

## e-newsletter

Media Convergence Asia-Pacific is happy to send you this CONFIDENTIAL newsletter about recent developments in the region. This regular newsletter will be sent to media companies' CEO's and senior executives.

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President

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## 2011 Asia-Pacific Magazine Advertising Forecasts:

- Overall growth of 2.9% in Asia-Pacific (excluding Japan)
- Fractional growth in the US (+.5%) and small decrease in Europe (-1.6%)
- China to expand by 5%
- Indonesia and Vietnam are booming (+10.2% and +7.5%)

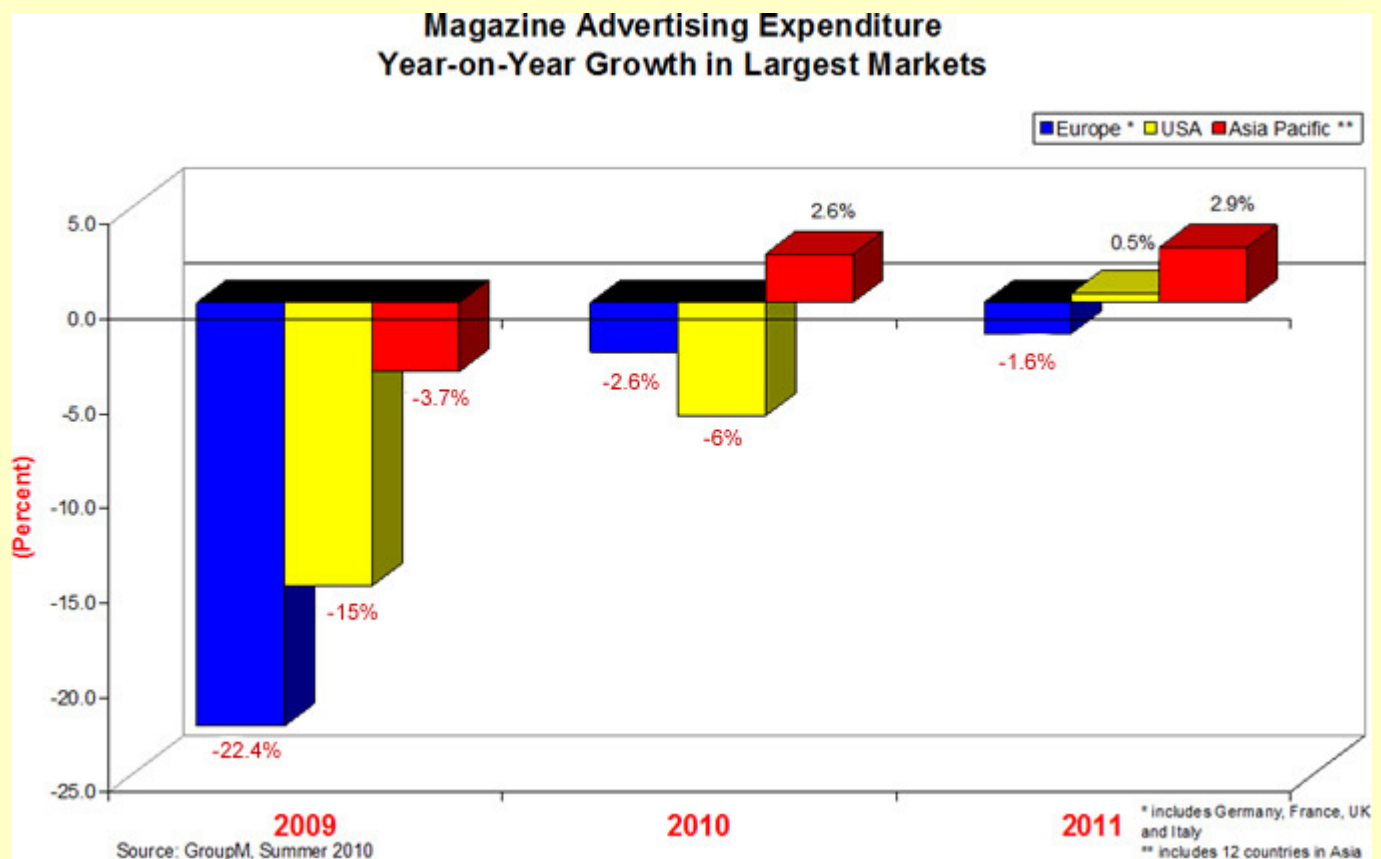
While **Europe** and the **US** are expected to see the end of three years of negative growth in magazine advertising spending, the **Asia-Pacific** region will continue to expand in 2011 compared with 2010.

