

CHANGING DEMANDS FOR RESEARCH

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Summary

There has not only been an economic crisis of the media and advertising industry which seized most publishing companies in 2001 ff. and had its consequences for the budgets of most of the media research agencies. In this crisis also happened a fundamental shift of the research focus of the publishers: Less research aimed at strategic problems, future developments, (new) product development, and more research aimed at supporting ad-sales. It is questionable whether this focus shift is a successful strategy of overcoming the crisis.

There are lots of indications that we are part of an industry in its final life cycle.

But there are also developments which may show how publishing companies can survive and prosper. The thesis will be set forth that print media research should change its focus from the support of selling ads to helping the publishing houses to get the superior content providers (respectively the providers of premium content) in the global multi media environment.

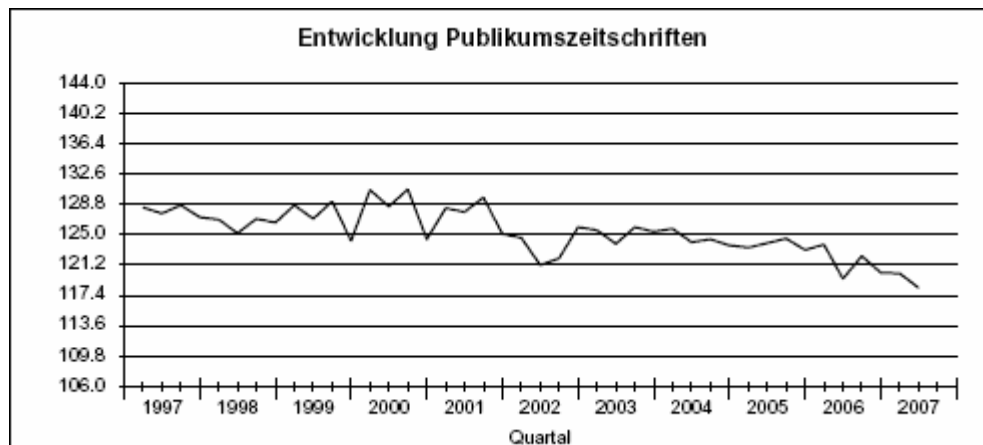
A Research Agency's Perspective

The following paper is not completely based on neutral statistics and empirical research results. It also reflects some subjective observations and personal experiences of nearly two decades of involvement as a managing director of the print research unit of Infratest in Germany.

Print media researchers provide publishing companies with services - so they are dependent on their clients in many ways: On their economic success, on their innovative potential, say their new product development policy, on their structure and as a result on what is called change policy. So let's first have a look at what has happened to the publishing industry in Germany in the last years:

