

**Jack Kliger**  
**President and Chief Executive Officer**  
**Hachette Filipacchi Media**

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Thank you, Ellen.

And thank you Mark and your associates at AdMedia Partners for sponsoring this series

Before I address my experience at Hachette, I would like to make another point. I want to talk briefly about an important subject which is not only key to Hachette's success but is extremely important to everyone in this room involved in the U.S. magazine business.

Now I believe the magazine industry has an opportunity over the next few years to pick up a greater share of the advertising budget spent on media in this country than in the past decade.

But in order to do that, we need to join together and focus on changing some things we do as an industry and as individual companies.

- As an industry, we need to commit to promoting magazines to the ad community as a brand - as a category we have to make ourselves sexy again.
- We need to look to improve our research measurement methodology.
- And we need to make a big change within our culture about the way we compete against each other.

Michael Clinton stated the challenges very well at last year's Magazine Day, saying "the ball is in the air" and it is a whole new game and we have the chance and the need to play differently.

Advertising buying is now being rethought. Everyone is looking for greater connectivity with consumers. More interactivity, more involvement. I submit that the magazine industry should seize the opportunity that is being presented to us. But we need to do it in a more strategic and organized industry wide effort.

With the rise of reality TV and other programs, television seems to be dumbing down their product to reach the widest common denominator. I believe the opposite is true for magazines. With all the pressures we face, I firmly believe magazines today are better than ever in the quality of text and graphics and ideas than they've ever been. And our readers love them.

Everyone talks about media clutter and noise, and a company named Bigresearch just released information stating that most people regularly use more than one media at a time. For instance – over three-quarters of radio listeners and over half of all television viewers are simultaneously using another media. While waiting for downloads from the Internet, 52% listen to the radio, 68% watch TV and 20% read the newspaper. At the same time, only one third of magazine readers are using another form of media. Clearly, we benefit from occupying not only their eyes and ears but their hands as well.

In 2003, ad spending for the 12 largest media sectors increased 8% to \$109 billion and network, cable and spot TV totaled 45% of spending .

Magazines made up about 17% of the mix which has been a relatively constant figure for the past few years. However, as new media forms have emerged, such as Internet and cable TV, they are taking share from everybody, including magazines.

And even though network TV has an eroding base, they still keep charging more for it.

Our problem is highlighted by projections for 2004 show that while magazine revenues will be up 5.5% they will have the smallest increase of any of the major media forms – television, radio and Internet. Loss of share is something we need to take very seriously and see what we can do about it.

One of today's big issues in media buying is the reliability of consumer research and in the case of magazines, the timeliness and comparability of that research.

You know, the Audit Bureau of Circulation was created (in 1914, by the way), to verify magazine publisher circulation claims. As electronic media developed total audience measurements, we added audience measurement to our existing circulation data. And we are now the only national media that is really bought on two sets of metrics when everyone else is bought on one.

Much of the emphasis on more ABC information is in part fueled by the perceived lack of reliability in magazine audience data.

This is encouraging advertisers to put more emphasis on the circulation statements as part of the buying metric. And, it is making it harder for magazines to be compared with other media which are bought on total audience.

Our audience measurement techniques are not accepted as being comparable and audience accumulation is not measured through the same time lines as TV audience.

While we can argue against the justice of being bought on dual metrics, until we improve the state of magazine audience research that is more timely and, I believe, more comparable to television audience data, then all we will be doing is crying as victims of the system rather than acting as an industry with solutions.

This is a real challenge for the industry. The advertising buyers aren't going to give up two negotiating hammers and like having both circulation and syndicated audience data as a pricing and buying metrics. We can say "unfair" and they can say "too bad."

But, we are not giving them the best case as to why to go to audience data which is currently, by the way, really only comparable to other magazines.

The fact is almost all of our measurement data whether it is circulation data, syndicated research or our own subscriber studies, are usually not comparable to electronic media. All we are doing most of the time is reinventing a way to compare to each other.

Effectively we spend most of the time, eating each other's pie, rather than doing anything to make the pie bigger.

Which leads to another unique aspect of our magazine culture. More than any other media, we practice selling negatively against our own magazine competitors. More than television – more than radio – more than Internet.

We cut away the foundation of our ability to sell magazines as a channel when so much of the time we are focused on how this magazine is not as effective as another magazine.

If we are ever to sell the reach and impact of large circulation women's magazines versus TV delivery of women when the TV audience is fragmenting daily, we undercut our mission by having *Woman's Day* attack *Family Circle* at the same time.

I believe this starts at the top levels of the companies. Often times we criticize ad agencies by saying their senior executives say one thing but their troops on the ground, their media buyers, say another. In fact, we are probably doing the same thing. When I'm in a room with the presidents of other publishing companies, everyone will agree that the negative selling that we do undercuts the industry. But, in point of fact, we all know that when they're out on sales calls and our people are being played off against each other it is very hard to get away from it.