Although **Japan** remains the largest market in magazine advertising in the region, it will continue to decline (-8.6% % in 2011 compared to an anticipated -20.7% in 2010), **GroupM** predicts **China** and **India** will expand by +5% and by +7.1% in 2011, a smaller growth for China compared to 2010 (+9.1%) but a significant improvement for India which was flat in 2010.

In its advertising forecasts "*This Year, Next Year*" (Summer 2010), published in July 2010, **GroupM** expects magazine advertising will grow modestly in the **US** (+.5% compared with an anticipated -6% in 2010) but will continue to decline slightly in **Europe** (-1.6% compared with an anticipated -2.6% in 2010). Europe's largest markets are expected to see their magazine advertising market erode a little further in **Germany** (-1.5%), in **France** (-1.3%), in the **UK** (-3.9%) and flat in **Italy** (0%).

At the same time, **ZenithOptimedia** came with its "*Advertising Expenditure Forecasts (July 2010)*" and foresees a slightly bleaker picture for the **US** market (expected to experience in 2011 a negative growth of 3.5% in magazine advertising spending), while **Europe** drops by 1.4%. However, both **GroupM** and **ZenithOptimedia** foresee a significant increase in magazine advertising spending in the two small markets of **Indonesia** (+10.2% and +13.5%) and **Vietnam** (+7.5% and +12.8%).

**GroupM** is the parent company to **WPP** media agencies including **MAXUS**, **MediaCom**, **Mediaedge:cia** and **Mindshare**. **GroupM** operates more than 2,000 offices in 106 countries. **ZenithOptimedia** is a part of **Publicis Groupe** and extends its global media services in 218 offices in 72 countries.



## Country by Country Projections for 2010

Source: GroupM Worldwide Media & Marketing Forecasts - Summer 2010

JAPAN		Growth over previous year	Magazine Advertising (in million Yen and at current prices)
	2009	-25.6%	303,400
	2010	-20.7%	240,597
	2011	-8.6%	220,000

Although **Japan's** economy is expected to rebound in 2011, the magazine industry still cannot expect to see the end of a long advertising spending erosion. In its *World Economic Outlook* (July 2010), the **International Monetary Fund** (IMF) expects Japan's real Gross Domestic Product (GDP) to grow by 1.8% in 2008 compared with an expected 2.4% increase in 2010.

But the economic growth does not translate in more advertising pages for Japanese magazines. With the exception of 2005, Japan's magazines have not had one year of advertising growth in the last ten years. Magazine advertising spending should suffer a decrease of 8.6% in 2011, following the painful drop of 20.7% expected for 2010. The Japanese magazine industry should therefore experience a reduction in its market share among all media categories to 5.2% in 2011 compared to 10.1% in 2005.

Yet, with expected advertising expenditure of about US\$2.5 billion in 2010, Japan is still one of the largest markets in the world for magazine publishers, even though it dropped to the fourth position in 2010 behind the **US, Germany** and **France**.

CHINA		Growth over previous year	Magazine Advertising (in million RMB and at current prices)
	2009	12.8%	6,174
	2010	9.0%	6,729
	2011	5.0%	7,066

After a booming 11.9% GDP growth in the first quarter, the Chinese economy expanded by 10.3% in the second quarter 2010. **China** is well on target to meet **IMF's** GDP growth projections of 10.5% in 2010 and 9.6% in 2011. In the meantime, **GroupM** predicts an overall increase in advertising spending of 10.6% in 2011, following a 16.3% growth in 2010. **ZenithOptimedia** is even more bullish on China's advertising and projects a 17.5% growth in 2011 compared with an expected 14.8% increase in 2010.

Unfortunately, the magazine industry should not experience the same magnitude in advertising spending and only grow by 5% in 2011, compared with an expected 9% increase in 2010. TV and internet (especially paid search) seem to take the lion share of the 2011 projected RMB 338 billion (US\$46 billion) advertising industry, which will make China the second biggest advertising market in the world. With slightly more than US\$1 billion in advertising spending, the Chinese magazine industry reaches the second position in Asia Pacific but far behind **Japan**. However, **Media Convergence** believes that a significant portion of the budgets from **Hong Kong** (see below) is directed to the Chinese market and its locally published magazines with their respective website.

