

Magazines

Glossy dreams

The authors are Jeremy Goldkorn and Maya Alexandri.

“Magazines, as we know them, are dying,” declares media consultant David Renard in his new book, *The Last Magazine*. This may be true in Europe and the US, but in China, the industry is bursting into a rude adolescence. In just the past 18 months, the foreign magazines *SELF*, *Psychologies*, and *Sports Illustrated* have appeared on the heaving magazine racks of China’s newsstands, joining more than 60 foreign brands, and hundreds of local competitors and imitators.

Ah yes – that famous potential

Both domestic and foreign media firms believe there is huge growth potential in China’s glossy magazine market, that advertisers are eager to spend, and that editorial quality continues to improve. All that may well be true, but there are pitfalls as well. Publishers must finesse Communist Party propaganda concerns, manage inefficient or corrupt distributors, scout up scarce creative talent, and wring cash out of advertisers who see more value in newspaper, broadcast and online placements. For all their exuberance, most of China’s magazines lose money.

Publishers’ free-for-all

China’s print media took flight only in the 1990s, when the government stopped subsidizing periodicals. Up to then, all publications in China were published by government agencies; most were scientific, technical or political and ideological. Bereft of ads, they lived off subsidies and forced subscriptions from other government offices. But for the last decade, all but a few key publications have been commercialized, and private capital has rushed in. Some state agencies still publish magazines but many have outsourced the operations to private or foreign firms.

Domestic magazines now run the gamut from women’s magazines to pulp ghost story compilations produced from content copied verbatim from the internet. According to the General Administration of Press and Publications (GAPP), the government organization that regulates periodical publishing in China, there are more than 12,000 magazine titles, the vast majority of which are domestic and do not have any foreign involvement. About half of those are registered in the category “natural science or technology,” but this is misleading as publishers often use a title for content different from its registered category.

This is because GAPP issues fewer than 200 new magazine licenses every year. Known as *kanhao* (or Periodical Registration Number), these licenses are required in order to publish and distribute any kind of periodical in China. Because the supply is limited, and many *kanhao* owners are cash-strapped state entities, a market for second-hand *kanhao* emerged in the late 1990s. This means that it is common to find, for example, a business or women’s magazine published using a *kanhao* intended for a science and technology magazine.

Punters galore

China’s high-end glossies make little money from subscriptions and newsstand sales – in fact, many are printed and distributed at a loss and rely entirely on advertising to stay afloat. Low-end magazines, typically produced in poorer provinces, have little ad revenue and must subsist on meager newsstand sales and subscription fees. To

Table I
Major foreign magazine launches in China, 1979-2007

	Title	Publisher
1979	Scientific American	Scientific American Inc
1980	China Computerworld	IDG
1985	PC World	IDG
1986	BusinessWeek	McGraw-Hill
1988	Elle	Hachette Filipacchi
1993	Cosmopolitan	Hearst
1996	Fortune	Time Inc
1998	Esquire	Hearst
2001	Popular Science	Time Inc
2002	Beijing Tatler	Edipresse Asia
2003	Newsweek Select	Washington Post Co
2004	FHM	FHM International
2005	Vogue	Conde Nast
2005	Maxim	Alpha Media
2006 Mar	Rolling Stone	Wenner Media
2006 Jul	Better Homes & Gardens	Meredith Corp.
2006 Aug	Sports Illustrated	Time Inc
2007 Apr	Self	Conde Nast
2007 Jul	Rolling Stone closes	

survive, they cut printing costs to the bone and scrimp on editorial, instead simply reprinting articles published elsewhere.

There is no useful data on the revenues and market shares of China magazines. Domestic media companies usually comprise a jumble of components, including a state-owned arm, a privately-owned advertising division, and increasingly, sibling organizations designed to receive foreign investment despite laws intended to restrict it. Virtually all of them are assumed to inflate their circulation numbers.

Despite political risk, the lack of market data, and the difficulty of getting a license, foreign publishers are still eager to try their luck. Most of the big international titles are represented in the women's magazine category, while *FHM*, *Esquire* and *Men's Health* compete for an urban male readership which did not exist even five years ago. There are more than 100 business titles, including *Fortune China*, *BusinessWeek China* and *Forbes China*. In other categories, the European popular science magazine *Focus* is a recent entrant, joining *National Geographic Traveler*, *Car & Driver* and *PC World*.

Foreign publishers are counting on rapid readership growth and abundant advertising dollars from brands eager to reach China's mythic "new middle class." Magazines account for just 3 percent of total ad spend in China, compared to 10-25 percent in the US and Europe. As with any low number in China, these figures can be used to assert tremendous "growth potential." To some extent, these hopes have been borne out. Glossy magazine ad revenues grew by 23 percent in 2006, and by the end of this year are expected to exceed US\$500m. Luxury brands like Louis Vuitton, Revlon, Chivas Regal and Omega watches are as visible in top Chinese magazines as they are in European or American counterparts.

