

A trademark is one of the four major types of intellectual property¹ Intellectual property will be referred to throughout this paper as IP. A trademark is any word or phrase, name, symbol, sound, or device that identifies and distinguishes a companies products from those made or sold by their competition.² A trademark has value when it allows a company to sell a comparable product at a higher price than their competition or if it allows a company to sell a greater quantity of a comparable product than their competition.³ There are three major ways of valuating IP: the cost method, the income method, and the market method.⁴ The cost method attempts to value IP by first evaluating all the sunk costs that are already committed to the project.⁵ After valuing all the historical and reproduction costs, the appraiser assigns a value to the IP based on the IP's versatility and its ability to produce profits.

Time value of money affects the cost method because the costs have already been incurred in real dollars and need to be brought forward into the period when the valuation occurs. The income method values IP on the basis of its direct and indirect net benefit flows. The direct and indirect flows need to take in account the time value of money to get an accurate valuation of the IP. The market method values IP by estimating what freely acting buyers and sellers would knowingly exchange in the market as the value of the IP.⁶ Two key elements in the market valuation method are time to market and the comparability of substitute products in the marketplace. The time value of money is

¹ The other three types of IP are copyrights, patents, and trade secrets. *Entrepreneur's Guide To Business Law* Bagley Constance E. West Educational Publishing 1998 pg.443-466

² *Entrepreneur's guide to Business Law* Bagley Constance E. West Educational Publishing 1998 pg. 463

³ *Value Driven Intellectual Capital* Sullivan Patrick H. New York 2000 pg. 7-8

⁴ *Value Driven Intellectual Capital* Sullivan Patrick H. New York 2000 pg. 115-117

⁵ Sunk Costs are the costs of resources that have already been committed and can not be changed by any current action or decision. *Management Accounting* 3rd edition pg. 220 Kaplan, Banker, Atkinson and Young.

⁶ *Value Driven Intellectual Capital* Sullivan Patrick H. New York pg. 88-89

critical in the market valuation method. Time value of money affects the market method far greater than the income and cost methods because it is based on willingness to pay. Buyers and sellers can react irrationally and artificially raise the market value of a given product. An example of this would be the value of IPO's in 1999.⁷ The best way to evaluate an IP in the magazine industry is to use a combination of cost, income, and market methods to value intellectual property.

The magazine industry relies heavily on the value of its intellectual property. Magazines are information mediums. They gain readership when they encompass articles, columns and photographs that a set of readers find interesting. People buy subscriptions to be a part of what the magazine has to offer. The familiarity involved in a magazine name is very important in determining the value of its IP, especially its trademark. This is what gives the magazine its identity. Another important factor in determining the value of its IP is the magazine's ability to leverage its identity to produce benefit flows and distinguish its product from its competition.

The magazine industry generates income from three main sources. The three main sources of magazine income are advertising, magazine subscriptions, and single newsstand sales. Advertising is the main source of magazine income. Advertisers advertise based on the demographics of the magazine's subscription and readership base. Advertisers target certain segments of the population to market their products toward. Magazine subscriptions are a source of income for the magazines. The publishers attempt to keep subscription prices as low as possible in order to entice new subscribers.

⁷ IPO's (initial public offerings) is the first offering of a previously private held companies stock to the public. In 1999 values of IPO's were selling at prices far greater than their income valuations could ever merit. *The Entrepreneur's Guide to Business Law* Bagly Constance R. pg 494 West Educational Publishing 1998

The publishers can then use their paid subscription base as leverage in setting the advertising rates publishers demand from advertisers. Single issue newsstand sales are a smaller portion of the overall income sources; however newsstand sales are very important in defining the customer base of a magazine. A high single issue newsstand sales number portrays a demographic of people who are spontaneous buyers, which is very attractive feature to some potential advertisers.

Rolling Stone magazine has established itself as one of the premiere music magazines in the United States. *Rolling Stone* magazine has been the voice of rock n' roll for over three decades.⁸ Over the years *Rolling Stone* has built up a reputation that makes its trademark recognizable throughout the United States and European Union. They are known for hard hitting interviews and honest music reviews. They have built their reputation through great writing, controversial photographs, and the desire for musicians to be on the cover of *Rolling Stone*. *Rolling Stone* magazine has built an identity.