The reason Chinese magazines are not getting their fair share of the increased advertising spending is due to their limited distribution to the three main cities: Beijing, Shanghai and Guangzhou. Yet, advertisers have marketed heavily their products and services for many years in these three urban centres where they have reached their maximum client potential. In order to continue to grow by more than 20% annually – as several international companies have enjoyed for several years – advertisers need to expand their distribution deeper and reach new consumers in other cities. There are 30 cities – referred as the "second-tier cities" – with a population in excess of five million people out of the 270 Chinese cities with more than one million inhabitants.

Unfortunately, magazine distribution in the second-tier cities is patchy, complex and inefficient. Since, there are no circulation audited standard in China, many publishers have been reluctant to expand their magazine distribution significantly beyond the three main cities. Therefore, several advertisers have started to shift part of their budget to television and on-line media (there are 243 million broadband users in China), where they reach a large audience. The strategy – yet expensive – has worked in most cases and it explains why magazines have received a lower share of the country's increasing advertising expenditure.

However, the future of the magazine industry in China is bright. Probably brighter than any other country in the world. The multi-platform development of magazine contents – with dedicated websites and iPad – will allow Chinese publishers to expand the reach of their contents deeper and probably beyond the second-tier cities. Furthermore, the Chinese authorities are moving to switch the current export-driven economy towards a more consumer base (private consumption only represents 36.4% of China's GDP, compared to more than 60% in most developed countries). Therefore, with more consumers to reach – which will create bigger advertising budgets – and improved access to readers, Chinese publishers should be in a good position to offer an efficient alternative with engaging audiences to advertisers. They just need to concentrate on producing quality magazines with better content.

AUSTRALIA		Growth over previous year	Magazine Advertising (in million A\$ and at current prices)
	2009	-9.0%	820
	2010	-2.9%	796
	2011	0.8%	803

The **Australian** media industry is vibrant with an expected overall increase in advertising spending of 7.2% expected for 2010 and 3.8% in 2011. Despite the limited on-line audience – from a wealthy but limited population of 22 million – internet and on-line search are growing by 20% on average each year. Television has performed well by attracting large audiences with new imaginative programming – like *Master Chef* – and overall media consumption is increasing. Furthermore, Australia has one of the best performing economies in the developed world (the **IMF** predicts a 3% GDP growth in 2010 followed by a 3.5% increase in 2011).

Although the Australian economy “technically” avoided a recession in 2009 – with only one quarter of negative growth – the Australian magazine industry experienced its worst year on record. It is clear that 2010 will not be another “*Annus Horribilis*” as some limited growth have been experienced by the largest magazine companies. Compared to the above **GroupM**'s projections, **ZenithOptimedia** predicts a slightly better performance for the Australian magazine industry with a 1.2% increase in 2010 and 4.8% in 2011.

Since 2010 has suddenly become an election year – which was not known at the time GroupM and ZenithOptimedia prepared their market analysis – **Media Convergence** believes Australia's advertising growth (including the local magazine industry) will be significantly better than the above projections.

An improved market condition is what **CVC Asia Pacific** hopes for to float **PBL Media**, Australia's largest media group. The private equity company acquired PBL Media in 2006 and 2007 and has injected A\$5.5 billion in the group, which owns **ACP Magazines**, the **Nine Network**, **Ticketek**, **NineMSN** and **Carsales.com.au**. Things did not go as planned and PBL had to be recapitalised with about A\$3.2 billion in senior debt and close to A\$800 million in mezzanine debt. There are also speculations another private-equity firm, **KKR**, is considering its options for its half ownership of the second largest media group, **Seven Media Group** (**Pacific Magazines**, **Seven Network** and **Yahoo! 7**).

HONG KONG SAR		Growth over previous year	Magazine Advertising (in million HK\$ and at current prices)
	2009	-10.0%	4,670
	2010	5.0%	4,904
	2011	2.0%	5,002

The small increase in magazine advertising spending projected for 2011 does not reflect the economic growth of **Hong Kong SAR** which is expected by the **IMF** to increase by 4.4%, following a strong performance of 6% in 2010. The task of monitoring the city's magazines industry becomes more challenging every year. Several large advertising agencies based in Hong Kong still decide on the advertising budget for **China**, following their clients' regional headquarters (also based in Hong Kong) and in connection with their affiliates in Shanghai, Guangzhou or Beijing. The decision centres also fluctuate constantly between these cities and magazine advertising sales executives need to follow each client closely on a group – or even brand-by-brand – basis.