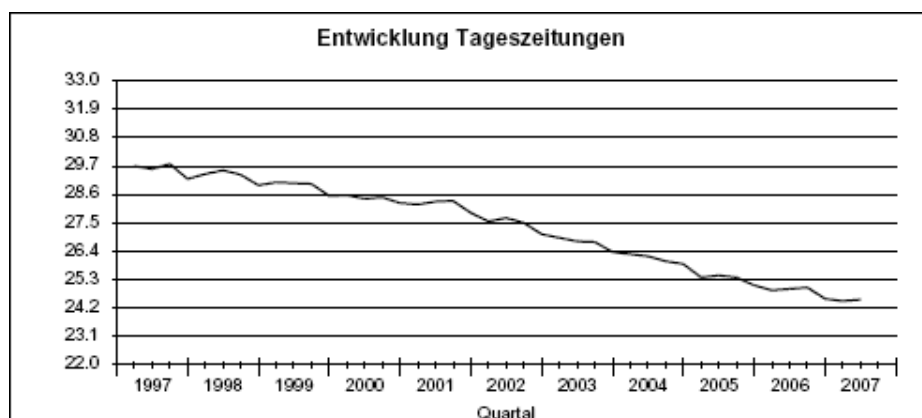
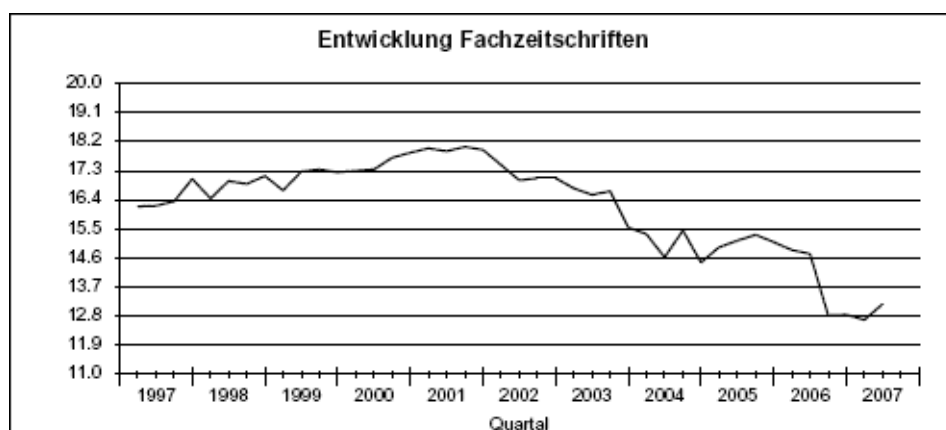
The crisis of the publishing industry

Development magazines (sold issues)



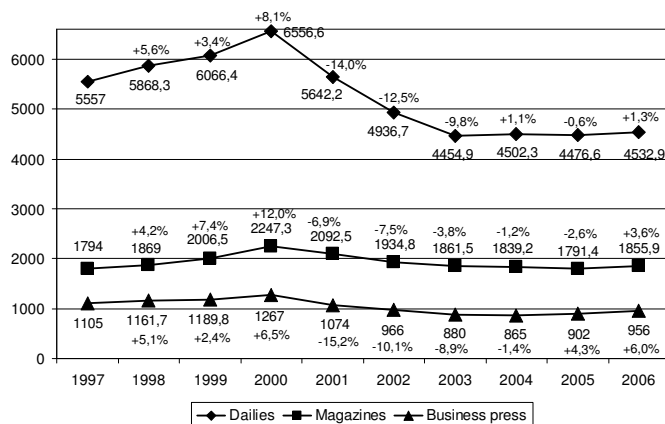
Last 10 years:

- 8%

Development dailies (sold issues)**Last 10 years:****- 18%****Development business magazines (sold issues)****Last 10 years:****- 20%**

Source: ivw

Decreasing sales revenues generally mean flat or declining ad revenues. This was not the case until 2000. But the crisis of 2001 and the following years with the combination of decreasing copy-related sales figures and declining ad revenues was a real catastrophe for the German publishing houses:

Advertising Revenues (net, Mio €)**Last 10 years:****Dailies - 18%****Magazines + 3%****Business Press - 13%**

Source: www.zaw.de

The general economic crisis in Germany was not the only reason of the crisis of the media branch, especially the crisis of the publishing industry (resulting for example in a collapsing market of wanteds and a sharp decrease of all kinds of classified ads). There were structural components as

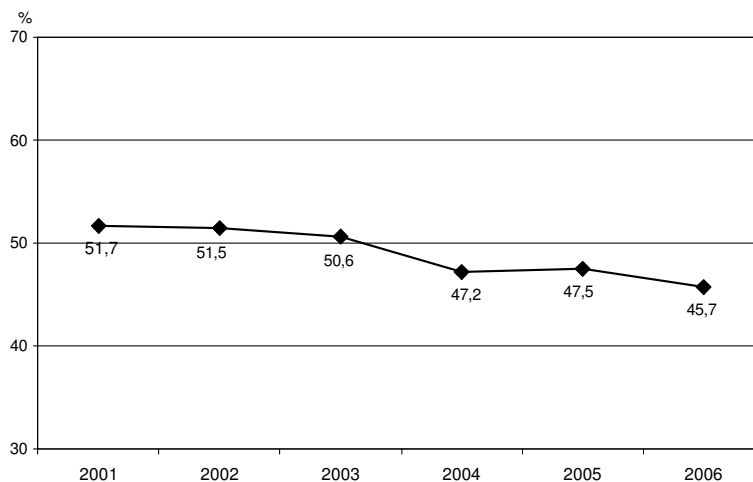
- the rise of the internet
- the changing media behaviour of young people combined with an aging and shrinking active population - accelerated by the process of the German unification

