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Content Is Not King: Movies, Music, and Books

> Jeff Zucker: "Listen, the key to success remains the same today as it was, you know, 10, 20 years ago. You have got to have great content and you have got to have great stories. And those who can tell great stories will always succeed . . . whether it's an hour, a half hour, or three minutes. You've still got to tell a great story, and great storytelling will always win out."[1]

There are lots of kinds of media content. But it is the blockbuster, the hit, the epic that defines an era, or at least a season, that attracts the greatest fascination. The business of producing the discrete pieces of entertainment content that we watch, hear, and read is undergoing profound changes. Piracy on a scale never seen before has been made possible by the ease of digital distribution of film and music in particular. But more remarkable than these changes is the extent to which the nature and structure of these businesses have remained the same.

As much as we blame the Internet for any number of negative developments in a variety of media industries, it is important that this does not distract attention from a basic fact: Making movies, producing music, and publishing books have been terrible businesses for a very long time. To understand how the Internet may have made these enterprises even less lucrative, and to assess the prospects of various industry initiatives to "fix" their problems, it is worth considering the fundamental reasons why owners of these businesses have never generated more than anemic returns.[2]

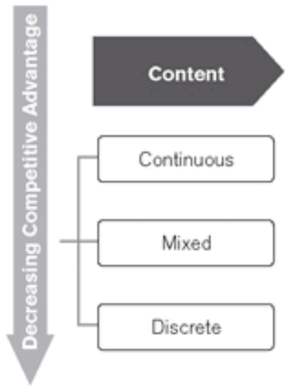

FIGURE 6.1 Content Competitive Advantage

At first glance, the making of filmed, recorded, and printed entertainment looks a lot more different than similar. The cultures and personalities that drive these organizations, for one, are quite distinct. In all, however, it is the relationships with talent that are viewed as core. Different functions develop special relationships with the artists for different businesses. In filmed entertainment, it is often the agent who is key to understanding and negotiating their manifold needs. In music, lawyers, who often perform the “business affairs” function at a label, navigate the highly arcane contract and publishing, performance and residual rights issues that arise. In publishing, it is the editor who champions an author and nurses his work through the often difficult birthing process. Although there are many exceptions, individuals who have performed these functions—none of which typically entails full P&L responsibility—have with uncanny consistency risen to the top of these respective industries. And the nature of the organizations most prevalent in these sectors very much reflects the differences in perspective occasioned by these varied backgrounds.

For all the apparent differences, there are a number of core attributes involved in putting together a slate of films, a roster of artists, or a list of titles. The largest film, music, and book companies all represent a collection of houses, labels, and imprints, respectively. This is not an accident. And it is not simply a marketing device to provide differentiated branding produced by one massive content factory. Each of the dozens of imprints at Random House has an editorial director who manages no more than five to ten editors, none of whom is likely to be able to produce more than twenty books in a year. Each of the three broad label groups at Warner Music US has its own A&R staffs that are subdivided into genre groups that on average are responsible for twenty to thirty new full-length releases annually. Each film production house, whether fully part of or with just a distribution deal at a major studio, has its own development organization whose size determines how many projects can be managed—generally no more than fifteen to twenty in a season.[3] Furthermore, it is a widely accepted axiom of movie production that at the end of the day only around 10 percent of those ideas formally put "in development" will ultimately become actual film releases and any aggressive attempt to meaningfully increase the yield on development projects will further depress financial results.

The basic management function in these content businesses is the selection and cultivation of creative material. There are individuals who are more or less talented at this, but such tasks do not lend themselves to sustainable competitive advantage. The structure of all these businesses reflects the impossibility of achieving scale economies from adding more content: A creative manager can manage only so many projects. The consumer in turn is barely aware of the production entity responsible, making any form of customer captivity highly improbable. And achieving an enduring cost advantage either through some form of proprietary technology or otherwise seems even more unlikely.