The real question is the value of the *Rolling Stone* identity. For the purpose of this paper, I will put a value on *Rolling Stone* magazine's trademark. The trademark for *Rolling Stone* encompasses all the talent, reputation, familiarity, and prestige of *Rolling Stone* magazine. This value also encompasses all the benefit flows generated by its trademarked IP.

In the year ending December of 2001, *Rolling Stone* magazine reported advertising revenues of \$156.9 million, including subscriber revenue of \$22.1 million, and single issue newsstand revenue of \$15.1million,. Their paid subscription base

⁸ *Rolling Stone* magazine debuted on Nov. 13, 1967 and helped to establish rock n roll as not only a viable form of music but as an expression of one's life.

circulation is 1.26 million The total reported revenue for *Rolling Stone* magazine for the year 2001 was \$194.82 million this allowed them to rank 33rd in the top 300 magazines in revenue even though *Rolling Stone's* revenues were down 8.6% from the previous year.

Table 1 Top Magazine Rankings 2001

Rank	Magazine	2001 Total Gross Revenue	% Change	Paid Circulation
1	People	\$1,119,944,000	-4.0%	3,723,880
10	Good Housekeeping	\$ 412, 264,000	-0.6%	4,527,447
20	U.S. News & World Report	\$ 283,599,000	-12.6%	2,086,610
30	National Enquirer	\$ 208,556,000	+ 5.6%	1,868,980
33	Rolling Stone	\$ 194,827,000	-8.6%	1,267,234
40	Prevention	\$ 162,917,000	-3.6%	2,321,233
100	Home	\$ 76,432,000	-16.3%	1,066,306
200	Electronic Gaming	\$ 33,745,000	-2.4%	488,399

⁹ Top magazines ranked by U.S. gross advertising and circulation revenue in 2001

⁹ Ad Age.com data ranked by total US gross ad and circulation revenue. <http://www.adage.com/pageID=664>

I will value the intellectual property of *Rolling Stone* magazine by evaluating the three main sources of revenue. Advertising revenue reported for *Rolling Stone* magazine in 2001 was a hearty \$156,902,000. The number of advertising pages in *Rolling Stone* in 2001 was 1,548 pages and constituted approximately 45% of the total pages published.¹⁰ An average one full page advertisement for every issue during the year would run you about \$101,400 per issue. This is an average. The magazine industry charges different prices per full page, half page, and quarter page advertisements. The industry also charges a premium for the back page, back of the cover, or for a specific location in the magazine (e.g., next to a related story). Discounts are given to repeat advertisers and free advertisements are granted to some organizations. The average advertisement cost per page was determined by dividing the total reported advertising revenue divided by the number of printed advertising pages in the year. This is a significant measure of average price per page because the magazines take all the other factors into account when setting advertising rates for their magazines.

The second major source of revenue for *Rolling Stone* magazine is in its subscription revenue. In the year 2001 *Rolling Stone* magazine generated \$22,066,000 in subscription revenue with a paid subscription base of 1,267,234. The paid subscription base is a false high number because of the way magazines are able to report their subscriptions. The subscription base includes promotional offers of free magazines (freebies) without yearly commitments and subscriptions that will run out this year with the subscribers indicating that they have no plans of renewing their subscriptions. Therefore, in the final calculation of value I will have a percentage of paid subscriptions that is less than the figures reported. I will base this percentage on a three year trend

¹⁰ Samir Husni's Guide to New Consumer Magazines, Volume 17; 2002

analysis of Rolling Stone's subscription base. The cost to service their subscriptions consists mainly of distribution and printing costs. The bulk postage rate for mailings in the United States is \$0.485 per lb. and \$0.068 per piece on average with different rates applying to different bulk mailings. The weight of a typical *Rolling Stone* magazine is 14 ounces or .875lb. The total cost to ship a typical magazine would be \$0.492 times the 13 issues per year would equal a cost of \$6.40 a subscription.¹¹ Printing costs are determined by the style of printing, the number of pages printed, the type of paper it is printed on, and the type of binding used to hold the magazine together. The average price for a typical *Rolling Stone* magazine based on some personal calculations would be approximately \$6.24 a year.¹² The two major costs in distribution for a subscription is approximately \$12.65 per year. The average price paid per subscription in 2001 is \$17.41 per subscription. This \$17.41 figure is derived from taking reported subscription revenue and dividing by reported paid subscriptions.¹³ The difference between the rough cost of producing and distributing a subscription and revenues generated by the subscription is around \$4.75 per year. To get a rough benefit flow of subscriptions I will multiply \$4.00(since \$0.75 is an estimate of additional labor costs per magazine in the labeling and distribution process) times the 1,267,234 (number of subscriptions) and get a net benefit flow of \$5.1 million in 2001. The 3 year average (trending slightly up at 0.099 %) number of subscriptions (1999 thru 2001) equals 1,257,242 multiplied by \$4.00 is equal to \$5.028 million. The subscriptions benefit to revenues equals \$5.0 million. Single newsstand sales of *Rolling Stone* magazine is the third major source of revenue. In the