And there were wide spread home-made components as

- a lack of innovation, often as a consequence of former success;
- a wrong strategy of (nearly all) dailies and the majority of the magazines towards the internet. These media first tried to fight against the new medium instead of embracing it;
- shortcomings in media management, e.g. neglect of building reserves in good times.

In general the reaction of the German publishing companies was not aiming at improved products and winning more buyers and subscribers, but cutting cost, reorganizing the internal organisation, and intensify the ad sales efforts. One of the “measures” apparently was to even widening the gap between real prices and list prices. The ratio of ad revenues of magazines according to Nielsen (they cover 775 magazines and more than 90% of this market in terms of €) and “official” ad revenues according to ZAW (anonymous inquiry of all members, net revenues without discounts/provisions) developed as follows:

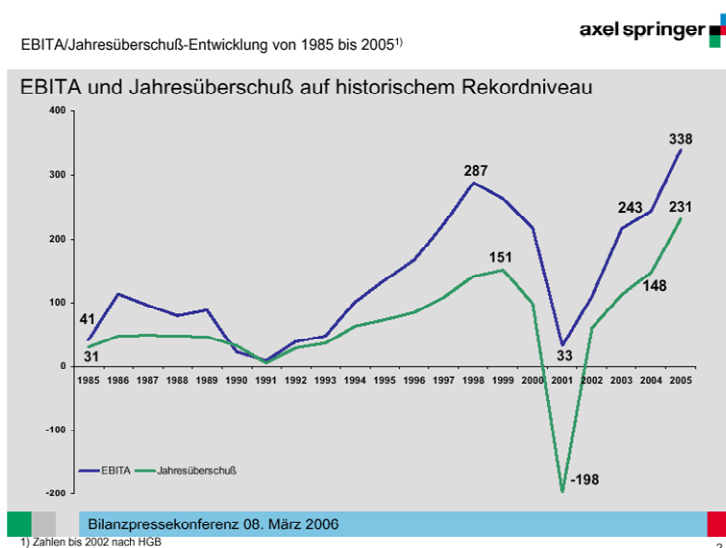
Magazines: Ratio net ad revenue/revenue according to price list



But this kind of dubious “improvement” is only a secondary - perhaps demoralizing - aspect of the most popular strategy of cost cutting and staff reduction. Here are two examples which may give an impression what has been and still is going on in the German publishing industry:

- The Süddeutsche Verlag in Munich has cut its staff from 5284 in 2000 to 4329 in 2003, a decrease of 18% - mark: their by far most important product, which is the daily newspaper “Süddeutsche Zeitung”, is one of the rare examples of continuous growth of readership as well as sold issues in the last 10 years! In order to avoid insolvency the company was urged to sell its real estate, a complex of buildings in the mid of Munich close to the Marienplatz.
- Axel Springer has cut its staff from 13590 in 2000 to 11694 in 2003, a decrease of 14%. Last year Axel Springer introduced a new organisation of the editorial staff by centralizing and even fusing the editorial staff of “Die Welt” (which is a national paper) and “Berliner Morgenpost” (which is a regional paper). This has been criticized as the contemptible import of a production structure of a soulless industry as the automotive industry - nevertheless this “platform structure” is seen as a very interesting model for big publishing houses.