Another commonality of these hit-driven content businesses is that each has a less volatile, more attractive piece of their operations that involves the exploitation of already proven entertainment properties: In movies, it is management of the film library; in books, it is the author backlist; and in music, it is both the artist catalog and music publishing business. Based on how a new release does in the early days, it is relatively easy to project the future revenue streams from various ancillary markets over time. All the major costs of development, production, and marketing have already been incurred, so these activities accordingly generate high profitability with high predictability. There is one problem: Without new product continuously being added, these profits will decline consistently over time as the collection grows stale. Private equity investors who have looked at buying content businesses have often valued the enterprises largely based on the assumption that new content creation is shut down altogether. The result has been either that they have been outbid by a media mogul or that once they got hold of the business, they could not resist trying to produce hits themselves—generally with disastrous results.[4]

If hard-nosed private equity investors can convince themselves that they can do a better job of producing boffo box-office results, you can imagine the inclinations of more traditional media moguls. The elusive holy grail of the entertainment industry has always been a surefire way to produce hit after hit while your competitors' output reflects the hit-and-miss nature of the overall business. Freud had a word for a belief based on wish fulfillment: an illusion.[5] Such beliefs provide ready fodder for con artists, and in this regard media moguls have always been an easy mark. There is a long and distinguished history of claims to be able to predict hits. The current crop gains its patina of apparent credibility from advanced computing and statistical techniques. Before examining some of these in more detail, let's consider the overall enterprise of predicting hits.

Imagine that a mad scientist really invented a black box that you could drop a script, score, or manuscript into and quickly obtain an accurate assessment of its ultimate commercial potential. What would happen? If the mad scientist had good representation, he would either bid it out to the studio willing to pay the most to own it or just set a high license fee for usage that retained the bulk of the value created by his invention. Only the scientist would be better off.

But what if the scientist worked for a studio that refused to make the technology available to others? Even here, the benefits over time are unclear. That studio would still be bidding on projects against other studios that didn't own the black box. Some of these would presumably be offering to overpay. Smart agents would shop the black-box studio bids to other studios. Also, since the products of the black box are available for all to see, sooner or later other companies are going to learn to copy the black-box results and will bid for projects accordingly. Having the black box would stop the studio from overpaying, but how many real bargains would it get? Even if such a supernatural power were available, the lack of any other source of structural advantage would eventually overwhelm the potential benefits.

Such observations are not nearly enough to dissuade an eager mogul from exploring the possibility of getting a leg up on the competition—or at least extending his or her tenure. Unfortunately, there is no black box, nor can there be. That being said, part of the continued efforts in this regard come from the hubris of the computing and mathematical community that believes data sets are the source of all wisdom—including artistic and creative decisions.

Statistical help isn't new in the arts. Multiple regression analysis, the statistical technique that measures the predictive relationship among many variables, has been applied to the movie industry to predict box office receipts for at least thirty years.[6] Insights from these regressions have primarily affected decisions that are made in the marketing departments of studios, to help with advertising budgets and release schedules.

For example, the early regressions indicated that initial distribution of films on more screens had a significant positive effect on ultimate grosses. At the time, a release on one thousand screens in the United States was considered exceptionally large. Today, U.S. films may be released on four to five thousand screens.

More recently, "neural networking" has seemingly become a tool for the studios. Neural networks use historical data just as regressions do, but the statistician doesn't have to choose the variables ahead of time to "count." Neural networking takes advantage of the computer's ever-increasing ability to deal with vast data sets, so that for a given problem, relatively indiscriminate masses of raw data can be fed into the network, and the computer will be neurally trained to predict an outcome. The jury is out on how useful neural networks are for practitioners in many fields, because they are so complicated, it often is impossible to figure how an individual input is affecting the predicted outcome.[7] But this hasn't stopped a company called Epagogix that uses neural networking as the heart of its black-box solution to picking and fixing scripts. The company has become the consultant for numerous studio heads, hedge funds, and other players in the industry.[8] In fact, according to founder Richard Copaken, "All I do know is that in our most recent test for a major film studio, we were 100% more accurate than the studio in determining in advance of release whether these films would earn more in US Box Office revenue than their respective all-in negative cost of production (all production costs, but excluding the cost of prints and marketing). This measure typically will determine if a film will be net profitable . . . Both we and the studio were very pleased to achieve this degree of accuracy with a methodology that can be applied at the initial script stage before the studio spends the first dollar of production." [9] Interestingly, whether his method works or not (and so far, no particular movie studio's returns have mysteriously improved), this scientific black box still depends on real people reading scripts and summarizing their content.

Like movies, the music business also has had its traditional research methods and has used focus groups and phone and online surveys for years. The most widely used method is "call-out research," where fifteen to thirty seconds of a song are played over the phone line of a prescreened (for demographics and music taste) listener who then rates the tune.