SOUTH KOREA		Growth over previous year	Magazine Advertising (in million Won and at current prices)
	2009	-8.7%	438,800
	2010	0.3%	440,000
	2011	-4.5%	420,000

The **Korean** economy has recovered well after the recession experienced during the global financial crisis and the **IMF** predicts GDP growth to reach 5.7% in 2010 and 5% in 2011. In the meantime, **GroupM** predicts the overall advertising expenditure of 6.2% and 3.1% during the same period. Television gets the lion share of the media spending in South Korea with close to a 40% market share, while internet is taking nearly as much revenue as newspapers. Unfortunately, the magazine industry is struggling to come out of the difficult situation in 2009, despite a modest increase in 2010.

INDIA		Growth over previous year	Magazine Advertising (in million Rupees and at current prices)
	2009	-4.9%	8,080
	2010	0%	8,080
	2011	6.9%	8,640

**India's** magazine industry surprised everyone over the last two years with a flat or even negative growth which followed several years of double digit expansion. Despite an overall advertising market growth of 8.4% expected in 2010 and 13.8% in 2011, the local magazines cannot seem to increase their small market share among all media: the 3.3% figure expected in 2010 has been steadily eroding since 2003, when it stood at 5.6%. Despite its robust economic growth (the **IMF** predicts a 9.4% GDP growth in 2010 and 8.4% in 2011), India's diversity with its mosaic of cultures continue to represent a challenge for the local magazine industry.

NEW ZEALAND		Growth over previous year	Magazine Advertising (in million NZ\$ and at current prices)
	2009	-9.2%	226
	2010	2.7%	232
	2011	1.3%	235

The magazine industry in **New Zealand** normally follows the performance of the **Australian** market, provided the economy goes in the same direction. The **IMF** projects GDP growth of 3% and 3.2% in 2010 and 2011, which is almost identical to Australia. However, the overall advertising spending is expected to increase by 6.3% in 2011, following an expected growth of 4.8% in 2010, which is better than its close neighbour. New Zealand is still one of the countries in the Asia Pacific region whose magazine industry still maintains more than 10% of the market share among all media expenditure.

INDONESIA		Growth over previous year	Magazine Advertising (in million Rupiah and at current prices)
	2009	15.0%	1,203,205
	2010	10.0%	1,323,526
	2011	10.0%	1,455,879

Again, **Indonesia** continues to have the best performance in magazine advertising sustained growth in the Asia Pacific region, with another double digit increase. Yet, it started from a low base, but the market has doubled in size over the last five years. Indonesia is now a larger market than **Thailand** and the size of its magazine advertising spending is coming close to **India**. The **IMF** expects a steady GDP growth of 6% in 2010 and 6.2% in 2011. International publishers are looking closely at the market and respond to the local publishers request for licensing agreements. Equity deals remain prohibited by the Indonesian government. Hence, the list of magazines which were launched in 2010 or will be launched in 2011 is impressive: *Marie Claire, Elle Deco, In Style, Martha Stewart Living, Hello!* and *Forbes*.

TAIWAN PROVINCE OF CHINA		Growth over previous year	Magazine Advertising (in million NT\$ and at current prices)
	2009	-19.6%	4,863
	2010	-10.0%	4,377
	2011	5.6%	4,620

The light is coming out of the tunnel for the **Taiwanese** magazine industry. After suffering from a steady erosion of advertising revenues almost constant since 2005, growth is expected to resume in 2011. The performance in 2010 is disappointing despite the return to a steady economic growth of 7.7% expected by the **IMF**, which foresees the expansion to remain strong in 2011 (+4.3%). However, the island's magazine industry continues to enjoy one the strongest market shares of advertising spending in the Asia Pacific region (10.4% expected for 2010, down from a peak of 13.3% in 2005).

THAILAND		Growth over previous year	Magazine Advertising (in million Baht and at current prices)
	2009	-9.5%	4,317
	2010	-2.0%	4,230
	2011	11.6%	4,720

The highly reported social unrest in **Bangkok** during the first half of 2010 affected the performance of most media (except newspapers) and magazines were no exception. A strong come back is expected for 2011, along with a good economic growth of 4.5%. The Thai magazine industry still holds well its market share among all media at about 5%.