GAPP, the minder

Magazines also benefit from a relatively light – for China – regulatory burden. Compared to owners of newspaper, film, TV and internet businesses, magazine publishers have it easy. News media in general are subject to regulation by various agencies,

Eyeing those eyeballs

License to expropriate

The most prominent victim of *kanhao* extortion was Mark Kitto, who spent five years building an empire of expatriate-oriented listings magazines (*that's Beijing* and similarly-named titles in Shanghai and Guangzhou). Lack of a *kanhao* was a constant obstacle to the expansion of the business and so he eventually partnered with China Intercontinental Press (CIP), which is controlled by the State Council Information Office. Eventually CIP, in cahoots with a few senior staff members, orchestrated a coup, locking Mr Kitto out of the headquarters in Shanghai and leaving him with nothing but a trademark claim to litigate in Chinese courts.

Mr Kitto is understandably bitter about his experience, but not everyone shares his view that the *kanhao* system makes it impossible for foreign media ventures to thrive. Didier Guérin, a media consultant who has served as Asia Pacific President for both the French and American magazine giants Hachette-Filipacchi Média and Condé Nast, says Chinese regulatory requirements differ little in substance from those elsewhere in Asia. "Magazines are cultural products," he notes, so a foreign publisher usually needs a local partner because of cultural factors anyway. Joint ventures are standard in Korea and Japan. Yet the fact that new *kanhao* are issued in limited numbers, and never to foreign-owned companies, creates an artificial shortage that distorts the Chinese magazine market more than other Asian markets.

including GAPP, the Communist Party's propaganda department, and the State Council Information Office. But for lifestyle-focused glossy magazines, there's only one agency that really counts: GAPP.

GAPP is far more accommodating of glossies than of newspapers. Newspapers have their roots in propaganda and are scrupulously monitored. Glossies, so long as they steer clear of sensitive political or social comment, are largely ignored. More important, GAPP fiercely protects newspapers from foreign investment but tolerates a wide range of business structures for magazines. Chinese *Cosmopolitan*, for example, is officially a copyright-licensing arrangement but in reality is a joint venture between brand-owner Hearst Corp., Boston-based technology research and publishing company IDG, and the partially state-owned Trends Group. (IDG launched the first Sino-foreign magazine joint venture, *China Computerworld*, in 1979.)

Keeping things controlled

One particularly robust business model for foreign titles is controlled-circulation. A magazine is printed in Hong Kong and mailed to pre-selected mainland subscribers who pay nothing. Revenues are generated entirely from advertising, which controlled-circulation magazines are in a good position to sell because they know exactly who their readers are. Such controlled-circulation titles are considered by Chinese regulation to be newsletters, not magazines and so do not require a *kanhao*. This means they cannot be sold on newsstands, but the whole premise of controlled-circulation is to target an elite audience, so foregoing newsstand sales is irrelevant. Two successful examples of this type are Time Inc.'s *Fortune China* and the Washington Post Co.'s *Newsweek Select* (a bowdlerized Chinese version of the American news weekly).

The simplest way for foreign magazine publishers to participate in China is to license their title or content to a Chinese publisher, who takes all the commercial risk. Brand licensing is rare because of its high cost to the licensee; only a handful of A-list magazine brands such as *Vogue* carry enough clout with Chinese readers to make the investment worthwhile. Copyright licensing – which allows local publish-

ers to reprint translations of articles prepared originally for overseas markets – is cheaper because the Chinese side can cut its editorial costs. A prominent example is Chinese *Sports Illustrated*, published by SEEC. The problem with content licensing is that foreign content may not be relevant to Chinese readers. The American edition of *Sports Illustrated*, for instance, does not cover soccer, one of the most popular sports in China. Now that China has developed a generation of talented writers, editors, photographers and designers skilled at developing locally-relevant content, the allure of content licensing deals is fading.

Gathering moss, actually

Foreign media companies that cannot find a willing licensee, or who that want more control over their Chinese product, have two options. They must partner with a local media company and either rent their *kanhao* or do a full-blown joint venture in which the main asset contributed by the local party is the *kanhao*.

These requirements may sound simple, but they're not. The *kanhao* system gives the Chinese partner ultimate leverage, since they can withdraw the *kanhao* – and thereby revoke the magazine's ability to publish legally – for any or no reason. Some foreign publishers have come to grief with joint venture partners (see "License to expropriate"). Others have done fine by renting *kanhao* from passive publishers who are happy to receive the rental income do not care how their license is used.

A recent example of the latter is *Rolling Stone*, whose Chinese edition was launched by a Hong Kong company called One Media, using a Shanghai-based *kanhao* belonging to a publication called *Audiovisual World*. But *Rolling Stone* showed there is more than one way to mess up a magazine launch in China. A provocative cover led to a temporary shutdown after the first issue; regulators allowed it to re-launch only after the *Rolling Stone* logo was removed. The title folded in the summer of 2007 after publishing fewer than 20 issues. Its demise resulted partly from an ongoing struggle with censors worried about the magazine's counter-cultural image – but also, paradoxically, from the failure of that image to resonate with Chinese readers.