¹¹ USPS bulk rate and Standard Mail Preparation September 26, 2002 \$.0147per item plus \$0.487per lb.

¹² Calculations based on an extrapolation of data price of printing magazines from The Printing House LTD. 15,000 magazines cost \$0.98 each; 25,000 magazines cost\$ 0.74 each; 50,000 magazines\$ 0.51 each Additional magazines cost \$0.50 each.

¹³ Rolling Stone Magazine.com Demographics pg. URL January 28 2003

year 2001, the single newsstand reported revenue was \$15,859,000. The average newsstand price of a single issue is around \$5.00.¹⁴ In the year 2001, there were approximately 3,172,000 single issues sold. This equals 264,333 copies per month. *Rolling Stone* magazine must split the revenue with the distributor and the newsstand.¹⁵ *Rolling Stone* magazine receives approximately \$2.00 an issue. The cost per issue to print is estimated at \$0.48 per issue.¹⁶ The difference between \$2.00 and \$0.48 equals \$1.52. Multiply \$1.52 times 3,172,000. This equals \$4.8 million in 2001. The net benefit flow to *Rolling Stone* for single newsstand sales is \$4.821 million.

The bulk of *Rolling Stone* magazine's revenue and most of its net revenue is derived from advertising. Advertisers are looking to maximize their exposure in the marketplace and determine what magazines to advertise in based on the demographic of the magazine. *Rolling Stone* magazine has a very favorable demographic. Their readership is 52% male and 48% female. The age range and percent of composition is as follows:

¹⁴ Personal Interview Wild Oats Market Marketing Manager Gary Pellow Omaha NE. revenues split 30%store, 30%distributor and magazine 40%.

¹⁵ Personal Interview with Wild Oats Marketing manager Gary Pellow revenues split 30% for store, 30% for distribution (one source distributing), and 40% for magazines.

¹⁶ cost extrapolated in footnote 12

Table 2 Rolling Stone Demographics

Age Range in Years	Percentage of Composition
12 to 17	10%
18 to 24	34%
25 to 34	20%
35 to 44	21%
45 plus	15%

This means that 75 % of its reader base is between the ages of 18 and 44. This is a highly desirable demographic because advertisers are looking for consumers in this age bracket.¹⁷ Many buying habits are formed between the ages of 18 and 35 and research has showed in 61% of brands that there is a significant relationship between advertiser's awareness and "Definitely will buy," or "Probably will buy," response by customers¹⁸ The 52.0% male readership is significant because males tend to be more spontaneous buyers than females and are influenced more by image ads.¹⁹

In order to determine the value of *Rolling Stone's* benefit flows due to advertising I will compare *Rolling Stone* to *Spin* and *Vibe* magazine. *Spin* magazine is another magazine that focuses on music and lifestyle issues. *Spin* basically imitates *Rolling Stone*, a good valuation of *Rolling Stone's* trademark would be the difference between what advertisers are willing to pay *Rolling Stone* for a full page advertisement versus what they are willing to pay *Spin* magazine. *Vibe* magazine is a music lifestyle magazine that courts

¹⁷ according to Adage .com most buying habits are formed in this time period of life <http://www.adage.com/>

¹⁹ Samir Husni's Guide to New Consumer Magazines Volume 17; 2002

the same age of subscribers as *Rolling Stone*, but focuses on minority groups within the demographic.

