveroo, etc.) or in your home (laundry, massage, etc.). There could be a route to market here utilising a distribution network already in place and coming up with some interesting partnership and commercial models.



## Vending Machines

Vending machines are something that has worked in the USA but never quite took off in the UK for myriad reasons from proliferation of coinage in the UK to the up-front investment in infrastructure required. Now infrastructure has been built for other purposes (Amazon) and the huge advances in payment technology (mobile, QR codes, etc.) make the solution much more viable.



## Reduced Availability

Reduced availability is potentially a lever to optimise the distribution of product by targeting higher-margin regions and thus reducing the cost-to-serve by no longer serving the harder-to-reach regions. This would need to be done collaboratively with publishers and wholesalers and would be a drastic step, but it could soon become unviable to deliver universal coverage.





## Online Retail

Online retail through the grocers is a channel that has been explored previously but has never been commercially or logistically viable because of the complexity of managing the category in store and the general time sensitivity. As more customers are forced to an online channel but demand the option of buying newspapers or magazines, the opportunity is there for retailers, publishers and wholesalers to find a solution that works.



## Revenue Diversification

Revenue diversification, most notably the transition to digital and the ability to monetise readership is going to be key. The ability for readers to directly engage with content through social media will offer further opportunities to diversify, and potentially the tablet will see a resurgence and app editions will become more commercially viable.

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## In Summary

**T**hese are testing times and the print media sector, like many sectors, will be hit hard. Revenues will be impacted directly from reduced circulations and from loss of advertising and the already finely balanced supply chain may be pressured to the point of no longer being viable. But there are actions that can be taken by publishers now to mitigate, and adapt to the situation by looking to open up new and innovative relationships directly with their consumers. One final consideration is that, much as society is pulling together in a concerted effort to defeat COVID-19, so too must publishers consider collaborating more in an effort to navigate these unprecedented times.

### Want to learn more?

Find out how Vendigital can help.

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