But a newer, shinier black box called "spectral deconvolution" that uses massive data sets is being touted by two companies—the original one, now called Music Intelligence Solutions, based in Madrid, and a second one, to which a number of MIS's executives migrated, called Platinum Blue, in New York. Both companies analyze the underlying mathematical patterns (beyond what can be heard) in a tune, compare these to the sixty or so patterns that constituted a hit in the past, and make recommendations about where the new tune falls short. Both companies claim that they can help the music industry focus its investments in songs with a better chance of market success, and thus become more profitable. They sell their services to song-writers, their producers, and to the labels that buy the product.[10] So where is the relative advantage of using this system? Hard to know.

But there are inherent limitations to these approaches. First, and most importantly, since they depend on historical data, they cannot work unless there is substantial stability in the tastes of the buying public. If preferences shift significantly and unpredictably over time, then decisions based on historical tastes will not perform well. Thus, in music, as buyers have migrated from big bands to classic rock to heavy metal, rap, and New Age, earlier successes are unlikely to be useful for predicting current popularity. This limits the ranges of data inputs that are useful for the black-box models.

Second, there are literally hundreds of thousands of potential variables that affect success in movies, books, and music. At the same time, there are relatively limited numbers of films, books, and songs that get mass distribution and exposure (although this could change with the advent of Internet marketing). Using films as an example: The 120 releases per year and eighty years of history (1928 to 2008) provides only about ten thousand data points. Sorting among a hundred thousand potential factors with ten thousand data points cannot be done. Any combination of ten thousand of these factors will fit the data perfectly, and even searching for limited numbers of factors—say sixty—among the hundred thousand will produce high levels of spurious correlation.

For these reasons, there appear to be natural limitations on the efficacy of black-box approaches. However, even if they do not perform infallibly, statistical black-box approaches may well do better than the alternative black-box approach of using the ineffable gut instincts of selected industry executives.

Surely, the mogul will argue, there are some advantages enjoyed by the "majors" in creative content businesses. Just look at their consistently overwhelming market shares as a group in the industries of movies, music, and books. There is some truth to this observation and we will examine the financials and shares in each of these sectors, in turn. Although there are barriers to entry among these industry giants, these are not in the content component of the business but rather in the marketing and distribution component. This is part of the "packaging" function rather than the content creation function. In addition, these advantages are shared by all of the majors and have been frittered away through the absolute lack of cooperation among them. Finally, what advantages have historically been available in the marketing and distribution operations have significantly diminished over time.

These observations are consistent with the structure and results of each of these businesses over an extended period of time. All of these businesses consistently struggle to achieve even low-double-digit operating margins and generate stubbornly weak returns on investment. These results reflect the combined results of the higher-margin businesses involving the exploitation of library, catalog, and publishing assets along with the production of a new slate of product each season. An unexpected megahit or a platform shift like the introduction of the CD or the DVD can create short-term windfalls either to a particular company or to the industry as a whole. These periods of financial nirvana are fleeting, as the talent quickly moves to devour the surplus. And for every period of windfall there are periods of actual losses due to a high-profile failure or an industry-wide challenge. It will not surprise you to know that in such circumstances, talent does not raise its hand to share in the pain. Heads they win, tails you lose. The result is remarkable stability in results over time and across these industries.

MUSIC

The recorded music industry has seen steadily declining revenue and profitability since 1999, when U.S. retail shipments came in at $14.8 billion for 1.2 billion physical units. In that glorious year, there were five majors—Sony, Bertelsmann, EMI, Universal, and Warner. In recent years, the five majors became four, with Sony and Bertelsmann combining. EMI was taken private by a hedge fund and Warner Music had a near-death experience in 2004, from which it still continues to suffer. In 2007, 1.7 billion units were legally shipped, of which 23 percent were digital. Despite the 40 percent unit growth, the retail value dipped 30 percent to $10.3 billion[11] as sales shifted from higher-priced multiple-song albums physically shipped to low-priced singles digitally downloaded at iTunes and other MP3 distribution points. Even more depressing, the International Federation of the Phonographic Industry (IFPI) estimated that illegal downloads outnumbered the number of tracks sold by a factor of twenty to one.[12]

For the decade between 1997 and 2007, the average industry profit margins were on average well below 5 percent. The industry did not achieve even a 10 percent margin in any year during this period.