Additionally, many of our sales compensation programs incentivize sales staffs on share of market gains vs other magazines. By the way, at Hachette Filipacchi, no magazine is allowed to incentivize its sales people by share of market gains against only other magazine operations.

What are we saying, when our sales people are motivated based on what they can take away from other magazines and so their entire competitive universe becomes the world of magazines, not the world of media.

On a positive note, the MPA has helped form a Magazine Promotion Coalition to come up with an aggressive effort to sell magazines to advertisers and agencies as a more important part of media mix.

This includes not only the magazine publishers but many suppliers like the printers, paper companies and the graphics industries who suffer equally with us when advertising is soft and gain with us when times are good. More so than the suppliers for any other media form.

This will not be an overnight fix but a long-term commitment that needs the full support of the industry. You will hear more about this in the future.

I submit, we shouldn't have a narrow perspective that makes us think that we can't even go after a larger share of overall ad budgets any more. I can guarantee you that television people are figuring out how to get more money out of print budgets. We have little, if any effort, of the magazine industry going in to try to figure out how to get a larger share of media budgets.

In my opinion, we have to change the way we think about our neighbors and our neighborhood. Magazines are just one street in a neighborhood of media alternatives. We have to think of our competitive landscape as the whole neighborhood. We may even have to move onto an even larger block.

It's not good if all I'm doing is comparing the size of my house to the size of my neighbor's house and not looking beyond the borders of my own street. Let's realize that one of our missions is to have a bigger neighborhood to operate in, and then everyone's house can get bigger.

With that said, let me tell you about my house.

### **Hachette Filipacchi Media U.S.**

Hachette's parent, Hachette Filipacchi Médias (or HFM) – is based in France and is one of the largest consumer publishing companies in the world.

We are presently in 36 countries, publishing 238 titles

Unlike almost every magazine publishing operation with U.S. headquarters, Hachette's far flung global operations result in a majority of its revenues coming from outside its home base in France.

Yet, in France, HFM is the leading publishing group with 43 magazines with a circulation market share of 21%. It is the leading magazine publisher in news with the popular weekly Paris Match as well as in the top-end women's magazines with ELLE. Most people in the U.S. don't know that, in France, ELLE magazine is a weekly. The company also publishes the largest French weekly TV magazine.

Hachette is wholly-owned by the Lagardère Group. Under the leadership of Arnaud Lagardère, it is being transformed from what was originally an engineering and aerospace company, into one of the largest media companies in the world. The Lagardère Media division has revenues slightly under \$10 billion dollars per year.

Also part of Lagardère Media are the book division, one of the largest book publishers and distributors in France, and Hachette Distribution Services which includes retail distribution such as Virgin Stores in France and Relay stores as well as wholesale distribution such as Curtis Distribution in this country. Lagardère also owns substantial interest in electronic media such as satellite television and radio in Europe.

### **Hachette in the US**

Here in the U.S. Hachette's family of brands are aptly described through our corporate "Uncommon Denominator" positioning.

We are a leader in special interest publications. We cater to enthusiasts:

- giving them uncommon knowledge, so that
- we have uncommon relationships and
- we believe we create uncommon influence

Our primary focus is on our family of brands – how to make them stronger, how to expand them and how to use those brands to bridge to other media or products.

We will acquire when it fits. As you well know, Hachette in the U.S. sat out of much of the acquisition activity off the past 5 years, as we thought this market was over priced.

Around the world Hachette has made major magazine investments in the U.K., in Asia and has a substantial interest in Marie Claire, which ironically, as you know, in this country is published by Hearst.

The U.S. company is driven by four strong flagship brands: *ELLE*, *Woman's Day*, *Car and Driver* and *Road & Track*.

To that end, we have invested heavily in this core group over the past five years. We have redesigned *Road & Track* and *Woman's Day* with larger formats, we have repositioned *ELLE* and launched *ELLEgirl*, first in the US and then in 5 other countries.

And, we have put more money into *Car and Driver* and *Road & Track* road testing than ever before. This is a hallmark of our company. We spend, after editorial salaries, the largest amount of our editorial investment on product testing and reviews.

In fact, Hachette spends more in this area than any other publisher, with the possible exception of *Consumer Reports*. This is what those demanding enthusiasts ask for.

We have also produced two new extensions of the car books this spring – *Boost* and *Speed*.

## Brand Extensions

Let me talk about the importance of brand extensions at Hachette. These extensions importantly bring in new revenue streams and build the brand's strength. Let's take *Car and Driver* as an example.

*Car and Driver* is the largest automotive magazine with an average paid monthly circulation of 1.35 million.

