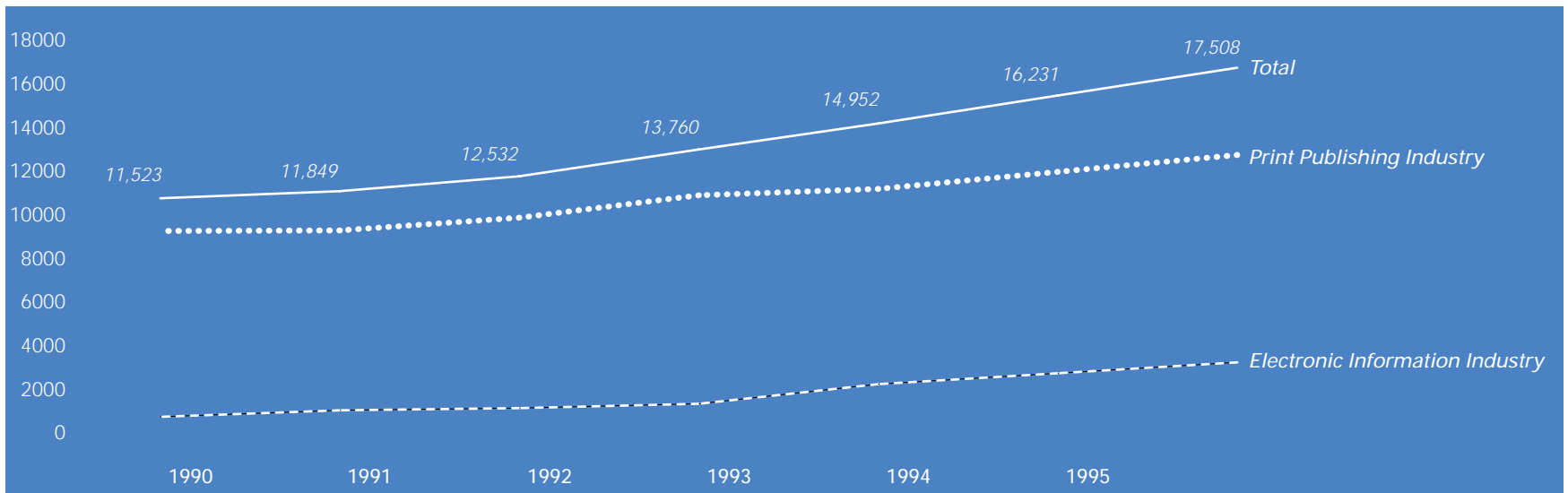








INDUSTRY REVENUES (£m)



The revenues of the UK print publishing industry grew from £9.9bn in 1990 to £13.3bn<sup>1</sup> in 1996, representing a CAGR of almost 5.1%.<sup>2</sup>

There are no official figures for the size of the electronic publishing sector and the detail captured by official statistics for the publishing SIC codes make it impossible to determine how much of current industry revenues are accounted for by this sector. However, studies part funded by the DTI and European Commission have established that part of the electronic publishing sector, providing business information, is worth in excess of £3bn.

*Note*  
 Industry revenues are based on sector UK market data and an appropriate adjustment for imports and exports. Publishing import and export data unavailable for 1990 and 1991 – Spectrum estimate  
 Source: Advertising Statistics Yearbook 1997; Book Trade Year Book 1997, ONS data cited in DTI data Research Team Quarterly Statistical Briefing

UK MARKET SIZE

UK Publishing Markets, by Main Sector

1996	£bn
Newspapers	3.1*
Magazines	5.4*
Books	2.7

The UK *magazines* sector grew at a CAGR of 8.2% between 1993 and 1996. Numbers of both business and consumer titles have grown rapidly in the last 10 years, by 44% and 31% respectively. This has been accompanied by rising advertising revenue and consumer expenditure. The industry is regenerative in nature, with new titles coming on stream as others close. At present some 8,000 titles are in print.