We have to admit that the strategy of Axel Springer to overcome the crisis was not without success. This may be demonstrated by the following chart of the yearly balance press conference 2006:



Not all publishing houses could show such dramatic figures and such an amazing recovery as Axel Springer, but this is not completely atypical.

Consequences for Market Research of Publishing Companies

But what did all that mean for media researchers?

- Cost cutting in most cases means: You cut where cutting has no immediate negative impact on key financial figures. So research departments are an ideal subject of budget reductions. There may be no single relevant market research department of the major publishing companies which didn't suffer budget restraints of one third, often of 50%.
- Staff reduction according to my observations in publishing houses in most cases meant closing down certain locations and not replacing retiring employees. In the major publishing houses mainly the letter "measure" was applied to market research departments.
- But the most significant change was the "reorganisation" of market research units. In most cases this meant that single researchers or small groups of researchers were integrated in the marketing and/or sales staff of specific publications or publication groups. Consequently the former central research unit was disintegrated respectively reduced to a very small unit reporting directly to the CMO or to the head of the strategic planning department or some similar centralized function.
- In some cases publishing companies outsourced the market research unit completely, in the case of M. Dumont Schauberg accompanied by a guarantee of survival for a certain time period. Like all the other described "measures" this again is certainly not the way to strengthen the position of market research in the respective publishing company.
- The decentralization of the market research of the big buyers of media research in combination with the cost cutting strategy had as a further consequence the more and more important role which play central purchasing functions in the client relationship of research agencies. Purchasing functions in general know a lot about price competition but don't know much about the intangible value of specific media research experience. And they are insensible to the sometimes delicate relationship and chemistry between agency and client which often is a very important ingredient for high quality research. Experienced researchers do know that, purchasing functions don't.

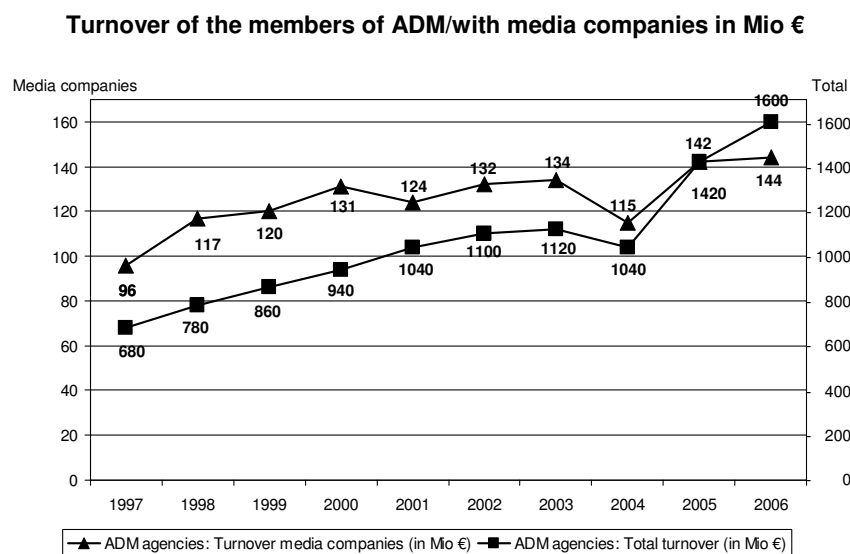
Sorry to say: Fierce price competition is very rarely the way to better research quality and innovative approaches in research.

- Not only the big players in those years came in trouble with respect to market research, many smaller publishing houses were affected even harder (see also the diagram entitled - 'Development business magazines').

An example is the story of the readership analysis Computer press which also shows the bad consequences for budgets of the research agencies: Established in 1989 as a joint industry committee the LAC did its first comprehensive survey in 1994 commissioning 12000 f2f-interviews with computer interested people (7000 of them were IT-decision makers). In 1996 this survey was repeated, in 1999 and 2001 boosted to 14000 interviews (more than 9000 decision makers). 2003 the publishers tried to save a lot of money and did an e-mail survey (supported by a new agency) which never could be published because of “methodological concerns” which means irreparable wrong data. In 2005 an “economical” version with 3000 interviews (all IT decision makers) was done. Finally this year the LAC started a new readership analysis using a mixed mode approach of f2f omnibus interviews and interviews in online access panels; the actual budget has shrunk to about 50% of the budget of the LAC 2001.