Last year Americans bought nearly 17 million new vehicles. Consumers want credible, third party information when they make their purchasing decisions, and our strategy is to surround the American consumer with *Car and Driver* as the essential source of information on all things automotive.

Independent automobile information and reviews are very costly to produce. As I said, each year, *Car and Driver* spends millions of dollars testing cars and trucks, and we leverage that investment in a number of ways.

Over the past few years we have aggressively extended the *Car and Driver* brand and content through television, radio, the Internet, mobile telephones and through licensed merchandise.

Each platform carries the *Car and Driver* name, and, to varying degrees, uses reviews and information from the magazine, as well as develops unique content appropriate for the medium.

We created a two-pronged strategy to develop the *Car and Driver* brand on television – through aggressive public relations and our own branded television program. Editor-in-chief Csaba Csere is now regarded as one of the nation's most authoritative automotive spokesperson and regularly appears on national television programs like The Today Show.

At the same time, we have created our own *Car and Driver* TV program which airs weekly on Spike TV. In the past four years the program has sold hundreds of thousands of subscriptions.

Four years ago, *Car and Driver* launched its web site – CarandDriver.com. The site often offers content not available in the magazine yet produces thousands of new magazine subscribers per year.

CarandDriver.com going forward is developing custom content to create new revenue basis from the online consumer. We have conducted research to see what new online content consumers are willing to pay for and will be rolling out new paid services later this year.

At the beginning of 2003, *Car and Driver* added a branded radio program distributed through national radio networks.

And, there is also *Car and Driver* licensed merchandise. We are now in our 7<sup>th</sup> year of an exclusive arrangement with one of the most popular retail chains in the U.S. The *Car and Driver* branded line of merchandise is carried in over 1,100 locations and has resulted in over a hundred million dollars in sales during the course of the contract.

Finally, we recently formed a division in our company to expand our brands into mobile telephone paid content. Our parent company Lagardère Active is a leader in this area in Europe where the market is more developed than in the U.S. but all you have to do is go to any college campus to see what is to come here in the U.S.

*Car and Driver* is one of the four magazine brands that is currently being marketed through AT&T Wireless providing exclusive images of the hottest new cars and a daily auto news service as well as reviews and pricing.

### **Balancing the culture between readers and advertisers**

When I arrived Hachette almost five years ago, my friend Dave Pecker had done an impressive job of building a stable of magazines. During the past 4 years I had to make the hard decisions to close three of our titles: George, Mirabella and Travel Holiday, but the remaining titles are all strong.

An important perspective that I have emphasized at Hachette, in addition to strong brands, is that “the readers rule.”

I believe we need to become a more balanced business in terms of contribution from the reader vs. the advertiser.

Magazines own their readers and rent them to their advertiser. We've built a business more focused on the people who rent (our advertisers) rather than those who buy us (our readers).

All of us remember when advertising was good in the 90's, robust advertising covered a variety of faults in our circulation practices that were like blemishes that were covered over with a lot of pancake make up. But those days are gone and for the foreseeable future, we will not have the same kind of gold rush that existed in the 90's.

As I have said before, the industry is trying to move to a healthier business model in which more of our circulation decisions are based on the right P & L factors rather than loss leader factors that will be made up for in advertising revenues.

At Hachette, we have dedicated consumer research focusing on the readers. In the past, less than one fourth of the budget Hachette invested in research was focused on the consumer. That is not healthy.

Editors are involved in shaping that research, they take ownership and incorporate the findings into the pages of their magazines.

We give editors, on a regular basis, key information about direct mail, renewal figures and newsstand data.

We have reconnected the communication between those people who write copy within the pages of the magazine and the people who write copy asking for a subscription or renewal. It sounds simple, but the disconnect was profound.

In the area of single copy sales – we now – for the most part – have a collaborative effort between the editors who design the cover and those people responsible for newsstand sales.

The editors now have real influence and responsibility in the consumer marketing area.

### **To Sum Up –**

I've talked about how we identified and concentrated on our strongest brands – making them stronger in a difficult climate.

We've talked about change within our industry and in the media landscape in general. We need to change the present data for audience measurement and change the way we look at the

competitive landscape we operate in. As Tom Ryder, current chairman of the MPA, often says, we need to rethink some of the basics in our industry

And, we must focus on getting the magazine industry a bigger share of the media pie, change the way we compete with other media and stop undercutting our own magazines.

We must become more comfortable with the environment of change that we operate in. We need, as an industry and as a company, to not be reactors to change but must manage change with imagination, planning and action.

I feel very strongly that the challenges that we face as an industry are manageable and we are at an incredibly important and opportune moment. Our future can be very bright.

Thank you for the opportunity to speak to you this morning.

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