\* includes advertising revenue

The *book* market has grown at a CAGR of 7.1% over the same period, despite constraints in public sector spending which account for a significant part of the market. The number of titles published has shown strong growth between 1990 (64,000) and 1996 (102,000) although 1997 saw a slight fall possibly, but not conclusively, as a result of the demise of the Net Book Agreement.

The *newspaper* market saw a small real-terms increase over the same period with a CAGR of 0.9% in the face of rising newsprint costs, price wars and a decline in advertising revenue. However, this figure hides significant growth in the regional and local press, which saw total advertising revenues increase by 8.7% in 1997, maintaining their share of the advertising market at around 21%.

The total number of newspapers sold in the UK is falling, from 8.1 billion copies in 1990 to 7.3 billion in 1996. The UK nevertheless has one of the highest levels of newspaper readership in Europe,<sup>3</sup> with 55% of the adult population reading at least one national daily paper and 60% at least one Sunday paper. Almost 90% of adults read a regional or local newspaper each week.

Sales of regional paid for titles have been stable. The number of free local newspaper copies has fallen, primarily due to the rationalisation and closure of some titles following the high acquisition activity in this sector.

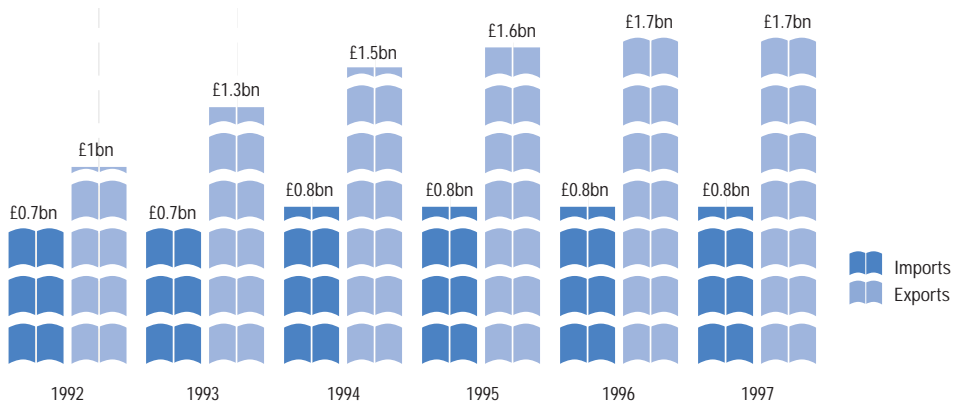
Between 1993 and 1997, *consumer expenditure* on books, newspapers and magazines fell overall by 5.3% in real terms, compared with an increase of 16.8% in spending on recreational and cultural services.<sup>4</sup>

This reduction in expenditure on books and newspapers may be attributable to several factors, including: the rise of title discounting; newspaper price wars; and new leisure options offered by electronic media.

1 This represents the value of the industry in retail value terms  
 2 Source ONS Annual Census of Production PACSTAT 1998  
 3 Source Express Newspapers Website  
 4 Source Consumer Trends

## BALANCE OF TRADE

Publishing is becoming an increasingly globalised industry, in terms of both manufacturing and demand for content.