Consequences for the Media Research Agencies

All this is not the lamentation of an aged market leader who cannot help to be outstripped by dynamic and better set up competitors. It is the description of the changing market place of print media research in the last few years. This may be also demonstrated by the development of the revenues from media companies of the members of the ADM (which covers about 85% of the revenues of the market research agencies in Germany).



Source: www.adm-ev.de

You may argue that this is not really a bad performance of media research over the years - but you should compare it to the record of the total revenues of the ADM members in the last 10 years. We have to state that media research has come down from formerly no. two to a single digit share as no. four of the ranking of the research branches.

But is it really this “quantitative problem” of loosing shares of the national market of market research, and of lower growth figures in a prospering service industry? The truth is worse!

It is hard to get serious figures of the structure of the all in all stagnating research budgets of the commercial print media research market. True, you know your main competitors and when we meet our main subject of conversation is our business. But these informations may be definitely biased. So I have made an analysis of the structure of our business in the last 15 years from 1991 in steps of five years until 2006.

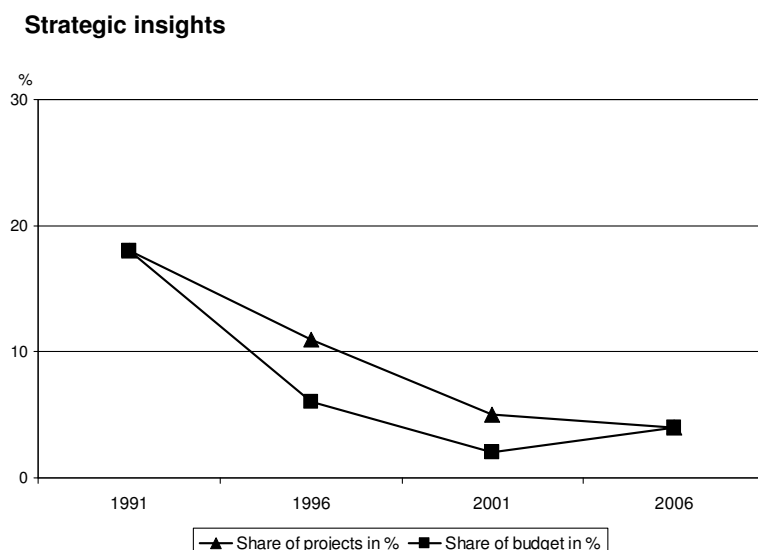
Infratest has been the market leader in print media research in Germany for decades. And we probably still keep this position until today in terms of research budget - and hopefully in terms of research quality as well. I have to concede that Infratest has never followed a low price strategy and so Infratest represents rather the high end of the market. But though we have had a change of ownership in the last 15 years for three times there was no fundamental change in the management philosophy, in the competitive environment, and not even in the major clients we serve. All together we work in a mature research market. So Infratest may be not a bad example to analyse what has changed in the structure of the research budgets of the big German publishing companies.

For this purpose we segmented all the projects which have been completed in the years 1991, 1996, 2001 and 2006 in the same way:

- 1) Research projects aiming at **strategic insights**, basic resp. deeper knowledge of the market, developing new methodological approaches. Examples are image analyses, positioning studies, basic (methodological) research of CASI, CAWI, use of online-access-panels.
- 2) Research projects aiming at (new) **product development** respectively better or alternative ways of distributing. Examples are market testing of new developed magazine dummies, “editorial copytests” with the focus on what kind of readers read what kind of articles and why, studies about the drivers of purchasing magazines/competing magazines, the factors of reader loyalty, and so on ...
- 3) Research projects aiming at **ad-sales support**. Examples are reach & frequency studies (incl. ag.ma-projects), ad-copytesting series, campaign tracking studies, market media surveys - all what is done to create sales arguments and sales materials for advertising clients.
- 4) **Other** research projects. Examples are “editorial research projects” to be comprehensively published in magazines as “SZ-Magazin”, “Focus-Schule” etc.