Even when the music industry has had the wind at its back, returns have been good only for short periods. The arrival of CD technology in the early 1990s provided an extraordinary boost to sales and prices as buyers replaced their cassettes and vinyl albums with higher-quality CDs. Initially, returns on sales and profits did rise. But by the mid- to late 1990s, returns had declined to their normal mediocre level. Increases in the cost of CDs, as labels bid more for artists and spent more on advertising and promotion, eliminated some of the benefits. Increased numbers of CDs and artists, which reduced the average revenues per release, eliminated the rest. Despite the fact that the majors maintained price discipline, these secondary aspects of competition did their work in holding down profitability.

At first glance the other indication of competitive advantage—share stability—seems to tell a different story. Table 6.1 shows the U.S. market shares of the majors (for comparison purposes we treat Sony and BMG, which merged in 2004, as combined for the entire period) and independents between 2000 and 2007. During these years, the majors as a group remained within a 2 percent band of overall share in the fast-declining business and, in any given year, no major gained or lost more than 2.5 percent of share. The international data tells a similar story. As Warner Music takes pains to point out in its 2008 annual report, "[w]hile market shares change moderately year-to-year, none of [the majors] have gained or lost more than 3% points of share in the last 5 years."

TABLE 6.1 Music Majors Market Share, U.S. Recorded Music (Catalog and Current Titles)[13]

	2000	2001	2002	2003	2004	2005	2006	2007
UMG	26.8%	26.4%	28.9%	28.1%	29.5%	31.7%	31.6%	31.9%
Sony/BMG	33.0	31.5	31.3	30.2	29.9	27.5	27.4	25.0
WMG	16.2	16.6	17.0	17.6	16.2	17.3	18.1	20.3
EMI	9.8	11.4	9.3	10.6	10.9	10.4	10.2	9.4
Independents	14.4	14.2	13.6	13.5	13.5	13.2	12.6	13.5
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

TABLE 6.2 Music Majors: Relative Share Change 2000-2007

	2000	2007	Absolute Change
UMG	31.3%	36.9%	5.6%
Sony BMG	38.6	28.9	9.7
WMG	18.9	23.5	4.6
EMI	11.4	10.8	0.6
Average			5.1

There is, however, much less stability than meets the eye for two reasons. First, when thinking about share stability in an industry, it is important to watch share shifts among the leaders over time. A quick and easy way to do this is to calculate the leaders' share just among themselves, by normalizing the numbers, so they add up to 100 percent. Then, among any two periods you are comparing, calculate the absolute value of difference, add up these absolute values, and take the average. If this number over several years is somewhere below four, there is definitely share stability; four and above indicates share instability. For context, Coke and Pepsi typically capture 1 to 2 percent share from each other over even more extended periods, with acquisitions playing no meaningful role.

The absolute numbers in Table 6.2 above do suggest borderline share stability. Although the average share shift for the 2000-2007 period is a little over 5 percent, for shorter periods within this time frame the shift is 4 percent or less. The bigger problem is that this level of stability has been achieved only after aggressive acquisitions of independents to balance any relative share loss among the majors and between the majors and the independents more generally. It is a great industry tradition for the majors to buy up successful new entrants like Sun, Atlantic, Motown, Geffen, and more recently Interscope. Labels acquired during the 2000-2007 period just by market leader Universal include RMM, DreamWorks Records, Roc-A-Fella Records, Vale Music, Arsenal Music, Sanctuary Group, ARS Entertainment, and V2 Music Group.[14] Nominal stability then is achieved the old-fashioned way—it is purchased. The overall picture, however, reflects the relentless competition among the majors and with the independents.

In the old days before digital recording and digital distribution, the majors shared a true scale advantage in the packaging and retail portions of the business compared to the independent labels and individual musicians. They supplied individual artists professional-grade production facilities and expert producers. They could mass-produce CDs accurately and cheaply and they had a sales and marketing organization that would distribute the CDs to thousands of retail outlets. These scale advantages meant the majors might have controlled the market, but it never translated into sustainable high returns because of the nature of the discrete hit business as detailed earlier and the relentless competition among the majors for talent and market position.