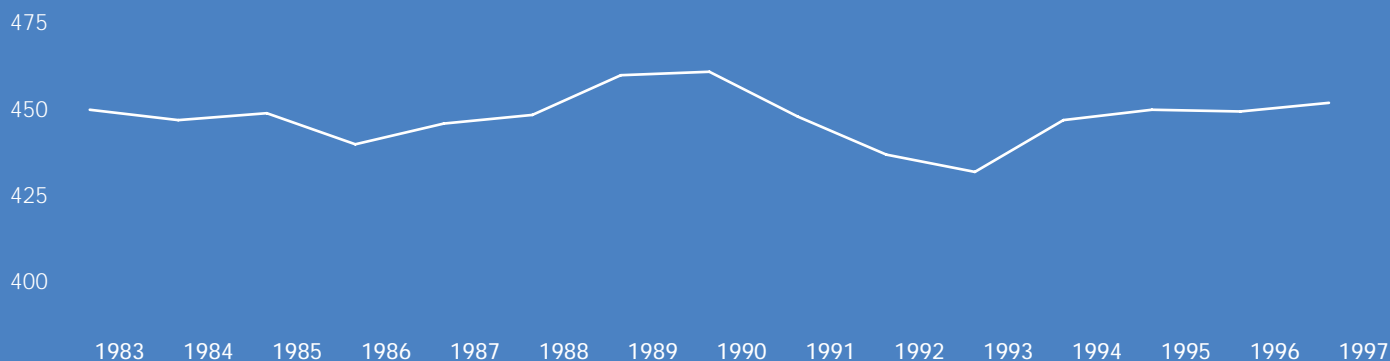
The global use of English creates a huge potential market for English language content. English is spoken by over 460m native and non-native speakers and is the most widely used second language.<sup>5</sup> Publishing has a long history of active exporting, supported by well-established trade associations.

In 1997, visible publishing exports reached £1.6bn, up from £0.9bn in 1992. Imports grew more slowly, from £590m to £790m. The UK's publishing trade surplus consequently rose from £322m to £853m.<sup>6</sup>

Over half of all exports were books, the principal markets being the US, Germany, France, Australia, Eire and the Netherlands, together representing 40% of all book exports.<sup>7</sup> The UK has a number of world leaders in technical magazines.

In addition, trade bodies estimate that net royalty income from abroad amounted to some £250m in 1996.<sup>8</sup>

## Total Employment ('000s)



Total employment in direct and indirect publishing activities (creative writing, publishing, printing and paper manufacturing) has fluctuated around 450,000 for some years (in line with the macroeconomic cycle), and in 1996 stood at 455,000. While overall employment levels are now little higher than in 1983, this should be viewed in the context of the rationalisation and downsizing associated with the restructuring of the industry and the introduction of new technologies in the 1980s and 1990s. Current (1996) direct publishing employment is 132,000 but the trend has been downwards from a high of 160,000 in 1990.<sup>9</sup>

In 1991 there were 82,000 *creative writers* working in the UK.<sup>10</sup> The majority were either in full-time employment (58%) or were self-employed (30%).

<sup>5</sup> Source *The Word Almanac and Book of Facts* <http://idris.com/scripts>

<sup>6</sup> Source ONS *Business Monitor MQ10*

<sup>7</sup> Source *Publishers' Association Book Trade Year Book 1997*

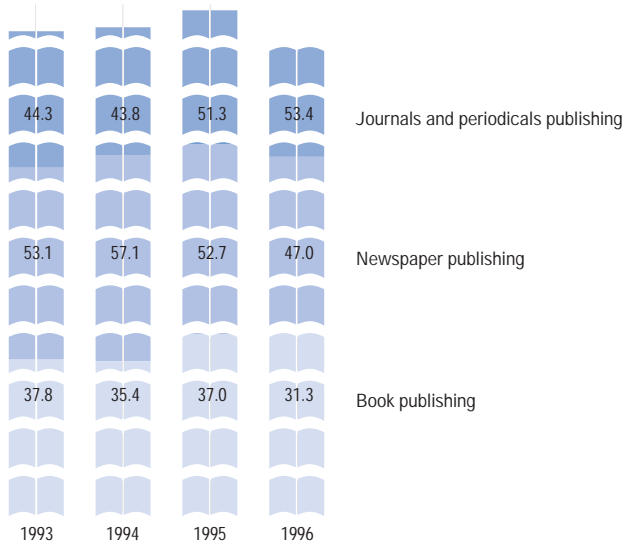
<sup>8</sup> Source *Confederation of Information Communication Industries*

<sup>9</sup> Source ONS *PACSTAT 1998*

<sup>10</sup> Source *Employment in the arts and cultural industries: an analysis of the 1991 census* Arts Council of England