That's rock 'n' roll

Failure to lure readers is a risk in any market, but China poses some additional challenges, chief among them the difficulty of generating advertising revenue. Circulation is rarely audited, and analysts estimate that actual circulation is often as low as 25 percent of stated circulation. Even the inflated figures are modest: not a single glossy magazine claims 1m readers; in America, around 90 titles top the 1m mark. And even magazines that do audit their circulation can rarely provide demographic or income breakdowns to advertisers.

Chinese lifestyle magazines also do a poor job of distinguishing themselves. "These magazines have not been challenged to really compete on content," says Jonathan Ansfield, a reporter for *Newsweek* who has followed China's media business for a decade. Tom Gorman, chairman and editor-in-chief of *Fortune China*, agrees: "If you talk to people from these magazines, and say, 'what's your editorial mission,' nine out of ten of the women's magazines are woefully inadequate in telling you how their content is positioned differently from the competition."

Find your niche

Another issue is that unlike the west, where magazines established secure market positions long before competition from the internet arrived, Chinese glossies are

Who's big in Chinese magazines

The biggest magazine publishers are still either state-owned companies or companies with close ties to provincial or central government organizations. These include the state propaganda and news agency Xinhua, which operates a number of news magazines and tabloid newspapers.

But some quasi-private powers have emerged, most notably SEEC, which publishes *Caijing*, an investigative business and financial magazine that is the darling of the foreign press corps in China. SEEC was launched as the media arm of the Stock Exchange Executive Council, a state organization set up to monitor China's stock markets. Now listed on the Hong Kong Stock Exchange, SEEC has a close but opaque relationship with the government. It has recently expanded into new home-grown titles such as travel magazine *Voyage*, as well as titles licensed from foreign publishers including Time Inc.'s *Sports Illustrated* and Meredith's *Better Homes and Gardens*.

Other state-owned publishers that have seen some success in the magazine business include China News Service, a smaller alternative to Xinhua, which produces *China Newsweek*; the San Lian Group with its flagship glossy news and culture magazine *San Lian Life Week*; and the magazine arm of the Southern Media Group, which is controlled by the Guangdong provincial government and is better known for its newspapers, but which also publishes a number of popular lifestyle and news magazines.

Other important domestic publishers include Modern Media Group, which publishes a suite of home-grown lifestyle magazines, and Trends Group, which has been successful in cooperating with IDG, Hearst and other foreign media companies to produce Chinese versions of *Cosmopolitan* and other fashion and lifestyle magazines.

China Light Industry Press is another state-owned publisher that has developed a close cooperative arrangement with a foreign publisher. It licenses European content via Gruner+Jahr and Japanese articles via Shufunotomo. All told, it publishes a suite of ten magazines, including the best-selling fashion glossy, *Ray-Li*. Finally, the Titan Sports Group publishes *Sports Weekly*, a highly successful magazine dedicated entirely to soccer, as well as several other sports magazines and newspapers. The group has attracted investment from the South African media company MIH (a subsidiary of Naspers).

The media companies mentioned above target the higher end of the market, with glossy magazines that cost between 5 and 20 yuan a copy. There is also a huge range of low-end magazines, generally printed on cheap paper, mostly in black and white, that retail for under Rmb5. The most prominent of these magazines are *Bosom Friend*, published by the Bosom Friend Group, *Zhiyin* published by the Zhiyin Group, and *Duzhe* or *Reader Magazine*, once known in Chinese as *Reader's Digest* until it was sued by the American publisher for trademark infringement in 1993.

Light industrial reading

emerging simultaneously with prolific online media outlets that are often more appealing to young audiences. This risk is especially acute because China's internet users may correlate more closely with the desirable middle-class demographic than do magazine readers, since so many are urban-dwellers with professional jobs and college degrees. Realistically, Chinese *Vogue's* monthly circulation may be in the neighborhood of 100,000 – peanuts compared to the women's channels of popular portal websites like Sina and Sohu that draw more than 1m visitors a day.

For readers, the choice is simple: online media is free, magazines dear. Moreover, the content is often identical. Websites frequently republish print media content without

paying royalties – a practice called *zhuan zai* (republishing) which is completely legal. This practice particularly threatens news magazines, says *China Newsweek* general manager Qin Lang, but is a danger to all magazines. The least affected are women's magazines, because fashion photographs and cosmetics ads look better in print.

The upshot of this fierce contest for scarce ad dollars, and the extreme difficulty of creating truly national distribution, is that there is no mass market for magazines in China, only a series of niches. Grasping this fact is crucial, and requires a fundamental change of attitude for global media corporations accustomed to big circulations and fat margins on hot titles. In China, successful publishers, whether domestic or foreign, have the mindset of niche publications: persistence and tenacity, flexibility about business models, and a willingness to reap profits from smaller margins over longer time frames. Chinese publishers are well suited to such conditions and enjoy better government connections. Foreign publishers can counter with other advantages: longer experience, extensive management know-how, better access to talent, and the ability to exploit international ad sales networks. But patience, humility and a willingness to roll with a lot of punches are also required.