As fitful as the coordination among the top players has been in the past, things will only get worse in the future as the scale advantages in marketing and distribution that could have made cooperation possible disappear. These lower barriers to entry have attracted new industry participants who have started bidding for talent. In 2007, Wal-Mart made a direct deal with the rock band the Eagles, and in 2008 with another group, Journey; in both cases they cut out the artists' music label. The concert promoter Live Nation made a deal with Madonna that leaves her longtime record company, Warner, out in the cold. Live Nation now has an all-encompassing stake in Madonna's career—including the Madonna brand, albums, touring, merchandising, fan club and Web site, DVDs, music-related television and film projects, and associated sponsorship agreements.[15]

If the big and established artists are being picked off by big new competitors, the young and start-up artists are being served by independent labels as they never could before, as the fixed cost requirements of the business diminish. Small labels don't have to incur large fixed costs for a sales force if most of their artists' sales are downloaded at iTunes, with the balance at only five hundred digital sites worldwide. They can promote the indie bands through MySpace and the bands' own sites. And they can manage the artists' royalties and bookings with relatively cheap (if not free) artist management software. Independent labels have even banded together in a cooperative called Merlin. This association calls itself a virtual label and claims to have twelve thousand members that sell as much product as EMI does.[16]

MOVIES

The studios known as the "majors" are the "filmed entertainment" divisions of large media companies. Like the profits in Music, the financial returns of these divisions are not only inconsistent, but mostly, with the exception of Fox Entertainment Group, are historically rather low. The average operating margin on sales in each year from 2000 and 2007, including Fox, ranged from a low of 2.2 percent to 9.9 percent.

The average return on assets of these divisions during those same years (where asset segment information is available or could be reasonably estimated) ranged from 1.7 percent to 11.2 percent. Without Fox, however, the yearly ROA average went up to about only 7.7 percent. And these are pretax returns; assuming tax rates of 40 percent, after-tax returns on assets averaged 4 to 5 percent—around the same as could have been achieved from investing in U.S. Savings Bonds over the same period.

The variability of these returns is attributable to the hit-driven nature of the business. The low average level of returns is a function of competitive conditions, the generally low level of barriers to entry, and intense competition among the major studios. The low barriers are apparent in the recurrent ability of independent entrants like Miramax, DreamWorks, Lionsgate, Turner, and New Line to take share. The relative stability of the majors' overall share has been sustained only through acquisition of these entrants—Miramax by Disney in 1993, New Line by Turner in 1994, which was in turn acquired by Time Warner in 1996, and DreamWorks by Viacom in 2006. The latter factor is reflected in the amount of market share that changes hands among the majors. As in music, the tendency to buy back lost share results in industry data that understates the intensity of competition.

Table 6.3 presents relative North American market shares for the six majors in 1988, 1999, and 2006. On average, roughly 5 percent of the majors' overall market share changed hands between these years. For example, Columbia (Sony) went from 23 percent of U.S./Canada box office in 1988 to 13 percent in 1999 and back to 23 percent in 2006. The results of this competition are evident in the history of the film business that we described earlier. The great recent revenue benefits of many new channels of distribution—cable, satellite, pay-per-view, DVDs, and enhanced international opportunities—have been completely offset by higher film production and marketing costs and the costs of more films released. The key to profitability in this environment has not been creativity, but the exercise of careful cost controls in production and the energetic exploitation of existing film libraries. This accounts for the higher profitability of MGM—although as a result it fell from the ranks of the recognized majors—and Fox Studios.

TABLE 6.3 Movie Majors Market Share (U.S. and Canada)[17]

Note	Distributors	1988	1999	Change from 1988	2006	Change from 1999
1	Disney	19.4%	23.0%	1.8%	16.7%	5.9%
2	Warner Bros. (Time Warner)	11.2%	20.2%	8.3%	14.9%	5.0%
3	Paramount (Viacom)	15.2%	15.0%	1.8%	11.0%	3.7%
4	Columbia (Sony)	19.6%	13.0%	8.9%	21.1%	9.4%
5	Universal (General Electric)	9.8%	13.0%	2.4%	10.9%	1.8%
6	Fox (News Corp.)	11.6%	11.0%	1.8%	17.0%	7.0%
		86.8%	95.2%		91.6%	
	Average			4.2%		5.5%

Note: 2006 studio subsidiaries.