That is what I found:

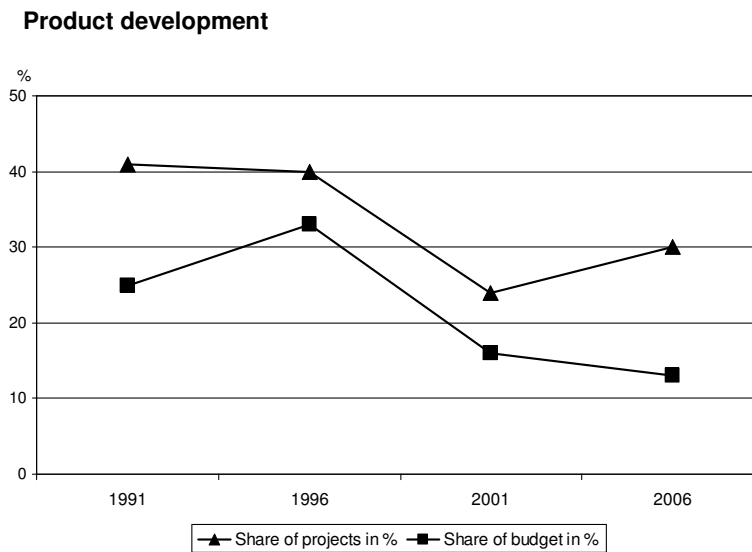
1) Projects aiming at strategic insights



Research projects aiming at strategic insights clearly became exotic exceptions during the crisis of the publishing industry.

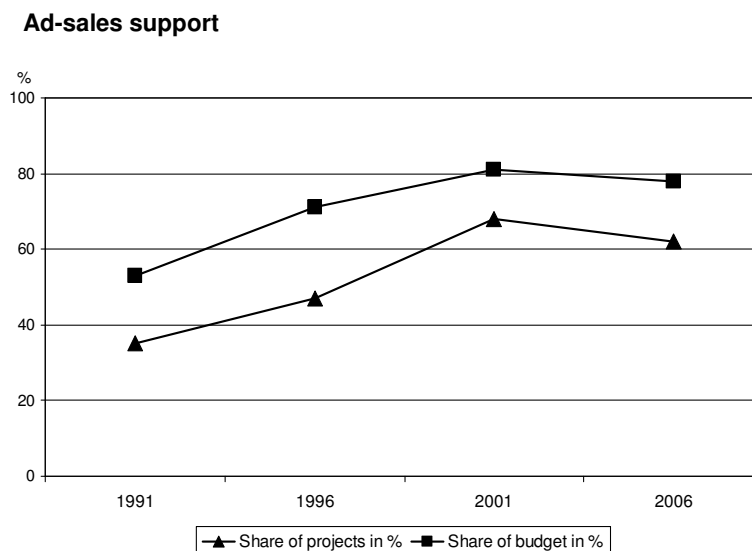
I have to concede that in late 2006 and this year we see a revival of projects aiming at strategic insights, mainly due to a project which is described by Matthias Döpfner, CEO of Axel Springer, in the preface of the business report 2006 as follows: “... client orientation in the content-business of media companies is still often underdeveloped. We want to change that. That’s the reason why we have developed an extreme sophisticated monitoring- and evaluation system in cooperation with an international market research institute ...”. This project is going in its second year right now and already had a high awareness at board level of competing media companies.

