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An Update on ProLogix - The News Group/Anderson Joint Venture

In early December 2005, the then-two largest mass market magazine wholesalers, Anderson and The News Group, announced the formation of two joint ventures, ProLogix Distribution Services East and ProLogix Distribution Services West (*The New Single Copy*, 12/5/05). The companies, utilizing personnel, facilities, and equipment of the parent companies, were founded to provide logistics services - warehousing, pick and pack, delivery, merchandising, and return processing - for the retail accounts of the two wholesalers' customers. Designed to create geographical density and therefore provide cost savings to a magazine distribution channel that was financially distressed for nearly a decade, the ProLogix initiatives were generally welcomed by national distributors and publishers, as well as many industry analysts.

More than a year after its introduction, *The New Single Copy* takes a look at where the ProLogix companies are today. The management of the two companies, along with senior executives of the

parent companies, recently delivered a progress report to the board of the International Periodical Distributors Association (IPDA), the trade association for national distributors. ProLogix shared some of that material with *The New Single Copy*. ProLogix West delivers to News Group and Anderson customers in western states - Washington, Oregon, Utah, Nevada, Northern California, and large parts of Idaho and Wyoming. The East group does business in nearly all of the Southeastern United States, with the exception of Mississippi and Louisiana. Although when first announced, the ProLogix initiatives were expected to begin early last year, the units did not actually become operational till late spring. More than 26,000 weekly deliveries are made to nearly 19,000 retail stores. Some larger accounts receive multiple weekly deliveries and merchandising visits. On a weekly basis, more than 13 million magazine units and 1.4 million books are delivered to retailers. Of course, more than half of them are picked up and

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Around The Business

Primedia Selling Again. Hearst Mobile Plans. Launches.

Primedia Inc. announced it retained to investment firms to explore the sale of its Enthusiast Media Group. Among the more than 70 magazines in the group are *Motor Trend*, with single-copy-sales-per-issue of 152,000 (down 0.3%)* of a total circulation of 1.2 million (down 4.4%), annual retail

dollars sales of \$7.2 million, and a newsstand sell-through rate of 39%; and *Hot Rod*, single copy of 90,000 (plus 6.5%), total circ of 711,000 (plus 3.3%), dollars of \$4.1 million, and a 30% sell-through. The group also includes 90 Web sites, many related to the magazines....*Advertising Age* (2/7/07) reported that **Hearst Magazines** is introducing cell phone sites for young women, related to some of its magazines: *Seventeen*, *Cosmopolitan*, and *CosmoGirl*. More are planned for some adult titles - *Good Housekeeping*, *Redbook*, *Esquire*, *Popular Mechanics*, and *House Beautiful* - later in the year. Hearst emphasized that the content will not be magazine editorial in different format....**Curtis Circulation Company** will be the national distributor for *Phoenix Woman*, six-times

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* Circulation and revenue figures are calculated from most recent reports of the Audit Bureau of Circulations. Sell-through number is from MagNet, the wholesaler data base of magazine sales.



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Around the Business (cont.)

frequency, on-sale 3/6/07, cover price of \$4.95; and *Global Rhythm*, monthly, 5/26/07, \$5.95/\$6.95 Canada....There were reports in several trade websites that **Time Inc.** is using the auditing firm, Ernst & Young, to verify the circulation of *All You*, the Wal-Mart exclusive title. The figures will be provided to advertisers on a non-disclosure basis, to comply with Wal-Mart's policy of not releasing sales data. *All You* has an ad rate base of 700,000....*The New York Post* (2/5/07) reported on developments at two major publishers. It claimed that the publisher is trying to sell *Premiere*, which averages 74,500 newsstand sales (down 12.3%) of a total of 511,000 (up 0.4%), and had retail sales of \$.2 million at a sell-through of 33%. *The Post* also reported that **American Media Inc. (AMI)** financial problems meant the company was "negotiating with bankers to avoid falling into

default."...**Retail Notes:** *Supermarket News* (2/5 /07) reported on its website that **Dominick's**, the Chicago-area supermarket chain, will close 14 stores in April, and renovate 20 others. The chain is owned by **Safeway**....**Tesco**, the British supermarket chain said that the stores it plans to open in the American southwest this summer will be named "Fresh & Easy Neighborhood Markets." They also said the store footprints would be around 10,000 square feet, which makes them larger than convenience stores, but considerably smaller than the typical supermarket.

In Memoriam: Richard Heiland, a former magazine wholesaler, in Monterey, California, died on February 5, after a year-long struggle with cancer. He was 56.

ProLogix (cont.)

brought back to the distribution centers for return processing.

East and West have different profiles. West operates out of five major distribution centers, supported by a network of service centers. East maintains a dozen distribution centers and a corresponding network of service centers. In the West, store display servicing is supplied by merchandisers. In many locations in the East, drivers provide in-store services. The president of ProLogix East is Bo Castle. His counterpart at ProLogix West is Dan McLaughlin. Each of them, along with officers of News Group and Anderson, sits on the overall board of ProLogix.

The ProLogix paradigm is new to magazine distribution. The companies' customers are the wholesalers, who pay the service providers to deliver publications to the wholesalers' contracted retail customers. ProLogix does not receive a share of a magazine's or a book's cover price, but is paid varying fees from the wholesalers for receiving, bundling, delivering, merchandising, handling returns and processing them. National distributor business relationships continue to be with the wholesalers, yet publications are delivered from printing plants to ProLogix distribution centers. Wholesalers continue to be required to meet publisher requirements and are compensated by a percentage of the cover price on copies sold. However, the wholesalers pay ProLogix to fulfill those requirements on a fee structure, one that varies by location and other costs.

As stated earlier, national distributors and publishers greeted the introduction of ProLogix warmly. However, there have been reports that the transition of dealing with wholesaler systems to third party logistic providers did not always go smoothly.

Weeklies scheduled for pre-weekend delivery sometimes missed on-sale dates when receiving schedules changed due to the consolidation of what had been separate wholesaler systems. However, ProLogix officers, in their presentation to IPDA, indicated that, by early January, the "late factor" had been reduced to single-digit levels, after having been consistently over 20% in the start-up stage.

After covering the issues relating to its start-up, the ProLogix companies and their owners briefed IPDA board members on a series of initiatives designed to continuing its development. Among them are a system conversion, new technologies such as voice recognition and handheld equipment, and expanding the business base of clients and industries. Additionally, there was a promise to increase communications between ProLogix, the wholesalers, and the national distributors. IPDA representatives who talked with *The New Single Copy* generally indicated satisfaction with the steady pace of improvements achieved by ProLogix since its start-up and looked forward to greater levels of communication.

For over a decade the mass market magazine distribution channel has struggled to deal with the shifts in relationships between retailers, wholesalers, and suppliers. Those shifts eliminated the geographical density and integrity that were the underpinnings of a system that performed reasonably well for over 40 years. The shifts left the channel's economic model, particularly at the wholesaler level, dysfunctional. To some extent, the ProLogix initiative is an effort to create a *new* distribution channel, one with the potential to restore financial stability to all of the magazine distribution system partners. To achieve that goal, those partners are all going to have make some adjustments and work together to make it happen. The beginning is promising.