1. Including, but not limited to Disney, Touchstone/Hollywood, Miramax
2. Including, but not limited to Warner Bros., HBO, New Line, Castle Rock, Warner Independent, Picturehouse
3. Including, but not limited to Paramount, DreamWorks SKG, Vantage
4. Including, but not limited to MGM, UA, Screen Gems, TriStar, Destination
5. Including, but not limited to Universal, Focus Features
6. Including, but not limited to 20th Century Fox, Fox Searchlight, Fox Faith, Fox Atomic

BOOKS

The consumer publishing segment that produces the latest John Grisham bestseller is known as “trade.” Trade book publishing includes paper and hardback books sold to adults and to children. Trade book publishing has an industry profile similar to music and movies. Over the last several decades the industry has had mostly anemic returns. Of the top five publishers in the United States, data was decipherable for four, which on average have operating margins under 10 percent and returns on capital not much better.[18] The brightest performer in this group appears to be HarperCollins, owned by News Corp., the corporate owner of Fox—which also consistently outperforms its movie studio peers. Even Harper, however, has been unable to achieve profit margins of greater than 12 percent.

The trade book publishers may be in a very slow-growing business, evidenced by the flat or falling sales, but they are doing the best with what they've got. They've consistently kept prices up, so that the revenue growth is double the unit growth. For example, for the same period, looking at adult hardback and trade paper sales, units have grown only 1.6 percent per year, while revenue has grown 3.3 percent.[19] But when all is said and done, the overall margins and returns from this business look remarkably like those of the movie and music sectors, despite the apparent structural differences.

As depressing as these segment profiles are, all content is not equal. Continuous content businesses, as contrasted with the predominantly one-off, disjoint content businesses just profiled, are much better businesses. To be sure, music, film, and books have continuous aspects to their businesses. Around a quarter of Harlequin romance novels are sold as continuity series that are mailed out periodically to subscribing customers. Film studios are responsible for a number of long-running movie franchises or drama series, soap operas, or game shows. Even recorded music companies are able to sell some part of their product through various ongoing services, either through the mail or online. But the continuous aspects of these businesses represent a tiny fraction of the overall revenue and profit of these segments.

There are many media businesses whose core content creation is continuous in nature. Magazines, newspapers, cable channels, databases, most professional publishing, broadcast TV and radio, to name a few, all have content creation infrastructure designed to produce regularly updated versions of the same core product. This infrastructure is typically flexible enough to incorporate and integrate additional content from third parties into the mix: Newspapers and magazines use wire stories and photos, stringers, and contract writers; professional and database publishers integrate their own material with public and other sources; cable channels and broadcasters produce their daily lineups from a mix of internally produced and purchased programming. As a result, continuous content businesses typically have a significant component of their operations in the packaging side of the business as well.

The different nature of these continuous businesses translates into quite different operating structures from that of disjoint content businesses. Film, record, and book companies essentially start over from scratch each time they begin a new project. There is some shared infrastructure that is used repeatedly, but it is so generic that it can often be easily outsourced. MGM for much of its recent history operated easily without an actual studio lot. Finding adequate music recording facilities is no more a challenge than gaining access to the basic publishing software needed to turn a hundred thousand well-conceived words into a book.

Continuous content businesses, by contrast, can justify investing in the dedicated equipment and resources required to produce that very particular product on an ongoing basis. Often the nature of these investments is such that they cannot be easily modified for another purpose. A large four-color printer designed to produce a high-volume daily newspaper cannot be easily retrofitted to primarily serve other kinds of printing jobs. The advertising sales force that has been calling on the same customers regarding the same basic proposition for years cannot be easily switched out en masse to market something else.

Continuous content businesses, then, by their very nature, typically entail a higher fixed cost component. A new entrant into the market can engage in a variety of strategies to mitigate the financial risks required to put this fixed cost base in place, such as undertaking market research or preselling advertising based on a prototype of some sort. But at the end of the day, if you are going to be in the business, the investment must be made. And the greater the fixed cost requirement, the greater the economies of scale and the greater the barriers to entry. Not all continuous content businesses have huge fixed cost elements. The set of *Deal or No Deal* probably does not have many other uses, but we doubt either it or a long-term contract with host Howie Mandel is very expensive. The point is, however, that as a group, continuous content businesses are likely to have greater economies of scale.

Similarly, on the demand side of the equation, continuous content businesses are more likely to be habit-forming, almost by definition. Anyone who has spent time on the phone with a customer service representative trying to turn off the cable service knows well the potential switching costs associated with canceling most subscription-based continuous content business. Most local newspaper subscribers subscribe until they move or, more and more, they die. And in the business or professional media context where the data may have been integrated into the overall work flow of the organization, these switching costs can be more than a mild annoyance.