Table 3 Rolling Stone Adverting Revenue-2001	Advertising Revenue of 2001		
	<i>Rolling Stone</i>	<i>Spin</i>	<i>Vibe</i>
Ad Revenue	\$156,902,000	\$40,286,000	\$69,070,000
Number of Pages	1548	963	1195
Price per Page	\$104,100	\$41,830	\$57,800
Paid Subscription	1,267,200	542,000	800,000
Dollar rate per Subscriber	\$0.0800	\$0.0744	\$0.0722

Advertising revenue for *Spin* magazine in 2001 was reported as \$40.3 million. This was based on 963 pages of advertising and a paid subscription base of 541,000. The advertising rate is approximately \$42,000 per page. Advertising revenue for *Vibe* magazine in 2001 was \$69.1 million. This was based on 1195 pages of advertising and a paid subscription base of 800,000. The average revenue per page for *Vibe* magazine is approximately \$57,800 per page. Advertising per subscriber is \$0.0800²⁰ per subscriber per ad for *Rolling Stone*, \$0.0744 for *Spin*, and \$0.0722 for *Vibe*. *Vibe* and *Spin* averaged together based on their overall subscription rates are \$0.0742. Subtracting \$0.0742 from \$0.0800 yields \$0.0058, which is the premium that *Rolling Stone* magazine can charge its advertisers compared with *Rolling Stone* direct competition. By multiplying \$0.0058 per subscriber times the 1,267,000 subscribers, *Rolling Stone* was able to sell an

²⁰ Four digits are significant in this case because I am reducing ad pages down to per subscriber which is an extrapolation of the solid numbers I had as raw data.

advertisement at a \$7,275 premium per page. In order to calculate out the value of this premium, multiply the advertising premium by the number of advertising pages. *Rolling Stone* sold 1,548 ad pages in 2001, multiplied by \$7,275 equal \$ 11.26 million. The value of *Rolling Stones* benefit flow in advertising is \$11.26 million.

Table 4 Benefit Flows of Revenues for <i>Rolling Stone</i>	Benefit Flows in Dollars
Advertising Benefit Flow	\$11,260,000 ²¹
Subscription Benefit Flow	\$ 5,028,000 ²²
Newsstand Benefit Flow	\$ 4,821,000 ²³
Total Benefit Flows	\$21,109,000

The value of *Rolling Stone's* trademark is determined from the combined benefit flows of its three major sources of income, advertising, subscription sales, and single stand sales. *Rolling Stone's* combined benefit flows in 2001 were \$21.1 million. However, this is not the value of *Rolling Stone's* trademark. In order to realistically value the trademark one must take into consideration the time line of the trademark, how long the customers are willing to pay a premium for the product, and how much someone is willing to pay for the trademark rights. The value of *Rolling Stone's* IP is different then the value of its trademark. A trademark is an IP, but it is not all of a company's IP. In order to determine

²¹ Calculated by multiplying \$0.0058 by 1,267,000 which equals \$7,275 times 1548.75 equals approx. \$11.3 million.

²² Calculated by subtracting \$13.41 from \$17.41 and multiplying the difference times 1,267,000 which equals \$5.028 million

²³ Calculated by taking \$1.52 (gross profit per issue) times 3,172,000 (single Newsstand sales) which equals \$4.8 million

the approximate the value of *Rolling Stones* trademark one must attempt to take time in consideration. Lately, *Rolling Stones* subscription base has leveled off while its competition continues to increase in a market that declined in 2001. This is starting to close the gap between their competition advertising rates and *Rolling Stones*. I believe this gap will decrease and within five years Vibe's advertising rate will equal and maybe surpass *Rolling Stone* magazine.²⁴ In 2002 *Rolling Stone* dropped their price for a two year subscription from \$31.95 to \$11.97 and are throwing 4 issues in for free. This subscription price is pretty close to cost. I would project a 20% decrease in the premium in advertising per year over the next 5 years. I believe revenue for single newsstand sales will not be significantly different then in 2001.

Rolling Stone Trademark Value per Year

Year	Dollar Value Rolling Stone Trademark (expected)
2001	\$21,110,000
2002	\$13,730,000
2003	\$11,950,000
2004	\$10,530,000
2005	\$9,300,000
Total Value	\$66,610,000

²⁴ *Rolling Stone* is not the magazine they were 10 years ago their format is tired, their reviews are less intriguing, and overall they have lost the pulse of today music aficionado's. Without some major overhauls I believe that *Vibe* or another new magazine will continue to cut into *Rolling Stones* market share.

The value of *Rolling Stone's* economic trademark is **\$66.6 million**. The value of its intellectual property may be greater because of archive sales, website revenues and licensing agreements.

The magazine industry as a whole can be very profitable once you are established because your cost per issue decreases as your revenues increase. An inverse relationship exists between your expenses and revenues. Above average economic profits can be made in this industry.