

Some Thoughts on Comics Market Potential

There are many reasons why the comics industry in North America has not been a significant segment of general retailing in the last thirty years.

The reasons include flaws in what business school analysts would call the Marketing Channel: publishers, distributors and retailers. Another reason is the relatively limited portion of the population at present that is likely to be willing to spend their entertainment dollars on comics and game products.

Most past research on the potential size of the comics and game marketplace has been based on population. We believe that a better figure to use is *household population*.

If you have a four-person household (Mom, Dad and two children) this does not represent four potential buyers of *Amazing Steroid Superhero*. Instead, it represents in almost all cases *one* potential buyer.

The exception to this are student housing areas (whether dormitory population or off-campus) or military bases, where individuals are actually "households".

We have followed this model for more than twenty years for site location and analysis purposes and have found it to superior to using base population figures. In the past we might have relied on traditional demographic indicators, such as income, age, type of employment or educational level as categorizing factors. Beginning four years ago we started analyzing comics and game retail sales performance by lifestyle segmentation.

What is lifestyle segmentation? In 1974, a set of mathematical techniques including multi-variate regression and cluster analysis were used to create an initial group of forty consumer segments. The data used to create these segments included block data from the 1970 census plus major data collections of consumers detailed expenditures for a very wide range of goods and services.

Analysts discovered that each segment had it's own distinct lifestyle (and hence consumption) patterns, which tended to significantly affect purchases of specific goods and services.

In the 30+ years since then this tool has been steadily refined additional clusters have been added as American society has also changed. There are several competing companies providing this data for analysts. For readers who are interested in a more complete discussion of this subject, see if you can find a used copy of *The Clustering of America* written by Michael J. Weiss in 1988 by Harper and Row.

That significance of this is that two census tracts with nearly identical demographic characteristics could have radically different lifestyle characteristics - and in turn would have very different consumption patterns.

Based on our own internal research, we have classified the major lifestyle segments of the lifestyle classification system that we use into categories indicating their relative responsiveness to comics and game retail products. In the table which follows, we have split up the 2007 household population of the United States into five groups, each having a significantly different level of potential responsiveness to comics and game retailing.

Potential US Household Consumers		
(Based on 2007 population of 113,137,000 households)		
Category	Pct	# Households
Highly Responsive	19%	21,492,230
Moderately Responsive	34%	38,459,780
Neutral	18%	20,361,060
Moderately Unresponsive	13%	14,705,210
Highly Unresponsive	16%	18,098,720

So approximately 60 million households in the US 2007 population are likely to be moderately or highly responsive to comics and game products.

Of the remaining three categories, the Highly Unresponsive group is very unlikely to have any significant number of comics and game purchasers.

Let's see what that implies. In the current comics marketplace, the top-selling comic (according to ICv2) was Blackest Night #3, with 140,785 copies. This works out to 0.23% market penetration of just the two most

likely consumer groups. If we added in the next two categories (Neutral and Moderately Unresponsive) market penetration drops to 0.15%.

We need to correct this percentage to reflect the fact that not 100% of all comics consumer purchased Blackest Night, even though it is a very popular title.

In the following table, we have assumed that no person bought more than copy of Blackest Night. In reality an unknown percentage of sales were multi-copy sales. But we can state fairly confidently that 140,800 persons represents some significant part of the actual comics consumer group.

We calculated three different potential sizes for the comics consumer group, based on three assumptions about what proportion of this group purchased Blackest Night.

From this we divided the consumer total by two potential market sizes, 53 million households for the more likely consumer segments, and 84 million households if we include the Average and Moderately Unresponsive groups.

The results are shown in the following table:

Market Penetration Estimates				
% Custs Buying Darkest Night	Assumed Number Comics Custs	Market Penetration (million households)		
		113	84	53
20%	704,000	0.62%	0.84%	1.33%
30%	522,400	0.46%	0.62%	0.99%
40%	369,200	0.33%	0.39%	0.57%

(Note: household populations do not include Canadian households or overseas populations - therefore these figures could be as much as 12% too high)

Just based on our experience in the past with customer buying habits, we would incline to a belief that around 30% of all comics buyers purchase Blackest Night, though we're sure your mileage will vary depending on the characteristics of your store's customer base.

If so, this would indicate an overall market penetration rate between 0.55% to 0.80%, with a strong possibility that market penetration could be as low as 0.39% to 0.57%.

Earlier penetration estimates (including an older estimate of ours that indicated a North American penetration rate of 0.5%) were based on 100% of the population. In this study, between 53% of the

population (the "core" or more responsive households) and 84% of the population (the "core" households plus the Average and Moderately Unresponsive households) are used to represent the potential universe of customers.

Depending on which adjusted population figure you choose, that earlier estimate works out to penetration rates between 0.60% and 0.94%. In passing, if we include the 18 million households that are classified as "Highly Unresponsive" for a total of 113 million households, assuming that 15% of all comics customers bought Blackest Night, the penetration rates work out to approximately 0.93%.

What about times in the past where top titles achieved orders in the 300,000 - 400,000 range? We'd have to adjust to reflect the number of retailers who bought multiple copies of a book for investment purposes or who had significant numbers of customers buying multiple copies.

It is also likely that the proportion of all comics customers who bought a high-selling title were a very significant portion of the customer base, as opposed to our Blackest Night example.

If we take the conservative approach that 5% of orders were either over-orders or due to customers buying multiple copies and follow the same approach as before we calculate that penetration rates for this period would range between 0.89% and 1.88%.

If this is approximately accurate, market penetration for comics has dropped by roughly half from its peak during the early '90 boom years. Penetration before the boom period was probably 50% smaller.

What about our earlier estimates that market penetration for comics was about 0.5%? Those estimates were based on the likely number of customers nationwide divided by the total population, not household population. The number of likely customers was based on customer source surveys, where we estimated the number of actual customers by zip code and calculated the penetration after adjusting for competition and distance. While we wouldn't care to bet large sums on the exact accuracy of these new penetration estimates, we feel they are probably more representative of reality than the estimates based on a person-based methodology.

In either case, what the data shows is the minimal level of penetration the comics industry has achieved in the North American consumer marketplace, and how much untapped business is potentially available. These penetration levels are also characteristic of a minor, niche industry. Why this continues to be the case for comics products is another story for another time.