SINGAPORE		Growth over previous year	Magazine Advertising (in million Sing\$ and at current prices)
	2009	-7.0%	79
	2010	-0.7%	78
	2011	-0.3%	78

"This is a conservative forecast" admits **GroupM** in its presentation of this country, where overall advertising media spend is expected to increase by 4% in 2011 compared with an expected growth of 3.3% in 2010 (most of the increase should go to the interactive media). Indeed, the **IMF** foresees a robust economy (+9.9% in 2010 and +4.9% in 2011), which should bring more advertising spending, including for the magazine industry.

VIETNAM		Growth over previous year	Magazine Advertising (in million US\$ and at current prices)
	2009	23.7%	49
	2010	8.2%	53
	2011	7.5%	57

Solid economic growth is seen by the **IMF** in 2010 and 2011 (+6.5% and +6.8%) and the tiny magazine industry should expect a nice increase from a small base. However, magazine advertising spending is now slightly larger than **Malaysia**, which was not the case three years ago.

MALAYSIA		Growth over previous year	Magazine Advertising (in million Ringgit and at current prices)
	2009	-11.1%	139
	2010	-0.5%	138
	2011	2.0%	141

The smallest market in the Asia Pacific region, **Malaysia**, – which appears in **GroupM**'s forecasts – should experience a small increase in 2011, along with a steady economic growth expected to reach 5.3%.

**WORLD** NEW EDITION  
**MAGAZINE**  
**TRENDS** 09/10



## Media Convergence Asia-Pacific is 10 Years Old:

As we celebrate our company's tenth anniversary, we are re-publishing the list of famous quotes from industry leaders with their respective titles that we published in our various eNewsletters, at the date the quotes were made.

***"Joint-ventures are like tea bags ...  
You never know how strong they are until you put them in hot water"***

Chris Llewellyn  
Director

**EMAP International**  
Rio de Janeiro, April 2001



***"Magazines have not yet reached a mature stage: they have a great future ahead of them if they want to provide the key to the growing complexities of our modern societies to our readers."***

Gérald de Roquemaurel  
Chairman and CEO  
**Hachette Filipacchi Medias**  
London, November 2001



***"I believe in the power of magazines and I believe in the future of magazines in Asia."***

Richard Smith  
Chairman and editor-in-chief  
**Newsweek**  
Seoul, April 2002



***"Magazine launches add more value for shareholders than acquisitions."***

Ann Moore  
Chairman & CEO  
**Time Inc.**  
New York, July 29 2002



***"The fear rather than the fact of war does more harm to consumer and corporate confidence, and thus advertising."***

Adam Smith  
Head of Knowledge Management  
**Zenith Optimedia Group**  
London, Q4 2002



***"A magazine focused on spiritual and emotional themes can connect with the reader in very profound ways."***

Cathleen P. Black  
President  
**Hearst Magazines**  
Paris, May 28 2003



***"The publishing business in China has barely scratched the surface of its potential. If you are willing to be patient and make the effort, you will prosper and be rewarded for it."***

George Green  
President  
**Hearst International**  
Beijing, May 20, 2004



***"Magazines are the most personal form of mass-communication."***

Christie Hefner  
Chairman, Chief Executive Officer  
**Playboy Enterprises International Inc.**  
Phoenix, Arizona, October 23, 2006



***"You cannot really win the media race of the 21st century unless you find your way in Asia. Winners without Asia will be half losers."***

Roberto Briglia  
General Manager, Magazine Division  
**Arnoldo Mondadori Editore S.p.A**  
Segrate – Italy, November 15, 2007



***"Challenging times create new opportunities to take risks.  
Expanding outside one's domestic market is a good risk.  
Expanding to Asia is a must. "***

Francis Morel  
CEO  
**Le Figaro**  
Paris, December 2008



*" Dazzle your readers, inform them, inspire them and grip their imagination. Connect to their hearts and their minds.*

*Do it with conviction and with emotion. Convey the same values with a website, with a weekend, with an event or an experience which engages them.*

*Love your readers (and your advertisers) and they will love you back. "*

Jonathan Newhouse  
Chairman,

**Condé Nast International**  
London, May 6, 2009



Check out  
all the magazines we've launched ...