## SECTION 1.1 PUBLISHING

## Employment in UK Print Publishing Industry ('000s)



## INDUSTRY STRUCTURE

## Media Conglomerates and Market Structure of Print Sectors

	Books	Magazines	Newspapers
	<p>Major Book publishers include Harper Collins (News Corporation), Penguin (Pearson), Dorling Kindersley, RandomHouse, Reed Elsevier and Hodder Headline</p> <p>Since the 1980s formerly separate hardback and paperback imprints have become vertically integrated</p>	<p>IPC and EMAP control 43 of the top 100 consumer magazine titles*</p> <p>Redwood, Premier Magazines and BLA control 53 of the 160 customer magazine titles*</p> <p>Business/professional magazine publishing is dominated by Reed Elsevier, EMAP and United News and Media*</p> <p>Magazine publishers are tending to focus on their core market and dispose of their peripheral interests</p>	<p>There are 11 daily and 11 Sunday national titles</p> <p>News International and the Mirror Group Newspapers control more than half the market by circulation†</p> <p>The top five regional newspaper publishers control 514 of the 1026 titles</p> <p>These publishers represent 40% of the total weekly circulation of all regional newspapers^</p>
<b>Reed Elsevier</b>	✓	✓	
<b>Pearson</b>	✓	✓	✓
<b>United News &amp; Media</b>		✓	✓
<b>News Corporation</b>	✓		✓

There are around 6,000 companies which comprise the publishing sector in the UK. Although the sector boasts a number of media conglomerates and large companies, the vast majority are small and medium sized enterprises.

The publishing sector comprises a number of sub-sectors, each extensive in its own right. Within each of these can be identified further sub-sectors, for example reference/trade, local/national, business/consumer. Many publishers are producing titles with specialised content aimed at a very focussed audience, which accounts for large number of enterprises.

The publishing sector as a whole, with the exception of the national newspaper sector, has seen a considerable amount of recent merger, acquisition and restructuring activity, mainly involving the larger companies. Particularly active has been the regional newspaper sector – 35% of regional titles changed hands in the 12 months from November 1995. The book sector has seen Pearson buy Simon & Schuster and Reed shed the last of its consumer books operations to management buyout. Likewise in the magazine sector, where Reed has disposed of IPC to a management buyout.

\* Source Zenithmedia UK Media Yearbook

† Source Keynote Newspaper Industry Report 1996

^ Source Reaching the Regions 1997 (Newspaper Society)

### Print Publishing Value Chain

	Origination	Publishing	Manufacture	Distribution	Retail
<b>Activities</b>	Origination of content	Commission and acquisition of content Co-ordination of design production and promotion Control of rights	Printing and reproduction	Warehousing, stock control and delivery to POS	Purchasing Stock Management POS display and marketing
<b>Major Players</b>	Press Association Employed and freelance writers and journalists Reuters	RandomHouse and Transworld Hodder Headline National Magazines Pearson Group Oxford University Press News International Mirror Group Trinity International Holdings Northcliffe Newspaper Group	Quayside Press Fairway Group Bath Press Group Cox & Wyman	Entertainment UK Exel Logistics Bertrams	Newsagents - WH Smiths Specialist Multiples - Waterstones General Multiples - Woolworths Independents

This activity has been driven by a number of factors, including developments in technology, globalisation of markets, benefits of economies of scale, opportunities offered by electronic publishing and the formation of alliances and partnerships to acquire new skills and market opportunities.

Some of these same forces are impacting on the traditional supply chain. In general terms, companies active in the publishing supply chain have tended to focus in one part: origination, publishing, manufacturing, distribution or retail. There are exceptions – Reuters and the BBC are more vertically integrated as are the regional press, in that many print and distribute their own titles.