The incremental competitive advantages of economies of scale and customer captivity potentially enjoyed by continuous content businesses over their sexier one-off sisters may sound like much ado about nothing. And to be sure, these barriers are neither overwhelming nor impervious to changes in the market environment. But these structural differences in continuous content businesses translate into meaningful differences in performance.

Let's take the example of consumer magazines targeting women. This is a sector that one might expect to have confronted dramatic change corresponding to the dramatic changes in the political, economic, and social roles of women over past decades. Furthermore, the Internet might have been expected to easily disintermediate these tired old titles by allowing women to get the information they want when they want it without lugging around a heavy magazine. The data suggests something quite different, however.

TABLE 6.4 Women's Service Magazines 1998 and 2007: Ranked by Circulation [20]

Rank 2007	Rank 1998	Title	Founded
1	1	*Better Homes & Gardens*	1922
2	4	*Good Housekeeping*	1885
3	2	*Family Circle*	1932
4	5	*Women's Day*	1937
5	3	*Ladies' Home Journal*	1883
6	7	*Cosmopolitan*	1886
7	8	*Southern Living*	1966
8	n/a	*O, Oprah Magazine*	2000
9	6	*Redbook*	1903
10	10	*Glamour*	1939
11	9	*Martha Stewart Living*	1990
12	n/a	*Real Simple*	2001
13	13	*InStyle*	1994
14	16	*Shape*	1981
15	11	*Sunset*	1898

We looked at women's magazines that have traditionally been called "women's service" or "women's lifestyle." These are generally monthly magazines that cover a broad array of women's interests, including family and relationships, home decorating, recipes, and health issues. Although each title specializes in a particular age demographic, they all have very similar content. In 1998, there were fifty-three titles (with circulations over two hundred thousand and that accepted advertising) that we identified as covering women's service and lifestyle topics. By early 2007, one-third of those identified had stopped publishing, and seven new ones had entered the ranks. So on the surface, there seems to be a lot of product movement in this category—but it is really only on the margins. In examining the category leaders, the top five largest-circulation titles are the same in 2007 as they were in 1998. And of the top ten, nine are the same.

What is most striking in this list is not only the ten-year stability, but how really old the products in this category are. Of the magazines in the top fifteen, 25 percent were founded in the nineteenth century and another 25 percent before 1940. The share stability among the top fifteen are striking as well. Even with the additions of the new titles *Oprah* and *Real Simple,* over the ten-year period, the circulation share shifts only 1.8 percent among the leaders.

But what about profitability? Surely in the new digital world, with everyone able to Google multiple sources of information on a topic of interest and dozens of independent sites targeting women—from iVillage to Daily-Candy—women's magazine publishers must be bleeding red ink. Not at all. Meredith, a public company that publishes three of the top five women's service magazines, breaks out the profitability of its publishing division. These magazines continue to show higher and more consistent profitability than even the best-run company in movies, music, or books.

So what is going on? The publishers and editors of these women's publications have clearly understood customer captivity. Women buying these publications, every month or in yearly subscriptions, make a small decision on a continuous basis. They are hooked on the kind of information and on the delivery through glossy paper with text and lots of illustrations. The managements of these very successful magazines pay minute attention to what appeals to individual segments of their readers by carefully tracking data and reinforcing that bond with readers accordingly. The best publishers can tell you how many issues subscribers read by age range or the appeal of a particular direct-mail piece to potential readers in a single state or how many print readers use their Web sites.

TABLE 6.5 Meredith Performance 2000-2007

	2007	2006	2005	2004	2003	2002	2001	2000
Operating Margin	17.3%	17.1%	19.2%	18.1%	16.9%	16.0%	17.2%	17.1%
Return on Assets	22.4%	22.2%	40.5%	37.5%	31.8%	39.3%	42.8%	43.3%

Source: Company financials, fiscal years ending June 30.

This is not to suggest that these businesses are impervious to the threats posed by digital distribution, and there are signs of trouble in the recent margin and returns trends. But continuous content businesses have tools at their disposal to protect their franchises unavailable to discrete content businesses. The long-standing relationship with their reader base both makes that base less likely to move and arms the publisher with information that ensures that the magazines remain relevant to generations of readers and to the advertisers who want to reach them. Some of this information and learning is transferable among publications within the same company, and we see ownership of these publications concentrated among five companies (Meredith, Hearst, Time, Condé Nast, and Hachette). But in the end, a customer's loyalty is to a particular title, and it is a kind of alchemy that in some cases has taken more than a hundred years to perfect.