2) Projects aiming at product development



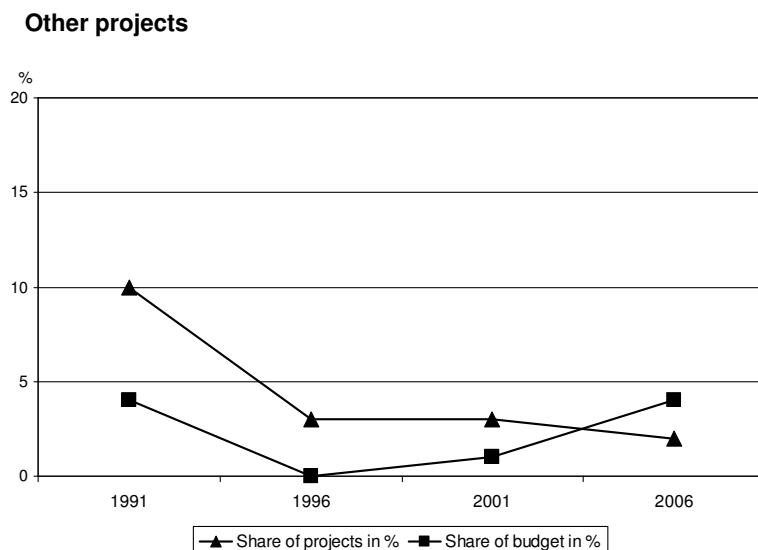
The share of research budgets of projects aiming at product development has been cut in half since 1991. Even in absolute figures we had a sharp decrease. The average size per project remained stable. But there has been definitely a diminishing willingness to invest in research aiming at new product development and in content related subjects. In the crisis not only the health of publishing companies is threatened but also the remedy against it is refused!

3) Projects aiming at ad-sales support



One third of our projects in 1991 aimed at ad-sales support (in the above mentioned definition). Last year it was close to two thirds. In terms of budget ca. half of our projects aimed at ad-sales support in 1991, since 2001 relatively stable ca. 80%! With respect to research the answer to the crisis has been: Intensify the sales efforts!

4) Others



Others are others. These beautiful orchids grow in an irregular way.

Some conclusions

There has not only been an economic crisis of the media and advertising industry which gripped the most publishing companies in 2001 onwards and had its consequences for the budgets of most of the media research agencies. In this crisis also happened a fundamental shift of the research focus of the publishers: Less research aimed at strategic problems, future developments, (new) product development, and more research aimed at supporting ad-sales.

This budgetary stagnation and the shift of research focus, accompanied by the “austerity measures” as described above, have resulted in a weakening of the standing of the media researchers in publishing houses. In the media research companies the pressure on prices and budgets does not really improve the quality of fieldwork, the absolute focus on - in order not to say the restriction of - research aiming at supporting ad-sales does not broaden the horizon of the researchers. Necessity is here not the mother of invention but in the best case the mother of standardization and simplification. We in fact already feel that it has become more difficult to hire “high potentials” from the universities for junior positions in media research departments. There are lots of indications that we are part of an industry in its final life cycle. Will publishing companies, will print media researchers die out in the near future? I don’t think so. Print is not the enemy of the internet and vice versa. Print is not even the enemy of tv, on the contrary successful advertising needs the combination of print, tv, internet, outdoor etc. more than ever.

The big publishers - and a lot of smaller ones too - are no longer only speaking about and announcing “digitalization”, they are really on this way. Read the business report of Axel Springer, Burda, Gruner & Jahr, Heinrich Bauer, but even more important: Look where they invest hundred of millions of Euro! It is digitalization, web-tv, electronic publishing platforms, communities in the web, even “web 2.0”. They prepare themselves to survive as the superior content providers in a more and more electronic media world.

Do we really have the research tools to help them? How can we measure the effects of good or bad content on reader loyalty? Do we have the criteria to distinguish between good and bad content? To what extent is this a question of target groups? Are there differences with respect to printed content and electronically distributed content? What about media brands?

I’m sure that most research colleagues in the publishing companies (and even in the ad-agencies) understand what I mean and are as sceptic as I am whether we all already did our homework. Let us do it together or we’ll die together. Soon!