### Electronic Publishing Value Chain

	Origination	Publishing	Delivery
<b>Activities</b>	Origination of content	Commissioning, acquisition and exploitation of content rights Electronic layout and design Co-ordination of access/delivery	Provision of off-line (CD, DVD) or online (Internet dial-up) electronic delivery or access
<b>Major Players</b>	Press Association Companies House	BT LineOne	Demon Internet MSN Pipex Dial
<b>Bloomberg</b>	✓	✓	✓
<b>Reuters</b>	✓	✓	✓
<b>Yahoo</b>	✓	✓	
<b>Reed Elsevier</b>	✓	✓	✓

However, technological developments such as the Internet – which is accessible and affordable – are changing the relationship between the supplier and the user. Consumers can now order on-line, publishers can now interact directly with the consumer. Already the majority of newspapers and magazines have a website, as do many book publishers. Publishers are attempting to protect existing revenue streams and create new ones. Local and regional newspapers are building online communities to attract current and new readers and provide a range of value added services, supplementing their core print product. However, these changes are still in their infancy and new business models are still being tested and refined. The impact is still minor at present, but it is anticipated that this will become a major growth area.

It is worth recognising that whatever developments take place in electronic publishing, print publishing will continue to enjoy a robust and profitable existence for the foreseeable future.

## SECTION 1.1 | PUBLISHING

Electronic publishing has been well established in a few areas, notably the provision of business information. This is by far the largest in revenue terms and is dominated by a handful of players – Reuters, Reed Elsevier, Dialog Corporation, Financial Times, Dun & Bradstreet – who between them account for over two-thirds of industry revenues. This is very much a global market and the need for competitive advantage will fuel further consolidation within the sector.

Within the consumer market, CD-Rom has been the main delivery platform. A handful of companies, among them Dorling Kindersley, OUP, the BBC, Helicon, Anglia Multimedia and YITM, have had success, but the majority of the companies in this sector, typically very small, have struggled in a difficult and volatile market place. The obvious route to the market for these products, through retail outlets, has proved to be congested, with too many titles chasing too little shelf space. Even the biggest companies have failed to get all their product on to the shelves or make an impact and there have been a number of high profile companies who have withdrawn from CD-Rom publishing. Alternatives, such as mail order or covermounts, have provided a route to the customer, but the mass market once expected has never really materialised.

Companies within the sector have often migrated from more traditional forms of publishing, but there are also many whose only experience is in electronic publishing. The relatively low barriers to entry have also seen companies from other sectors (for example software, finance and consulting) begin to create extensive content in electronic format, raising the competitive pressures. These market pressures will force a shakeout, survival will depend on a company's ability to market their skills, develop partnerships with other (larger) players, exploit niche markets and control costs.

The creation and delivery of content through the Internet opens up new opportunities, but the difficulties of creating and collecting revenues from online operations remain. Various business models are being experimented with, including advertising, subscription, "pay-per-view" and transaction charges. Nevertheless, this is an area where many larger companies are now operating, with substantial investments being made to create a strongly branded site with attractive content. Some of these companies will have sufficient brand strength to attract consumer online, but they, as well as smaller companies, may also position themselves within areas of high traffic and portal sites, such as Yahoo or Netscape.

### INTERNATIONAL CRITICAL ACCLAIM

There are no readily available measures of international perception of UK product.

### SECONDARY ECONOMIC IMPACT

Directly associated economic activities including distribution, printing and paper manufacturing, and employment figures are included above. Other related sectors are television, libraries, education, research, consulting, the Internet, software, computers, advertising and retail.

Magazine publishers are increasingly using their brands for activities such as exhibitions, directory publishing, conferences and masthead programming. It is estimated that these peripheral activities are worth in excess of £1bn.<sup>11</sup>

### POTENTIAL FOR GROWTH

Factors which will determine future *print publishing* growth rates include:

- investment in education in the UK and globally, including investment in books
- growth in life-long learning
- the effect of the macro-economic climate on disposable income and commercial advertising expenditure
- the impact of electronic media on print sales
- the long-term impact of the end of the Net Book Agreement and of discounting
- the targeting of unexploited niche markets by the magazine industry, including the growth in database marketing
- success in export markets

In the context of relatively saturated domestic markets and recent rapid growth in publishing exports, it is in overseas markets that the UK *print publishing* industry could find greatest potential for growth, either via traditional channels or via online sales. However, it is worth noting that online sales operations are capital intensive – despite sales of approximately \$137m in 1997, Amazon.com, the global Internet book seller, is not yet profitable.



## SECTION 1.1 | PUBLISHING

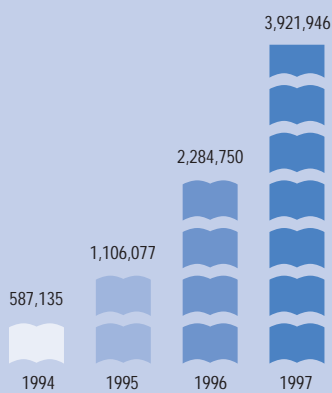
*Electronic publishing* provides a key opportunity for publishers and content providers to expand into growing global markets. Growth will be driven by convergence technologies, the opportunity to exploit new revenue streams and continued demand for information in a fast and flexible format.

Factors impacting on *electronic publishing* include:

- higher penetration of PCs into business and the home
- digital television and web TV
- a robust but flexible regulatory framework
- widespread adoption of e-commerce
- the creation of strong brands, recognised and trusted by consumers

### The Size and Growth of the Internet<sup>12</sup>

#### Number of European Hosts



The number of households in Britain with access to the Internet has more than doubled from just under 400,000 in June 1996 to 960,000 in June 1997

Usage of the Web is also increasing. In June 1997 over three million Internet users said they had used the Web during the previous four weeks, representing a threefold growth over an 18 month period

“The Internet is at last starting to look like it has the potential for becoming a mass market, with users increasingly accessing it at home as well as in the workplace. Web usage is becoming an integral and important part of overall Internet usage and is clearly perceived as a highly attractive information and study medium by users”, Richard Jameson, NOP

Access to the *Internet* is expected to become more widespread through computers, televisions, kiosks and mobile phones. It is forecast that 12% of all UK households will have Internet access by 2000, generating demand for Internet-related services of £844m.<sup>13</sup>

Information services, traditionally focussed on businesses, will become increasingly in demand in the consumer and education markets, driven by developments such as the plan to connect all schools to the Internet by 2000.

#### DVD<sup>12</sup>

Digital Versatile Disc (DVD) is a 4 1/2 inch playback-only optical disk

A standard DVD can hold 4.7 gigabytes of multimedia content, seven times the capacity of a CD

DVD also offers instant access, no wear and tear and cross-compatibility between DVD players and computer DVD-ROM drives

The functionality and interactivity of DVD offers exciting opportunities for all types of published content: text, images and video

DVD was launched in the US in Spring 1997 and is set to roll out across Europe during 1998

“Never before has there been a product with as much convergence potential as DVD and it is now up to the various industries which stand to benefit from it to pull together and make it a success” Ben Keen, Screen Digest

The market for *offline* electronic information is likely to be boosted by the introduction of the digital versatile disc (DVD), a highly flexible format with vast capacity designed to cater for the converging computer and entertainment industries.

Key markets which offer considerable potential for growth in both print and electronic publishing are the US, Western Europe and the Far East.

<sup>12</sup> Source NOP Research Group User Profile Study, June 1997; Blue Sky Inc [www.bluesky.com] with data from RIPE NCC

<sup>13</sup> Source Internet usage in the home, Keynote

## SECTION 1.1 | PUBLISHING

### GROWING THE SECTOR – ISSUES FOR CONSIDERATION

The future is one of great potential for the publishing industry, but also of uncertainty and threat. Key issues for the future prosperity of the sector include:

- protection of intellectual property rights and safeguarding of revenue collection, particularly in the context of electronic publishing, and the combatting of piracy
- ensuring that the industry has access to the skills it needs
- the operation and impact of the regulatory environment
- continuing developments in technology and the process of convergence
- the impact of further consolidation within the value chain and the market power of media conglomerates
- international trade issues including territorial publishing rights, particularly in the context of online book sales, and parallel importation